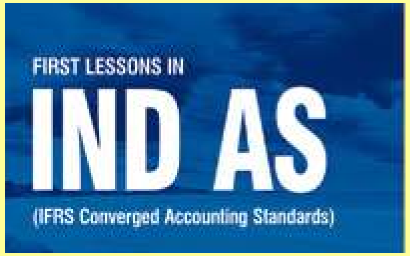
India has entered into IFRS era …



By

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Accounting Standards in India

- The ICAI, established Accounting Standards Board (ASB) in 1977, to issue Accounting Standards (AS) in India
  - Initially, AS were mandatory for members of the ICAI acting as auditors
  - In the year 1999, the Companies Act 1956, was amended to make AS mandatory to companies
  - In 2006, Central Government notified 28 Accounting Standards, as recommended by ICAI under Companies (Accounting Standards) Rules 2006 with recommendation of NACAS.

Need for convergence towards Global Standards

- International Accounting Standards (IAS)/International Financial Reporting Standards (IFRS) (collectively referred to as IFRS), issued by International Accounting Standards Board (IASB) in 1973 are now widely recognised as Global Accounting Standards.
- More than 130 countries and reporting jurisdictions currently require or permit the use of or have a policy of convergence/adoption of IFRS.

Convergence Process

- The Ministry of Corporate Affairs, Government of India, in consultation with the ICAI, decided to converge and not to adopt IFRSs issued by the IASB.
- The ICAI has formulated IFRS-converged standards, known as Indian Accounting Standards (Ind AS), which have been notified by the MCA under Companies (Indian Accounting Standards) Rules, 2015 vide Notification dated February 16, 2015, after recommendation of the National Advisory Committee on Accounting Standards (NACAS).

Roadmap for Implementation on Ind ASs

Phase I	Phase I	Phase II
• Voluntary • 1 April 2015	• Mandatory • 1 April 2016	• Mandatory • 1 April 2017

Roadmap for Implementation on Ind ASs (Contd.)

Phase I

1st April 2015 or thereafter: Voluntary Basis for all companies

1st April 2016: Mandatory Basis

- Companies listed on Stock Exchange having net worth > Rs. 500 Crore
- Unlisted Companies having net worth > Rs. 500 Crore
- Parent, Subsidiary, Associate and J. V of Above

Roadmap for Implementation on Ind ASs (Contd.)

Phase II 1st April 2017 (Mandatory basis)

- All Listed Companies not covered in Phase I
- Unlisted Companies having net worth Rs. 500 Crore > Rs. 250 crore
- Parent, Subsidiary, Associate and J. V of Above
  - Other companies will continue to follow existing AS
  - Roadmap for banks, NBFCs and insurance companies still to be decided
- Banks, Insurance Companies, MBFC's, RRB's not yet covered in Phase I and Phase II. Roadmap is yet to be notified.

Salient Features of IFRS-converged Ind AS

- Principle-based Standards
- Applicable on separate as well as consolidated financial statements.
- Give more importance to concept of 'substance over form', i.e., economic reality of a transaction.
- Rely more on fair valuation approach, and measurements based on time value of money.
- Require more disclosures of all the relevant information and assumptions used.
- Require higher degree of judgment and estimates.

Understanding Ind AS from AS

- Ind AS are based more on substance over form
- **Sale of Goods on Extended Credit Terms, i.e., goods sold on terms extending more than normal credit period**.
  - Financing element inbuilt in price is segregated and considered as **'interest'** income.
  - Say, goods normally sold at price at Rs. 100 for 3 months credit
    - If sold for Rs. 110 for 15 months credit: Rs. 10 considered as 'interest' income
- This has VAT and TDS implications

Substance over form (Contd.)

- **Fixed assets or inventories purchased on deferred credit terms having financing element:**
  - Financing element, viz., 'interest' to be segregated from the 'purchase price'
- **Implications:** What would be the original cost of the fixed asset/inventories for tax?

Substance over form (Contd.)

- **Unbundling of multiple elements from the sale price where required: Sale of Automobile on Extended Warranty**
  - An automobile dealer sells a car for extended warranty of 3 years instead of normal 1 year
  - Extended warranty element of 2 years required to be separated under Ind AS from the selling price based on Fair Value of warranty.
  - Revenue from warranty service recognised in the year when the service is rendered, i.e., revenue recognition is deferred.

Substance over form (Contd.)

- **Implications:**
  - **Tax:** Income from sale of car to be recognised when car sold
  - **VAT:** To be levied on invoice price exclusive of value of extended warranty
  - **Service Tax:** To be levied on value of extended warranty

Substance over form (Contd.)

- **Redeemable preference shares carrying fixed rate of dividend considered a liability under Ind AS**
  - Dividend paid/payable considered as ‘interest’
  - Charged to statement of profit and loss and not to be considered as an appropriation of profit as at present
- **Implications:**
  - TDS on interest
  - MAT implication as Book Profit

Substance over form (Contd.)

- **Certain transfers in substance considered as finance lease under Ind AS**
  - Accordingly, only receivable is recognised in the Balance Sheet by the transferor
  - Presently, the transferor recognises it as its fixed asset and charges depreciation
- Implications:
  - MAT implication as Book Profit
  - Where lease more than 12 years, will be considered as sale for VAT purpose

Time value of money as a measurement basis

- **Measurement of interest at Effective Interest Rate rather than the contracted rate to recognise interest income and expense**
- **Illustration:**
  - A company issues bond of Rs. 100 carrying interest rate at 10% to be redeemed at Rs. 110 after five years.
  - Presently , interest expense recognised at Rs. 10 per year and Rs. 10 premium paid at the time of redemption recognised in the year of redemption (though some companies amortise this Rs. 10 over the five year term on straight line basis)

Time value of money as a measurement basis

- Under Ind AS, interest rate is recomputed to recognise Rs. 10 premium payable at the end of the term of the bond. Accordingly, interest is recognised every year, at the effective rate of 11.43%

- Implications:
  - TDS
  - MAT on account of change in Book Profit

Greater use of Fair Value (FV) as Measurement Basis

- **Certain investments (e.g., held for trading in normal course of business) required under Ind AS to be measured at FV and changes in FV, gains and losses, recognised in profit or loss.**
- Presently, only FV changes resulting in losses recognised in profit or loss; gains ignored
- Implications:
  - MAT implications on Book Profit

Fair Value as Measurement Basis (Contd.)

- Service Concession Arrangement, e.g., Build-Operate-Transfer arrangement of a road
  - Revenue is required to be recognised at FV of the construction services rendered during construction period
  - Even though actual receipts start when the road is put under operation, i.e., toll is collected
- Implications:
  - Should the income be taxed during construction period?
  - MAT implications on Book Profit

Other significant differences

- **Component approach and concept of useful life of charging depreciation**
  - Ind AS require depreciation to be charged on significant parts of a fixed asset where useful lives of the parts and the remaining asset are different
    - Presently, depreciation required to be charged on the complete asset at a single rate
    - Ind AS also confer primacy to useful life concept for charging depreciation, rather than statutory minimum depreciation concept hitherto followed
- **Implications:** MAT on Book Profit

Other significant differences (Contd.)

- **Effects of Changes in Foreign Exchange Rates**
  - Ind AS based on ‘functional currency’ concept, existing AS is not
    - Where functional currency of an entity other than INR, impact on profit or loss different from existing AS
    - Consequential tax impact
- After transitioning to Ind AS, option of capitalising/deferring foreign exchange differences under existing AS no longer available,
  - Such differences would be recognised in profit or loss
- **Implications:** Consequential tax impact on Book Profit

Ind AS use 'Other Comprehensive Income' (OCI) concept

- Reason: Definition of Income
  - Enhancement of an Asset or reduction of a Liability (other than transactions with owners)
  - Accordingly, any increase in asset, e.g., upward revaluation of asset, is an 'income' even though not realised
  - Earlier, such increase transferred directly to Revaluation Reserve in Balance Sheet
  - Now, transferred to Reserve through OCI

OCI concept (Contd.)

- Statement of profit and loss is, therefore, divided into two sections:
  - Profit or loss section: Containing items of revenue/income and expenses which are hitherto normally included in the statement of profit and loss with a few exceptions (e.g. actuarial gains & losses on measurement of defined benefit obligations now not included)
  - Other Comprehensive Income (OCI) section: containing, e.g.,
    - Revaluation surplus
    - Actuarial gains & losses
    - Fair value changes in equity instruments opted to be measured through OCI

OCI concept (Contd.)

- OCI section contains generally unrealised gains and losses arising from re-measurements of assets & liabilities
- On realisation, with few exceptions, gains & losses are recognised in profit or loss section
- **Exceptions:**
  - Sale of revalued assets
  - Equity Instruments opted to be measured at Fair Value through OCI

OCI concept (Contd.)

- For MAT purposes 'profit or loss' as per that section may be considered for the sake of simplicity as
- Since OCI mostly comprises unrealised gains & losses, may be ignored
  - profit or loss section also includes certain unrealised gains and losses on operating items, e.g., fair value changes in held for trading investments; should be tax neutral, i.e., if unrealised gains included for MAT then unrealised losses also should be allowed as deduction

Why IFRS has been converged?

- A single set of accounting standards would enable internationally to standardize training and assure better quality on a global screen.
- It would also permit international capital to flow more freely, enabling companies to develop consistent global practices on accounting problems.
- It would be beneficial to regulators too, as complexity associated with understanding various reporting regimes would be reduced.

Convergence with IFRS

- Convergence means to achieve harmony with IFRSs. In precise terms convergence can be considered "to design and maintain national accounting standards in a way that financial statements prepared in accordance with national accounting standards complying all the requirements of IFRS and draw unreserved statement of compliance with IFRSs".
- Convergence doesn't mean that IFRS should be adopted word by word, e.g., replacing the term 'true & fair' for 'present fairly', in IAS 1, *'Presentation of Financial Statements'*. Such changes do not lead to non-convergence with IFRS.

Convergence with IFRS

- The IASB accepts in its 'Statement of Best Practice: Working Relationships between the IASB and other Accounting Standards-Setters' that "Adding disclosure requirements or removing optional treatments" do not create non compliance with IFRSs.
- Additional disclosures or removing of optional treatment should however be made clear so that users of the IFRS are aware of the changes.

Converged Indian Accounting Standards

- Government of India in consultation with NACAS and ICAI has decided not to adopt but to Converge IFRS with the following changes-
  - Additional disclosures
  - More Options
  - Different Terminologies
- Further India has reserved a right to frame that AS shall not overrule the local laws and law will override the AS.

IFRS Composition

- IAS : International Accounting Standards issued before April 2001
- IFRS : International Financial reporting Standards issued after April 2001
- SIC : Interpretations by Standing Interpretation Committee on IAS.
- IFRIC : Interpretations by International Financial Reporting Interpretation Committee on IFRS.

International Financial reporting Standard (IFRS)

IFRS

International Financial Reporting Interpretations Committee (IFRIC)

International Accounting Standard (IAS)

Standing Interpretations Committee (SIC)

Comparative Summary of Indian Accounting Standards & IFRS

AS No.	Existing Indian Standard	IFRS No.	Ind AS No.	Converged IFRS
AS 1	Disclosure of Accounting Policies	IAS 1	Ind AS 1	Presentation of Financial Statements
AS 2	Valuation of Inventories	IAS 2	Ind AS 2	Inventories
AS 3	Cash Flow Statements	IAS 7	Ind AS 7	Statements of Cash Flows
AS 4	Events Occurring after the Balance Sheet Date	IAS 10	Ind AS 10	Events after the Reporting Period

Comparative Summary of Indian Accounting Standards & IFRS

AS No.	Indian Standard	IFRS No.	Ind-AS No.	IFRS
AS 5	Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies	IAS 8	Ind AS 8	Accounting Policies, Changes in Accounting Estimates and Errors
AS 6	Depreciation Accounting	-	-	-
AS 7	Construction Contracts	IAS 11	Ind AS 115	Revenue

Comparative Summary of Indian Accounting Standards & IFRS

AS No.	Indian Standard	IFRS No.	Ind-AS No.	IFRS
AS 9	Revenue Recognition	IAS 18	Ind AS 115	Revenue
AS 10	Accounting for Fixed Assets	IAS 16	Ind AS 16	Property, Plant and Equipment
AS 11	The Effects of Changes in Foreign Exchange Rates	IAS 21	Ind AS 21	The Effects of Changes in Foreign Exchange Rates

Comparative Summary of Indian Accounting Standards & IFRS

AS No.	Indian Standard	IFRS No.	Ind-AS No.	IFRS
AS 12	Accounting for Government Grants	IAS 20	Ind AS 20	Accounting for Government Grants and Disclosure of Government Assistance
AS 13	Accounting for Investments	IAS 40 IAS 27	Ind AS 40 Ind AS 27	Investment Property Separate Financial Statements

Comparative Summary of Indian Accounting Standards & IFRS

AS No.	Indian Standard	IFRS No.	Ind-AS No.	IFRS
AS 14	Accounting for amalgamations	IFRS 3	Ind AS 103	Business combinations
AS 15	Employee Benefits	IAS 19	Ind AS 19	Employee Benefits
AS 16	Borrowing costs	IAS 23	Ind AS 23	Borrowing costs
AS 17	Segment Reporting	IFRS 8	Ind AS 108	Operating Segments

Comparative Summary of Indian Accounting Standards & IFRS

AS No.	Indian Standard	IFRS No.	Ind-AS No.	IFRS
AS 18	Related Party Disclosures	IFRS 12	Ind AS 24	Disclosure of Interests in other Entities
AS 19	Leases	IAS 17	Ind AS 17	Leases
AS 20	Earnings Per Share	IAS 33	Ind AS 33	Earnings Per Share

Comparative Summary of Indian Accounting Standards & IFRS

AS No.	Indian Standard	IFRS No.	Ind-AS No.	IFRS
AS 21	Consolidated Financial Statements	IFRS 10 IAS 27 IFRS 12	Ind AS 110 Ind AS 27 Ind AS 112	Consolidated Financial Statements Separate Financial Statements Disclosure of Interest in other entities
AS 22	Accounting for Taxes on Income	IAS 12	Ind AS 12	Income taxes

Comparative Summary of Indian Accounting Standards & IFRS

AS No.	Indian Standard	IFRS No.	Ind-AS No.	IFRS
AS 23	Accounting for Investments in Associates in Consolidated Financial Statements	IAS 28	Ind AS 28	Investments in Associates and Joint Ventures
AS 24	Discontinuing operations	IFRS 5	Ind AS 105	Non Current Assets Held for Sale and Discontinued operations
AS 25	Interim financial reporting	IAS 34	Ind AS 34	Interim Financial Reporting

Comparative Summary of Indian Accounting Standards & IFRS

AS No.	Indian Standard	IFRS No.	Ind-AS No.	IFRS
AS 26	Intangible assets	IAS 38	Ind AS 38	Intangible Assets

Comparative Summary of Indian Accounting Standards & IFRS

AS No.	Indian Standard	IFRS No.	Ind-AS No.	IFRS
AS 27	Financial Reporting of Interests in Joint Ventures	IAS 28	Ind AS 28	Investments in Associates and Joint Ventures
		IAS 27	Ind AS 27	Separate Financial Statements
		IFRS 11	Ind AS 111	Joint Arrangements
		IFRS 12	Ind AS 112	Disclosure of Interest in other entities

Comparative Summary of Indian Accounting Standards & IFRS

AS No.	Indian Standard	IFRS No.	Ind-AS No.	IFRS
AS 28	Impairment of assets	IAS 36	Ind AS 36	Impairment of assets
AS 29	Provisions, Contingent Liabilities and Contingent Assets	IAS 37	Ind AS 37	Provisions, Contingent Liabilities and Contingent Assets
AS 30	Financial Instruments Accounting	IAS 39	Ind AS 109	Financial Instruments
AS 31	Financial Instruments Presentation	IAS 32	Ind AS 32	Financial Instruments – Presentation

Comparative Summary of Indian Accounting Standards & IFRS

AS No.	Indian Standard	IFRS No.	Ind-AS No.	IFRS
AS 32	Financial Instruments-Disclosures	IFRS 7	Ind AS 107	Financial Instruments: Disclosures
-	-	IFRS 2	Ind AS 102	Share based payment
-	-	IAS 29	Ind AS 29	Financial Reporting in hyperinflationary Economies
-	-	IFRS 6	Ind AS 106	Exploration for and Evaluation of Mineral Resources

Comparative Summary of Indian Accounting Standards & IFRS

AS No.	Indian Standard	IFRS No.	Ind-AS No.	IFRS
-	-	IAS 26	Ind AS 26	Accounting and Reporting of Retirement Benefit Plans*
-	-	IAS 41	Ind AS 41	Agriculture
-	-	IFR S4	Ind AS 104	Insurance Contracts
-	-	IFRS 1	Ind AS 101	First Time Adoption of Indian Accounting Standards

* Exposure drafts issued

Comparative Summary of Indian Accounting Standards & IFRS

AS No.	Indian Standard	IFRS No.	Ind-AS No.	IFRS
-	-	IFRS 12	Ind AS 114	Regulatory Deferral Accounts
-	-	IFRS 13	Ind AS 113	Fair Value Measurement

Enter Fair Value Accounting-
Income is change in wealth - Hicksian

- Fair value accounting is need of the time, because it brings economic reality and better representation of Net worth.
- Fair value is market driven measure that is not affected by the factors specific to a particular entity.
- Fair value is a solution to the accountants problem of income measurement. As per widely accepted definition of Hicksian " income is change in wealth."

How to arrive at fair value?

- There are various approaches for arriving at fair values. Namely
  - Cost approach
  - Market approach
  - Income approach
  - Present value approach
- An enterprise should select the method which suits to its business environment from sustainability point of view.

Impact of Ind AS

- **Features:**
  - Time Value of Money
  - Fair Value approach
  - More disclosures
- **Application:**
  - Separate as well as CFS
  - Presentation of Financial Statements

Impact of Ind AS

Impact:

- ERP- SAP/Oracle/ERP
- Financial Analysis and Ratio workings
- Bonus to employees
- Managerial Remuneration- Remuneration based on profit
- Share valuation and market response
- Dividend distribution
- Taxation Issues-
  - MAT
  - VAT
  - Excise
  - Service Tax
  - TDS

Ind AS is a qualitative way of Accounting

- Ind AS Framework is relevant, honest and faithful representation of Financial statements.
- The qualitative characteristics are expected to enhance the value of Financial statements
- Time will prove that Ind AS will result into qualitative way of Accounting.
- Can it be said?

"I love today more than yesterday but less than tomorrow. Lets dream for the better future."

Ind AS study begins here...

THANK YOU

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