OVERVIEW AND ROADMAP OF IND AS

Accounting Standards Board
The Institute of Chartered Accountants of India

OVERVIEW AND ROADMAP OF IND AS

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Agenda for Discussions

- ASs notified under the Companies Act
- Roadmap of Ind AS
- Need for Convergence with Global Standards
- Convergence Process
- Salient Features of Ind AS
- Understanding Ind AS from AS
- IFRS Composition

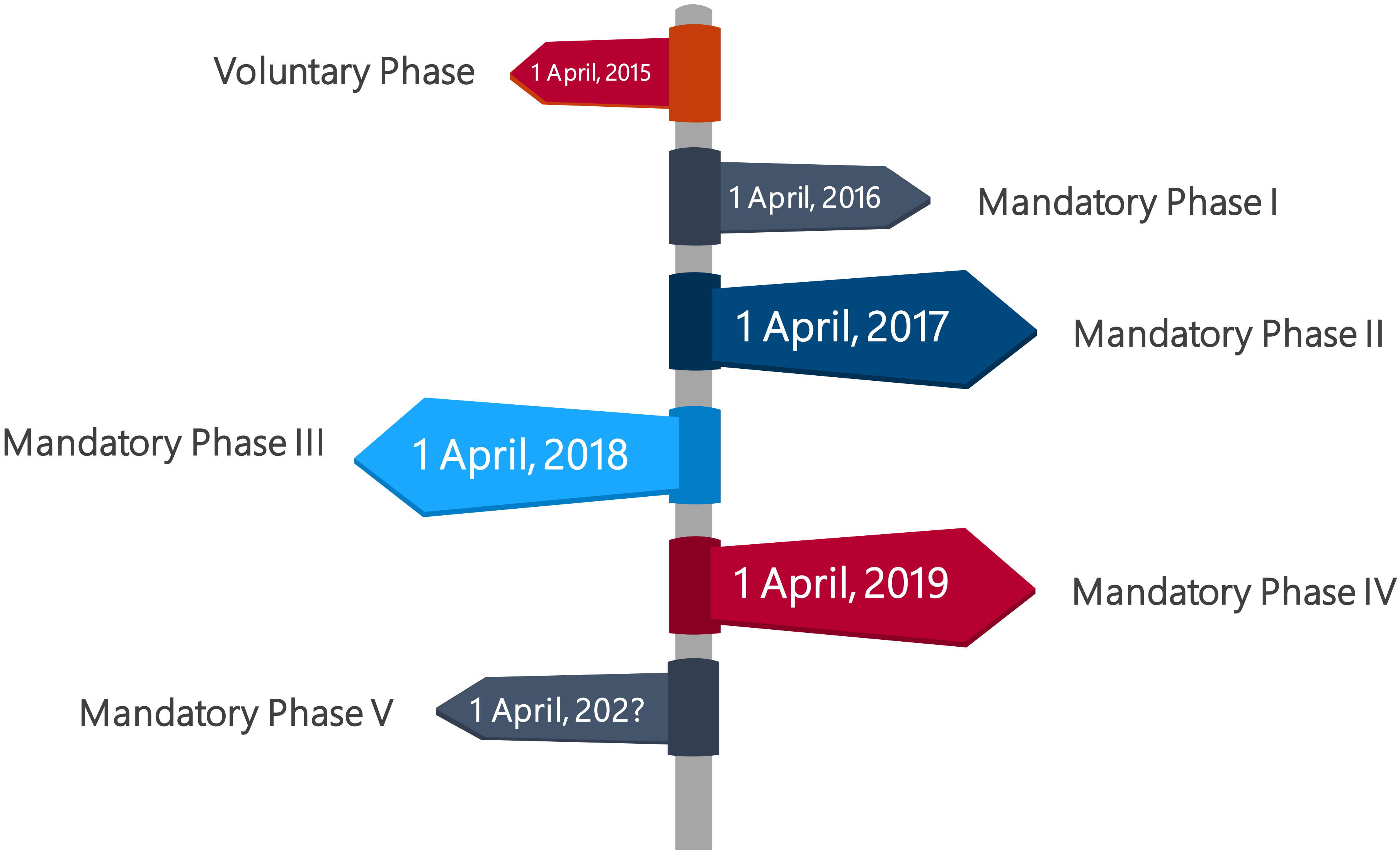
ASs notified under the Companies Act

On Recommendation of National Advisory Committee on Accounting Standards (NACAS)/

National Financial Reporting Authority (NFRA)

- Companies (Accounting Standards) Rules 2006
- Companies (Indian Accounting Standards) Rules 2015

Roadmap of Ind AS



Roadmap of Ind AS

Roadmap of Ind AS

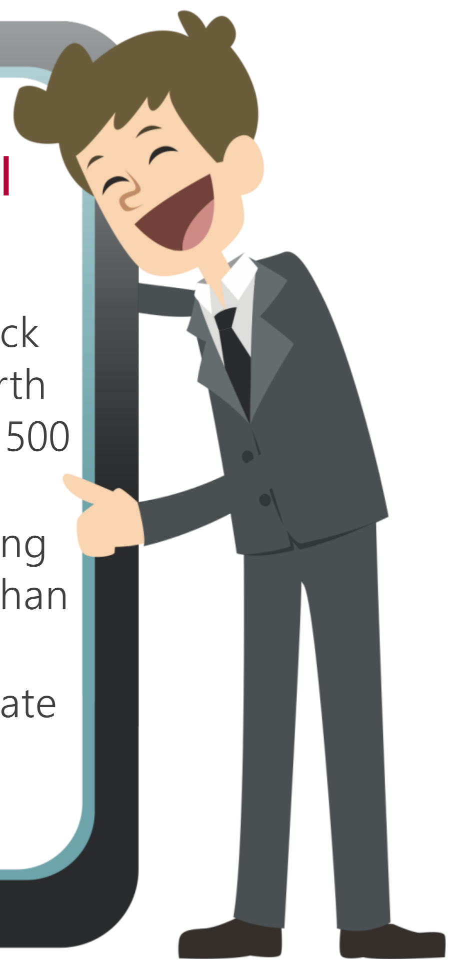
Mandatory Phase I

1st April 2016

Companies listed on Stock Exchange having net worth equal to or more than Rs. 500 Crore

Unlisted Companies having net worth equal to more than Rs. 500 Crore

Parent, Subsidiary, Associate and J. V of Above



Mandatory Phase II

1st April 2017

All Listed Companies not covered in Phase I

Unlisted Companies having net worth equal to or more than Rs. 250 Crore up to Rs. 500 Crore.

Parent, Subsidiary, Associate and J. V of Above

Roadmap of Ind AS

Mandatory Phase III

1st April 2018

NBFC's having net worth equal to or more than Rs. 500 Crore

Parent, Subsidiary, Associate and J. V of Above

Roadmap of Ind AS

Mandatory Phase IV

1st April 2019

All Listed NBFCs not covered in Phase III

Non Listed NBFC's having net worth equal to or more than Rs. 250 Crore up to Rs. 500 Crore.

Parent, Subsidiary, Associate and J. V of Above

Roadmap of Ind AS

Need for convergence with Global Standards

International Accounting Standards (IAS)/International Financial Reporting Standards (IFRS) (collectively referred to as IFRS), 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

MCA, Government of India, in consultation with the NACAS and ICAI, decided to converge and not to adopt IFRSs issued

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)

Convergence Process

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.

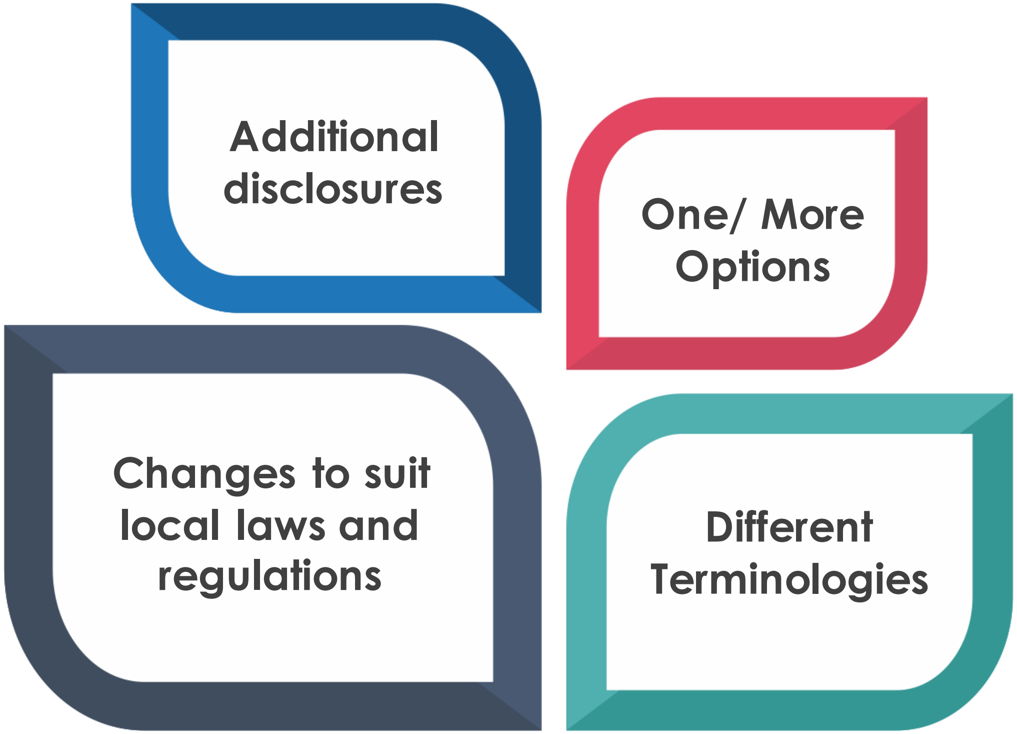
It would be beneficial to regulators too, as **complexity** associated with understanding various reporting regimes would be **reduced**.

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.

Convergence Process

- Government of India in consultation with NACAS and ICAI has decided not to adopt but to Converge IFRS with the following changes-



Salient Features of Ind AS (based on IFRS)

Sr. No.	Salient Features	Consideration
1.	Principle based Standards Standards	Substance over form (understanding reality of a a transaction)
2.	Fair Value Measurement	To arrive at True and Fair profitability and financial financial position and over come limitations of historical cost accounting.
3.	Time Value of Money	Weightage to timing factor and consider discounted discounted value for accounting and financial presentations.
4.	Robust Disclosures	To convey facts and relevant details contained in contained in Financial Statements.
5.	Acceptability	Worldwide acceptance and usage.

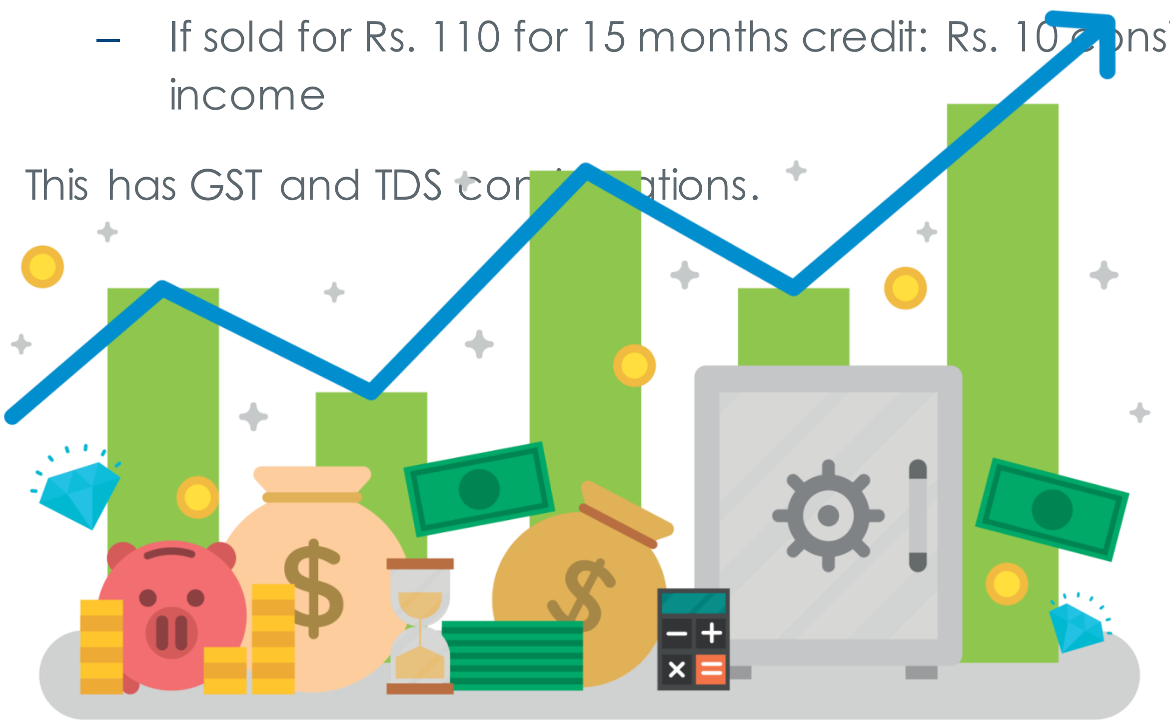
Salient Features of Ind AS

Applicable to separate (alone stand) as well as Consolidated Financial Statements.

No provision of rebuttal or drive back, once Ind AS opted voluntarily.

Requires higher degree of judgment and estimates.

- 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 GST and TDS considerations.



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?

Interest Free Sales Tax Loan from State Government

Present Treatment: only show as Liability till redemption

Ind AS Treatment:

- Show loan at PV
- Provide Interest on Loan at borrowing rate
- Show Interest subsidy from Government and treatment as per relevant standard

Implications:

- EPS
- MAT

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.

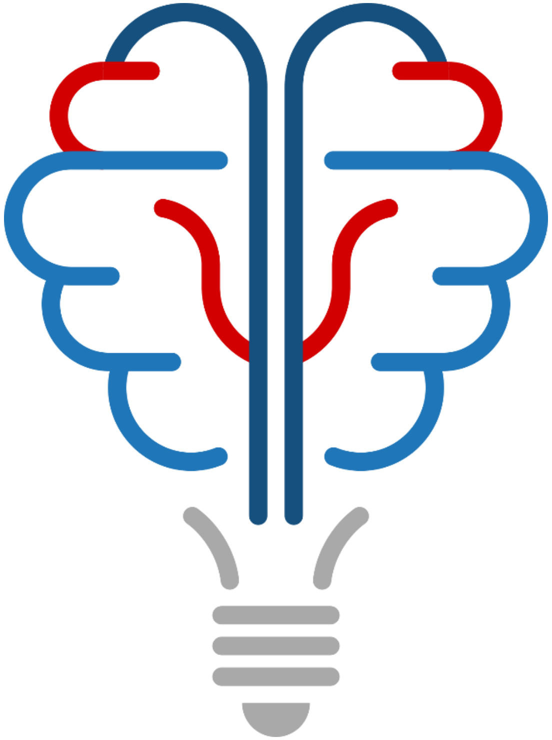
Revenue from warranty service recognised in the year when the service is rendered, i.e., revenue recognition is deferred.

Substance Over Form (Contd.)

Implications:

Tax:

Income from sale of car to be recognised when car sold



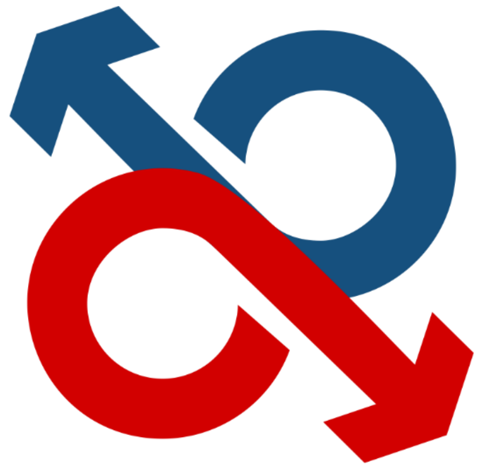
GST:

To be levied on invoice price exclusive of 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 like '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. Refer ICDS

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

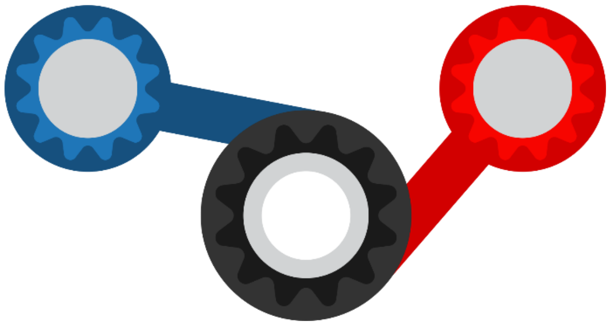
- MAT implication as Book Profit
- Where lease more than 12 years, will be considered as sale for GST purpose

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) or provided out of Securities Premium account.

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

Convertible Debentures

P Ltd. issue **1,000 bonds** convertible into its own shares in 3 years. The convertible bond has as face value of Rs. 100 and bears a coupon rate of 4%, which is below the current market rate for non-convertible debt instrument of similar entities. The current market rate for similar debt without conversion option is 6%. Reduction in rate of interest is on account of conversion option given to Bond holders. Under IFRS a sum received on issue of bonds is required to be bifurcated into two elements –

1. Debt Component

Accounting Treatment – Ind AS

Debt component is found out by way of present value of cash out flows discounted @ 6%.

P.V. of Cash Outflow at 6%

Year	Cash Flow Rs.	Discounting Factor @ 6% Rs.	Discounted Cash Flow Rs.
1-3	4,000	2.6730	10,692
3	1,00,000	0.8396	83,960
		PV	**94,652**

Thus sum received of Rs. 1,00,000 is bifurcated as -

Debt Component	- Rs. 94,652
Equity Component (Balance)	- Rs. 5,348

Accounting Treatment - Ind AS

Interest calculation will be as per the following table -

Year	Outstanding at the beginning (Rs.)	Interest @ 6% (Rs.)	Cash Out Flow (Rs.)	Outstanding at the end (Rs.)
1	94,652	5,680	4,000	96,332
2	96,332	5,780	4,000	98,112
3	98,112	5,888	1,04,000	0
	Total	**17,348**		

It is also necessary to provide for Deferred tax (As per IAS 12) on Interest Differential (Rs.17,348 – Rs.12,000) = Rs.5,348.

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

- 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 is different from existing AS
  - Consequential tax impact

After transitioning to Ind AS, option of capitalizing/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.)

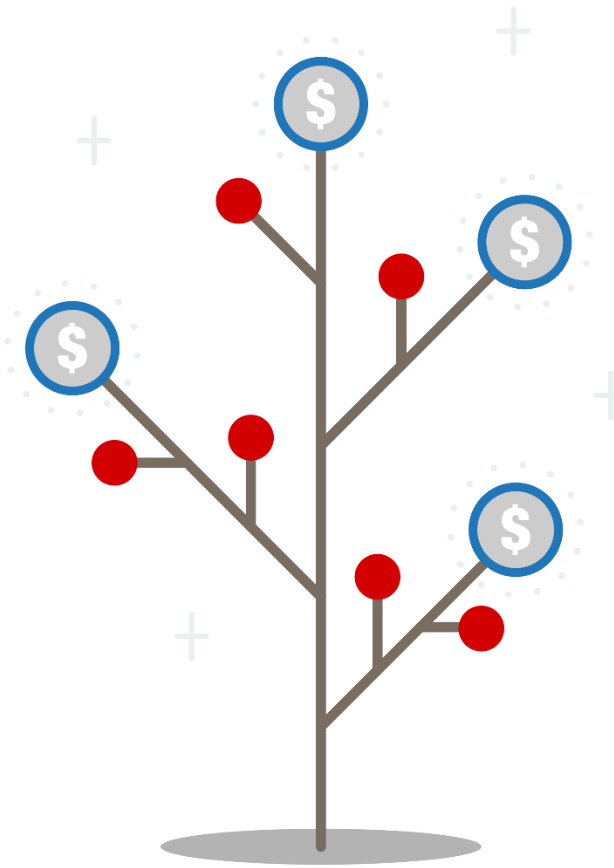
- OCI section contains generally unrealised gains and losses arising from re-measurements of assets & liabilities
- On realisation, with few exceptions, gains & losses are recognised in profit or loss section

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



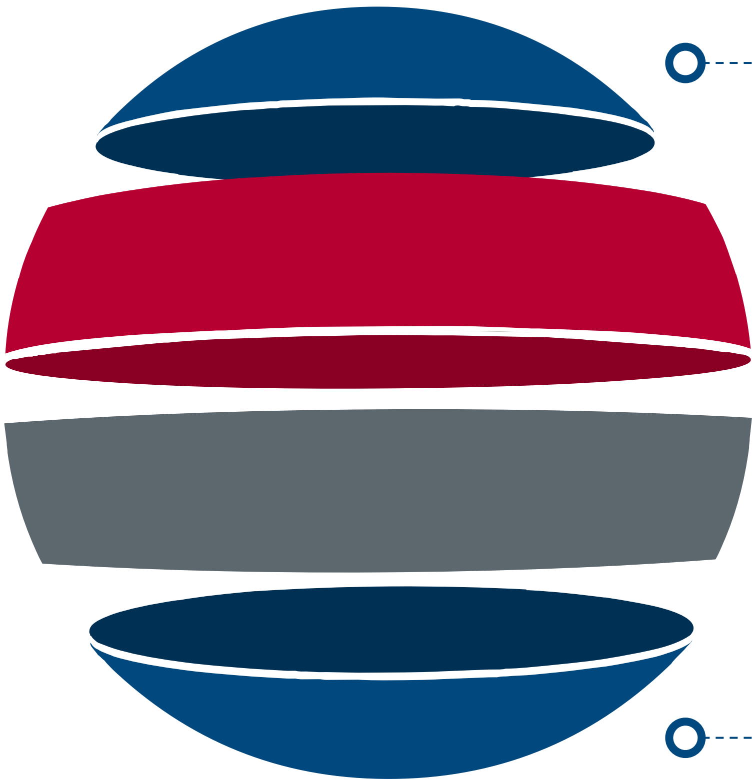
IFRS Composition

IAS
International Accounting Standards issued before April 2001

IFRS
International Accounting Standards issued before 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)

International Accounting Standard (IAS)

Standing Interpretations Committee (SIC)

International Financial Reporting Interpretations Committee (IFRIC)

Comparative Summary of AS, Ind AS & IFRS

AS No.	Existing Indian Standard 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 Inventories	IAS 2	Ind AS 2	Inventories
AS 3	Cash Flow Statements Statements	IAS 7	Ind AS 7	Statements of Cash Flows Flows
AS 4	Events Occurring after after the Balance Sheet Sheet Date	IAS 10	Ind AS 10	Events after the Reporting Reporting Period
AS 5	Net Profit or Loss for the the Period, Prior Period Period Items and Changes in Accounting Accounting Policies	IAS 8	Ind AS 8	Accounting Policies, Changes in Accounting Estimates and Errors

Comparative Summary of AS, Ind AS & IFRS

AS No.	Indian Standard	IFRS No.	Ind-AS No.	IFRS
AS 6	Depreciation Accounting	-	-	-
AS 7	Construction Contracts	IAS 11	Ind AS 115	Revenue
AS 9	Revenue Recognition	IAS 18	Ind AS 115	Revenue
AS 10	Property, Plant and Equipment	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 AS, Ind AS & 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
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

Comparative Summary of AS, Ind AS & IFRS

AS No.	Indian Standard	IFRS No.	Ind-AS No.	IFRS
AS 17	Segment Reporting	IFRS 8	Ind AS 108	Operating Segments
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 AS, Ind AS & IFRS

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

Comparative Summary of AS, Ind AS & 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
AS 26	Intangible assets	IAS 38	Ind AS 38	Intangible Assets

Comparative Summary of AS, Ind AS & 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
AS 28	Impairment of assets	IAS 36	Ind AS 36	Impairment of assets

Comparative Summary of AS, Ind AS & IFRS

AS No.	Indian Standard	IFRS No.	Ind-AS No.	IFRS
AS 29	Provisions, Contingent Liabilities and Contingent Assets	IAS 37	Ind AS 37	Provisions, Contingent Liabilities and Contingent Assets
		IAS 39	Ind AS 109	Financial Instruments
		IAS 32	Ind AS 32	Financial Instruments – Presentation
		IFRS 7	Ind AS 107	Financial Instruments: Disclosures

Comparative Summary of AS, Ind AS & IFRS

AS No.	Indian Standard	IFRS No.	Ind-AS No.	IFRS
-	-	IFRS 2	Ind AS 102	Share based payment
		IFRS 6	Ind AS 106	Exploration for and Evaluation of Mineral Resources
-	-	IAS 26	Ind AS 26	Accounting and Reporting of Retirement Benefit Plans*
-	-			

Comparative Summary of AS, Ind AS & 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 AS, Ind AS & 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
-	-	IFRS 14	Ind AS 114	Regulatory Deferral Accounts

Comparative Summary of AS, Ind AS & IFRS

AS No.	Indian Standard	IFRS No.	Ind-AS No.	IFRS
-	-	IFRS 16	Ind AS 116	Leases
-	-	IFRS 17	Ind AS 117	Insurance Contract

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."

Fair Value Measurement

- There are various approaches for arriving at fair values. Namely

  1. Cost approach
  2. Market approac
  3. Income approac
  4. Present value approac

- An enterprise should select the method which suits to its business environment from sustainability point of view as per Ind AS 113 “Fair Value Measurement”.

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
  - Excise
  - TDS
  - GST

Conclusion

- 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. Let's dream for the better future."

Thank You

The Institute of Chartered Accountants of India