IND AS: OVERVIEW, KEY DIFFERENCES & TAX IMPACT

Table of Contents

IFRS Journey And India

The World of IFRS

Countries that require or permit IFRSs

Countries seeking convergence with the IASB or pursuing adoption of IFRSs

Why IFRS/ Ind AS?

- **Common Accounting Language for Cross Border Investment :** More than100 countries world wide have accepted IFRS as their language for financial reporting.

- **Consistency :** For companies operating in multi jurisdictions IFRS aims to bring consistency in accounting policies & hence financial reporting.

- **Increased Transparency :** Lenders / Stake holders to benefit from information provided as part of Financial statement.

- **Helps Improve corporate governance :** IFRS tends to provide more relevant information to stake holders and decision makers.

MCA Road Map For Indian Corporate

As per MCA notification issued on 20th February,2015, implementation roadmap for Ind AS will be as follows:

Status of Net worth as on March 31,2014

Phase I

- Companies listed in or outside India (debt/ equity) with net-worth Rs. 500 Crores or more
- Unlisted companies with net-worth of Rs. 500 Crores or more
- Holding, subsidiary, JV or associate companies of aforesaid companies
- Effective From :2016- 2017

Phase II

- All other listed companies
- Unlisted companies with net-worth of Rs. 250 Crores or more
- Holding, subsidiary, JV or associate companies of aforesaid companies
- Effective date :2017`-2018

MCA Road Map for Banks, NBFC and Insurance Co.

As per MCA notification issued on 30th March,2016, implementation roadmap for Ind AS will be as follows:

Scheduled commercial banks (excluding RRBs) and Insurance Companies

Single Phase

- From April 1, 2018

NBFCs

Implementation in 2 Phases

- Status of Net worth as on March 31,2016
- From April 1, 2018 : NW of 500 Crores or more ; &
- From April 1, 2019 : All Listed & NW of 250 Crores or more.

ROADMAP APPLICABILITY - Phase II Entity

Date of transition IND AS opening balance sheet

Comparative period

First IND AS financial statements

Reporting date

1 April 2016 — 31 March 2017 — 31 March 2018

Opening Balance Sheet as at 1st April, 2016

30 June 2016	30 September 2016	31 December 2016	30 June 2017	30 September 2017	31 December 2017

IND AS & IGAAP
- Profit reconciliation
- Two Equity reconciliations

SEBI : First Time reporting of IND AS compliant -quarter ending 30 June 2017 with 30 June, 2016 comparatives

ITFG Bulletin
Few Examples

(I) Applicability:

ITFG Bulletin 1 :

- Existing company - Net worth is above 250 Crores but below 500 Crores as on 31.03.2014 & 31.03.2015
  Net worth expected to be above Rs. 500 Crores as at on 31.03.2016
- Should it be following Ind AS from 2017-18 (I.e. Phase II) or from Immediately next financial year

Opinion :

Entity need to follow Ind AS according to Phase 1 as specified in Rule 4 of MCA Notification :

Phased manner , i.e. Phase I

Date of applicability : 01.04.2016

Date of Transition : 01.04.2015

ITFG Bulletin
Few Examples Cont.

(II) Applicability:

ITFG Bulletin 4 : Will the following companies with negative net worth need to comply with Ind AS?

Scenario 1 : Company (listed) having negative net worth of Rs. 600 Crore

Opinion 1 : Ind AS will be applicable (listed) from F.Y. 2017-18 i.e. Phase II

Scenario 2 : Company (unlisted) having negative net worth of Rs. 300 Crore

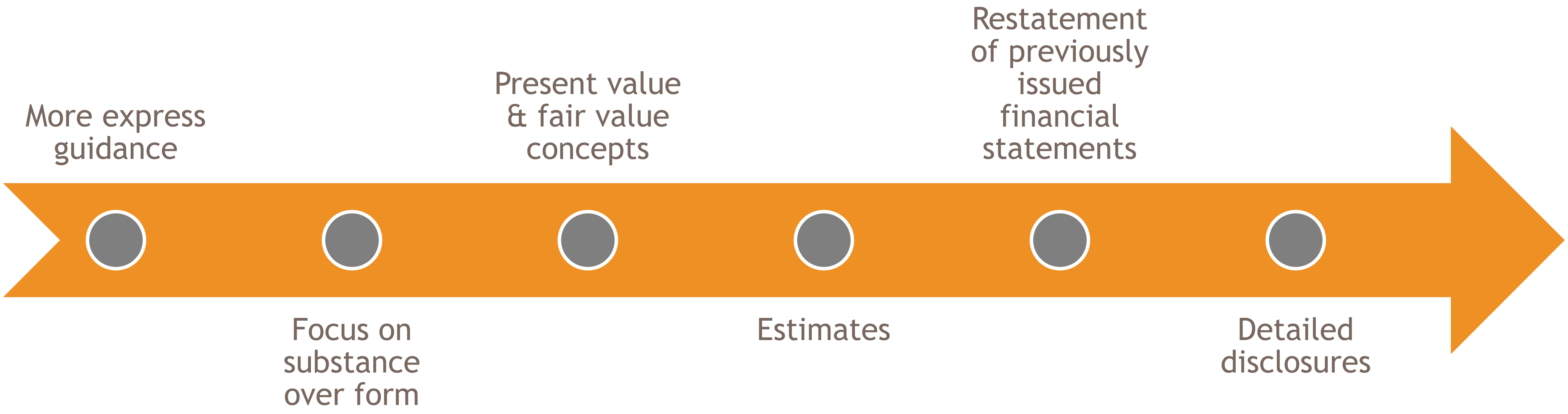
Opinion 2 : Ind AS will not be applicable (unlisted) unless net worth criteria being met

IND AS vs IFRS- Certain Carve Outs

India has adopted path of convergence and not full adoption.

- Straight lining of leases – Inflation Impact
- Presentation of long term debts due to breach of covenants
- Prohibition on fair valuation of investment property
- Foreign exchange fluctuation: Option to Capitalize fluctuation gain or loss on translation.
- First time adoption exemption for PPE - deemed cost allowed
- Classification of expenses - functional or by nature
- Bargain Purchase arising on business combination to be treated as capital reserve under Ind AS.

Fundamental Differences Between Indian GAAP & Ind AS



IFRS Convergence to Ind AS

Law Shall Prevail

40 standards issued and notified by MCA

4 Transition Bulletins issued

Incorporates all relevant IFRS, IAS, IFRIC and SIC

Has carve outs as compared to IFRS

New and latest standards incorporated on financial instruments, Agriculture, fair valuation

Presentation & disclosure norms

IND AS Impact - *A Reality Check*

The Ind AS Impact

Survey* based on 27 Nifty 50 Companies – Based on June 30, 2015 Quarter numbers

(I) Revenue

13 companies have gone down

8 companies have gone up

6 remained same

Possible reasons for change

- Presentation of excise duty.
- Fair valuation of revenue (adjustment of discount & rebates against revenue).
- More guidance on principal agent relationship, loyalty programmers & deferment in certain cases.
- Separation of interest component from sale.
- Multiple element contracts.

*Report based on survey conducted by one of the Big 4 Accounting advisory firms

The Ind AS Impact Cont.

Survey* based on 27 Nifty 50 Companies – Based on June 30, 2015 Quarter numbers

(II) EBITDA

16 companies have gone up

11 companies have gone down

0 remained same

Possible reasons for change

- Fair valuation of financial instruments (measurement of Investments through Statement of profit & loss).
- Impact of new concept like expected credit loss model on provision for doubtful debts.
- Due to accounting of embedded leases.
- Recognition of remeasurement gain or loss on actuarial valuation through OCI.

*Report based on survey conducted by one of the Big 4 Accounting advisory firms

The Ind AS Impact Cont.

Survey* based on 27 Nifty 50 Companies – Based on June 30, 2015 Quarter numbers

(III) Interest

15 companies have gone up

6 companies have gone down

6 remained same

Possible reasons for change

- Use of effective interest rate (EIR) like effect on transaction cost amortisation
- Fair valuation of financial instruments (measurement of Investments/ Other financial instruments through Statement of profit & loss).
- Unwinding of discounting related adjustments.

*Report based on survey conducted by one of the Big 4 Accounting advisory firms

The Ind AS Impact Cont.

Survey* based on 27 Nifty 50 Companies – Based on June 30, 2015 Quarter numbers

(IV) Tax

14 companies have gone up

13 companies have gone down

0 remained same

Possible reasons for change

- Impact of items explained above on deferred taxes
- Current tax impact of all adjustments explained above

*Report based on survey conducted by one of the Big 4 Accounting advisory firms

Significant Impact Areas - The Big Six

The Big Six

Property Plant &Equipment

Lease

Consolidation

Business Combination

Financial Instrument

Revenue

Property Plant & Equipment (PPE)

Property Plant & Equipment
Summary of Significant Changes

Component accounting for depreciation purposes

- Defining relevant components will require technical evaluation.

Revaluation required for **entire class** of PPE and also to be updated periodically – depreciation on revalued amounts is charged to statement of profit and loss.

Decommissioning costs will need to be identified and included within the cost of PPE at present value.

Deferred Payment arrangement

- Property plant & equipments acquired on deferred settlement terms need to be accounted for accordingly.

Property Plant & Equipment
Summary of Significant Changes (Cont.)

Concept of Investment Property

- Land & building held for the purpose other than self use in business (i.e. for rental or capital appreciation), need to be presented separately from PP&E.
- Measured at Cost
- Fair value need to be done for the purposes of disclosure.

Concept of Bearer Plant within the scope of PP&E Standard

- There was no concept of bearer plant in AS 10, however going forward this difference will no longer be applicable as AS 10 is amended to include “Bearer Plant”

Leases

Leases
Summary of Changes

Lease of Land & land and building elements

- Ind AS 17 requires lease of land to be assessed as an operating & finance lease, where as AS -19 excluded lease of land from its scope.

No straight-lining in case escalation of lease rentals in line with expected general inflation.

Embedded lease

- Power purchase agreements, Outsourcing agreements, Job workers may have the substance of a lease arrangement.

‘Embedded lease’ is it subject to indirect taxes in India ?

- Leases in legal form are subject to certain indirect taxes in India, but ‘Embedded lease’ is currently not subjected to indirect taxes.

IFRS 16 Leases – The future of Lease Accounting

- All leases (except for the limited exceptions) will be recorded 'on balance sheet'.
  Exemptions:
  (a) Short-term leases; and
  (b) Leases for which the underlying asset is of low value ('low value leases')

Financial & business Impacts of Leases

- Approximately $ 2.8 trillion worth of off balance sheet lease commitments will come on balance sheet.
- Increase in lease asset (right to use asset) & Financial liability (lease liability).
- Higher initial charge to Statement of profit & loss, interest expense (based on EIR) on lease liability & depreciation on right to use asset in place of a single charge to P&L under previous GAAP.
- Increased EBITDA, for most of the companies.
- Entities need to be prepared with business systems, processes, internal control & financial control on implementation of IFRS 16.
- Significant increase in debt on the balance sheet, thereby impacting debt/equity ratio, debt covenants need to be revised accordingly.

The effective date of IFRS 16 is for annual reporting periods beginning on or after 1 January 2019; although currently not issued in India

Source : ICAI Journal

Consolidation

Control
AS 21 VS Ind AS 110

AS 21

(a) the ownership, directly or indirectly through subsidiary(ies), of **more than one-half of the voting power** of an enterprise;

or

(b) **control of the composition of the board of directors** in the case of a company or of the composition of the corresponding governing body in case of any other enterprise so as to obtain economic benefits from its activities.

Ind AS 110

An investor controls an investee if and only if the investor has all the following:

Investor has the power over the investee and

(b) exposure, or **rights, to variable returns from its involvement** with the investee and

(c) **the ability to use its power over the investee** to affect the amount of the investor's Returns

•

Consolidation

- **Under Indian GAAP**, a parent consolidates an entity which it controls either through ownership of more than 50% voting power or composition of the governing body. So, if one entity owns 49% of another entity (and does not have board control) based on current Indian GAAP, it will be concluded that there is no control-more of a bright line test.

- **Under Ind AS 110**, there are other indicators which have to be evaluated, standard requires evaluation of **power** of an entity over the other entity, **exposure to variable returns** and **ability to use the power** to affect the returns of that other entity.

Control = Power + Exposure to variable returns + Linkage between power and returns

Consolidation

- **De facto Control :** Under Ind AS 110, an entity could control another entity with less than majority ownership of equity or voting interest, for example when the remaining shareholding is scattered (i.e. de-facto control).
  - **E.g. Entity A Controls**
  - Company A holds 48 per cent of the voting rights of an investee (Company B).
  - The remaining voting rights are held by thousands of shareholders, none individually holding more than 1 per cent of the voting rights.
  - None of the shareholders has any arrangements to consult any of the others or make collective decisions.

- **Potential Voting Rights :** Right to acquire shares (votes)
  - E.g Common examples of potential voting rights include options, conversion features of a convertible instrument.
    - An investor holding less than 50% of voting rights (through shares) but also holds potential voting rights after conversion – Will be considered to have control over an investee

Consolidation

- **Protective Rights :** Protect the interest of the holder

  E.g. An entity may own more than 50% equity/voting interest in another entity, however if **minority shareholders have substantive participative rights** with respect to the entity.

  Then, the fact pattern may result in a conclusion that the entity owning majority equity/voting ownership does not necessarily have control over the other entity.

Business Combinations

Business Combinations
Summary of changes

Topic	Indian GAAP	Ind AS
Acquisition date	Defined in Amalgamation scheme of High Court. (appointed date)	Date of obtaining control of acquired entity by the acquiring entity.
Contingent consideration	Does not talk about fair valuation.	Fair value of such consideration is recognized as a part of purchase consideration.
Accounting for business combination	Amalgamation in the nature of purchase, Amalgamation in the nature of merger *(for common control transactions & otherwise)*	Common control business acquisitions are accounted using the 'pooling of interests' method Other business combinations recorded at fair value using acquisition method.

Business Combinations
Summary of changes

Topic	Indian GAAP	Ind AS
Goodwill - Subsequent measurement	Amortized over a period not exceeding 5 years	Not amortized but tested for impairment, being an intangible for indefinite useful life.
Recognition of Intangibles	Value of goodwill is comparatively higher under Indian GAAP	Intangibles are identified & recognized first before recognizing the balance of fair value of consideration & fair value of assets & liabilities as goodwill.
Accounting treatment for Intangibles (Ind AS 38)	Rebuttable presumption for life of intangibles is for 10 years	Intangibles may get amortized over the useful , which could be more than 10 years.
Accounting for transaction cost	Under Indian GAAP, transaction cost relating to business combination are generally capitalized as part of investment resulting in higher goodwill/lower capital reserve.	Under Ind AS, transaction costs related to business acquisitions will be charged to profit or loss.

Financial Instruments

Financial Statements – Schedule III (Division II)

(e) Financial Assets - non current		(XXX)
i.	Investments	(XXX)
II	Trade receivables	(XXX)
i.	Loans / Deposits	(XXX)

(b) Financial Assets - current		(XXX)
i.	Investments	(XXX)
Ii	Trade receivables	(XXX)
iii	Bank balances	(XXX)
Iv	Loans / Deposits	(XXX)

Financial Statements - Schedule III (Division II) Cont.

Particulars	Amount
Non-current liabilities	(XXX)
i. Financial Liabilities	(XXX)
Ii Borrowings	(XXX)
iii Trade payables	(XXX)
(II) Current liabilities	(XXX)
i. Financial Liabilities	
Ii Borrowings	
iii Trade payables	(XXX)
iv Other current liabilities	(XXX)
(c) Provisions	(XXX)

Financial Instruments

Summary of Changes

Substance over form / Compound Instruments (Equity v/s Liability)

- Preference shares treated as capital, though in many cases in substance these are liability.
- Splitting debt and equity components: impact on debt equity ratio to be considered

Financial Guarantee contracts :

- Arrangements covered as financial guarantee contracts under Ind AS 109, need to be recognised at fair value.

Investments & interest free deposits

- Fair valuation as per Ind AS 113, need to be done for quoted as well as unquoted investments
- Interest free deposits need to be initially recognised at fair value at inception.

Treatment of transaction Fee & Effective interest rate

- Under Indian GAAP, transaction costs incurred to originate financial asset or financial liabilities are expensed to the statement of profit and loss.

New Impairment Model based on expected credit loss (ECL)

- Recognise impairment based on expected losses arising from default events as against limited guidance.

Revenue

Revenue

Summary of Changes

Specific Requirements

Fair value

- Fair value covers **time value of money factor**.
- In case of Extended credit terms, application of time value of money would be a challenge.

Rebates and discounts

- Netted from revenue at point of recognition

Multiple elements of a contract

- Segregation of multiple elements in a contract.
- Composite contract where services are provided over a ***period of time*** while goods are sold at a ***point in time*** e.g. Warranty .

Customer Loyalty Programmes

- Guidance relating to customer service loyalty

Revenue Recognition Under Different Scenarios (Ind AS 18)

Prompt payment discount/ Cash discount: Estimated at the time of sale and deducted from Revenue, unlike in Indian GAAP, it was shown as an operating expense.

Trade and volume discount: Should be deducted in determining revenue - make reasonable estimate.

Non cash incentives to distributors: Sales incentives need to be reduced from Revenue. Estimates on the basis of expected value approach/ most likely approach

Customer Loyalty Program: As against two routes of accounting for CLP's i.e. Provision & deferment route, Ind AS only specifies deferment route.

Free gift of different brand: Revenue should be net of sales promotion expenses

Slotting fee: Reduced from revenue. And no estimation required as amount has already been paid in the beginning.

Multiple element Contracts: Need to identify the fair value of different components and account for accordingly.

Revenue

Presentation of Excise Duty

Eg. ABC Ltd., which is a manufacturer of TV sets, sells a TV at Rs. 50,000 which includes excise duty of Rs. 5,000. What is the amount to be recognized as revenue?

How excise duty should be presented in financial statements? Is there any change in the presentation of excise duty as compared to presentation prescribed in AS 9 ?

(ITFG Bulletin 4 Dt. August 19, 2016)

Particulars	Ind AS (Ind AS 18)	Indian GAAP (AS 9)
Revenue	50,000	50,000
Less Excise Duty	Nil	5,000
Net Revenue	50,000	45,000
Expense (Either Cost of goods sold or Other Operating Expenses)	5,000	Nil

Transition Provision - First-time adoption

Mandatory Exceptions to “Retrospective Application Of Ind AS	Optional Exemptions
▪ Estimates ▪ Hedge Accounting ▪ De-recognition of financial assets & financial liabilities. ▪ Non controlling Interest ▪ Classification and measurement of financial assets ▪ Impairment of financial assets ▪ Embedded derivatives ▪ Government loans	Optional Exemptions for Retrospective Application. Few Major Exemptions are : ▪ Business combinations. ▪ Share-based payment transactions. (only vested) ▪ Deemed cost. ▪ Leases. ▪ Long Term Foreign Currency Monetary Items ▪ Assets and liabilities of subsidiaries, associates and joint ventures. ▪ Investments in subsidiaries, joint ventures and associates. ▪ Compound financial instruments. ▪ Revenue from contract with customers. ▪ Non-current assets held for sale and discontinued operations. ▪ Extinguishing financial liabilities with equity instruments. ▪ Decommissioning liabilities included in the cost of PPE. Etc

Estimates

- **Ind AS 1 Can not take advantage of hindsight**
- Estimates cannot be updated for new information.
- Exception : Where there is objective evidence to suggest a previous GAAP estimate was wrong, in which case the errors are corrected with the adjustments through retained earnings.
- Correction of errors to be disclosed separately from other changes resulting from the first-time adoption of IFRSs on a gross basis.

Optional Exemptions

Topic	Exemption
Business combination	The exemption allows a choice between restating past business combinations in accordance with Ind AS 103 ‘Business Combinations’, or applying a more limited restatement approach. Accordingly, a first-time adopter has the following options: ▪ Apply Ind AS 103 retrospectively to all past business combinations ▪ Apply Ind AS 103 from a particular date and restate all business combinations after this date. ▪ Not apply Ind AS 103 to any past business combinations.
Leases	Exemption in determining whether an Arrangement contains a Lease. Catch-up adjustments may or may not be done When a lease includes both land and building elements, a first time adopter may assess the classification of each element as finance or an operating lease at the date of transition on the basis of the facts and circumstances existing as at that date

Optional Exemptions Cont.

Topic	Exemption
Deemed cost	Ind AS 101 permits a first-time adopter to report items of property, plant and equipment in its opening statement of financial position at a ‘deemed cost’ as an alternative to an ‘Ind AS 16 cost’. A first time adopter may elect to use one of the following amounts as the deemed cost of an item of property, plant and equipment: ▪ Fair value at the date of transition ▪ The amount determined under a previous GAAP

Optional Exemptions Cont.

Topic	Exemption
Decommissioning liabilities included in the cost of property, plant and equipment	Changes in Existing Decommissioning, Restoration and Similar Liabilities, retrospectively in determining the carrying amount of assets to which the decommissioning liabilities relate. changes in the liability should be added or deducted from the cost of the related asset and then depreciated prospectively over the remaining life of the asset.
Long Term Foreign Currency Monetary Items	A first-time adopter may continue with the policy adopted for accounting for exchange differences arising from translation of long-term foreign currency monetary items recognised in the financial statements for the period ending immediately before the beginning of the first Ind AS financial reporting period as per the previous GAAP.

Ind AS – Regulatory Updates

Ind AS – Regulators

- SEBI
- MCA
- ITFG
- ICAI / ASB
- MAT Ind AS Committee - CBDT

Regulatory Updates

Changes In Existing Accounting Standards

MCA vide notification dated March 30, 2016 has amended Companies (Accounting Standards) Rules, 2006 to amend certain Accounting Standards (AS) in order to bring them in line with Ind AS,

- AS 4 - Contingencies & events occurring after Balance Sheet date.
- AS 13 - Accounting for investments : Investment property to be accounted for as per the cost model under AS 10.
- AS 14 - Accounting for amalgamation: Amalgamation now specifically includes mergers.
- AS 10 - Property, plant and Equipment: Estimates for dismantling, removing, restoration to be included in the cost of the asset.
- AS 29 - Provisions, contingent liabilities & contingent assets: Discounting of provisions in case of decommissioning, restoration and similar liabilities.

Pragmatic Updates

Date	Updates
January 20, 2015	ICAI / ASB – Ind AS compliant Schedule III - Draft
February 16, 2015	MCA rolled out roadmap for implementation of Ind AS for Indian Corporate
November 30, 2015	SEBI came out with circular "formats for publishing financial results"
January 18, 2016	MCA – Ind AS Roadmap for banks, insurance companies & NBFC's.
February, 2016	ICAI / ASB – Ind AS compliant Schedule III – Draft 2
January, 2016	ITFG Bulletin 1
March, 2016	MAT Ind AS Committee – MAT for Ind AS Companies
March 30, 2016	MCA- Amendments to Companies (Indian Accounting standard) rules 2015 Amendments to Companies (Accounting standard) rules 2006
April, 2016	ITFG Bulletin 2
April, 06, 2016	MCA – notified Schedule III for Ind AS compliant companies
June, 2016	ITFG Bulletin 3
July, 2016	MAT Ind AS Committee – MAT for Ind AS Companies – suggestions for first time adopter
July 05, 2016	SEBI – Revised format for financial results & implementation of Ind AS by listed entities. Timeline for submitting the financial results extended by one month.
August 19, 2016	ITFG Bulletin 4

Ind AS - Tax Impact

Regulatory Updates

Recommendations made by MAT Ind AS Committee

Interim Report dated March 18, 2016

- Current year profits(excluding net OCI) to be considered for computation of book profits under MAT and no further adjustments required to be made to the net profits(excluding net OCI)

- OCI includes certain items that will permanently be recorded in reserves and will never be classified to the Statement of Profit & Loss. These items to be included in computation of book profits for MAT purposes at an appropriate point of time. An illustrative list of such items is as follows :

S. No.	Items	Recommended Treatment- When to be included
1	Changes in revaluation surplus (Ind AS 16 and 38)	At the time of realization/ disposal/ retirement
2	Re-measurements of defined benefit plans (Ind AS 19)	Every year as the remeasurement gains/ losses arise
3	Gains and losses from investments in equity instruments designated at fair value through OCI (Ind AS 109)	At the time of realization

Regulatory Updates

Recommendations made by MAT Ind AS Committee

- **Adjustments on first time adoption of Ind AS**
  - Adjustments recorded in Reserves which would subsequently be reclassified to Statement of Profit & loss, should be included in book profits in the year in which these are reclassified to Profit & loss account.
  - Adjustments recorded in OCI & which would never be subsequently reclassified to Profit & Loss account, should be included in book profit at an appropriate point of time *(refer earlier table)*.
  - Adjustments recorded in retained earnings and which would otherwise never subsequently be reclassified to Profit & Loss account, should be included in book profits in the year of first time adoption of Ind AS.

Regulatory Updates

Recommendations made by MAT Ind AS Committee

Interim Report dated July 23, 2016

- Fixed Assets – Adjustments to retained earnings

All adjustments in retained earnings on first time adoption of Ind AS re PPE should be ignored

- Leases – Straight lining of Lease rentals

Adjustments to retained earnings to be included in books profits either -

- In the year of first time adoption of Ind AS(existing recommendation), or
- Over the lease period, or
- Over a period of three years starting from the year of first time adoption of Ind AS ***(Recommended)***

Regulatory Updates

Recommendations made by MAT Ind AS Committee

- Investments – Fair value adjustments through profit & loss account

  Adjustments to retained earnings to be included in books profits either -

  - In the year of first time adoption of Ind AS(existing recommendation), or
  - At the time of realization, or
  - Over a period of three years starting from the year of first time adoption of Ind AS ***(Recommended)***.

- Other adjustments recorded in retained earnings and which would otherwise never subsequently be reclassified to Profit & Loss account, should be included in book profits over a period of three years starting from the year of first time adoption of Ind AS

Regulatory Updates

Food for thought

- What about notional/unrealised gains/losses recorded in the Profit and Loss Account
- Impact of Deemed Cost Exemption
- What if the entities are not covered by MAT regime in the first year of adoption of Ind AS
- Withholding tax risk on the interest component
- Prior period items
- Provision for cost of dismantling and removing the structure/asset
- Free asset

Q&A

Presenters :
Amit Mitra 9899101243
Amit Singhal 9650244811