IND AS (IFRS) implementation

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Topics

- Overview of IND AS or IFRS Convergence.
- Sample Co IND AS implementation process and challenges.

Definition of accounting standard

- An **accounting standard** is a guideline for financial **accounting**, such as how a firm prepares and presents its business income and expense, assets and liabilities.

Type of Accounting standards

- Local (AS or I GAAP)
- IFRS or IAS
- US GAAP

Convergence with IFRS

- Convergence meanings the act of converging and especially moving toward union or uniformity or to achieve harmony with IFRSs. In preSample Coe 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.

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.

Converged Indian Accounting Standards (IND AS)

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

Convergence with IFRS

- The **International Accounting Standards Board (**IASB) accepts in its 'Statement of Best Practice: Working RelationshiERP 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.

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.

Roadmap for Implementation on Ind ASs

Phase I

- Voluntary
- 1 April 2015

Phase I

- Mandatory
- 1 April 2016

Phase II

- 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

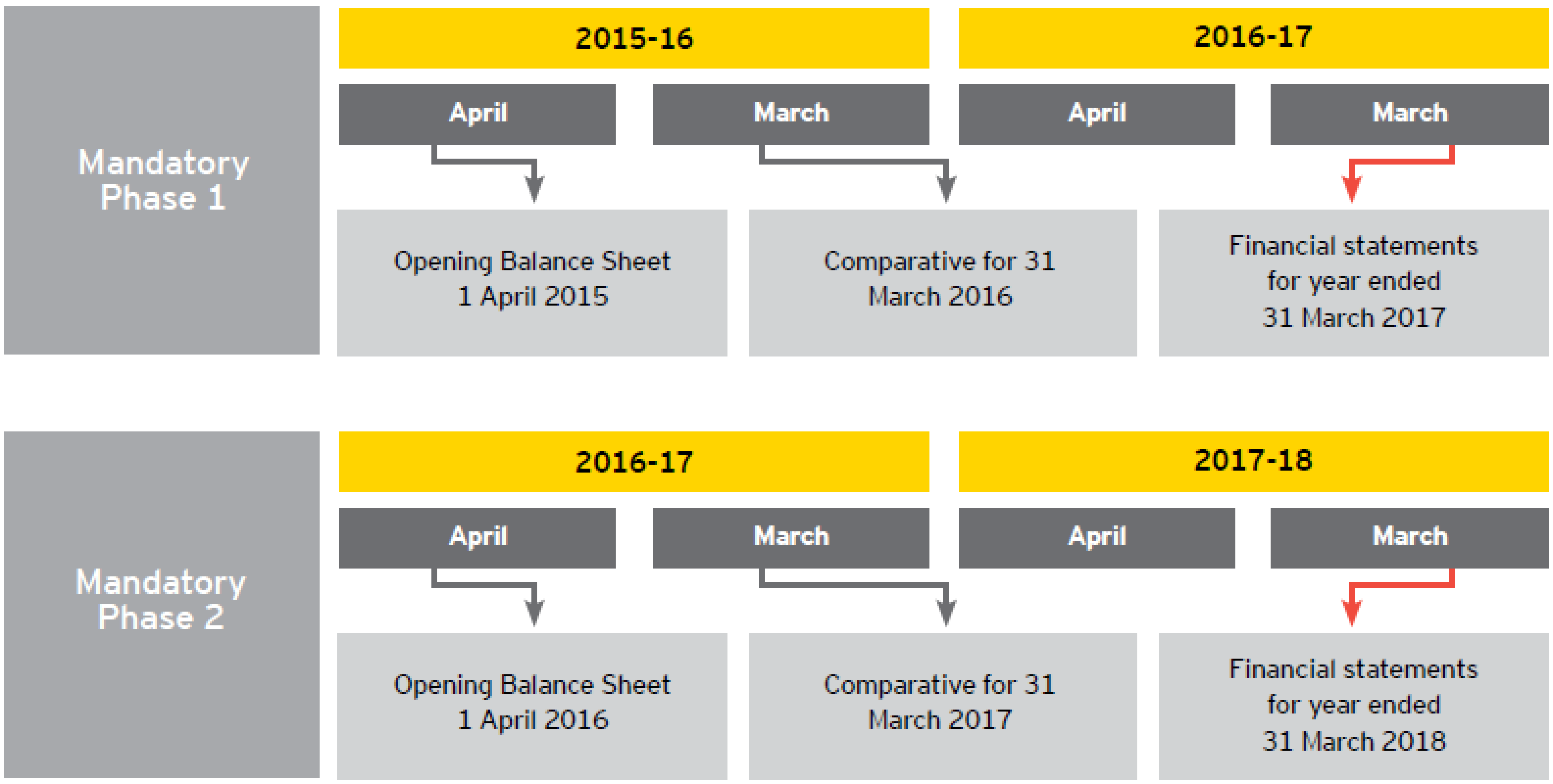
Roadmap for Implementation on Ind ASs (Contd.)

Phase II 1st April 2017 (Mandatory basis)

- All Listed Companies not covered in Phase I
- Unlisted Companies having net worth > Rs. 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 to start implementation from 1 April 2018.

Roadmap for Implementation on Ind ASs (Contd.)

Given below are salient features of Ind AS roadmap notified by the MCA:



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.)

- **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

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

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

- Statement of profit and loss is 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

Comparative examples 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

Sample Co IND AS implementation road map

Ind AS (IFRS) road map and key issues for Sample Co:

- Sample Co will be covered under IND AS in stage I, with more than INR 500 crore net worth on 31/3/2015
- Ind AS shall be applicable from 1/4/16 for FY 2016-17 for Sample Co.
- First audit as per IND AS to be for FY 2016-17.
- Previous year FY 2015-16 also to be in accordance to IND AS (IFRS) for this audit.
- 1/4/15 opening balances to be reinstated in accordance with First time Adoption IND AS 101.
- FY 2015-16 to be audited as per old AS (IGAAP).

Sample Co India IND AS

- ERP challenges: We need to have two full, IFRS (for comparative year) and local GAAP (for audit) books for FY 2015-16
- Two India legal entity books are not possible in ERP. We plan to have B+L books for FY 2015-16 in IFRS. For year in progress, FY 2015-16, we will make IFRS related adjustment JEs in March L books to make it IFRS compliant.
- We will download these books in third party software and make reversing IFRS JEs which made in ERP to make it local GAAP books compliant for FY 2015-16 EY audit.

Key differences in existing impacting Companies

- Long term lease/other deposit (financial instruments): We have various security deposits on account of Lease/rental agreement or otherwise. If such deposits are for more than one year, these have to be shown at PV as per IFRS on Financial Instrument and balance as Deferred Interest Income on 1/4/15.
- The subsequent measurement of loans & receivables should be at the amortized cost using the effective interest method which should ensure the amortized cost of a financial asset is the present value of future cash receipts discounted at the effective interest rate.

  Therefore, over the period of the deposit, interest receivable will be added to the deposit account using the effective interest method. The interest income for a year equals the carrying amount of the loan (financial asset) at the beginning of a period multiplied by the effective interest rate for the period.

- The cost of rentals will increase and difference we will be shown as income from interest. Government Bond rate on 1/4/2015 to be used.

Microsoft Excel Worksheet

Key differences in existing impacting Sample Co

- Rent Equalization for lease rental: For rent equalization we will need to exclude normal expected inflation percentage. Say inflation is 8% and rental escalation per year is 10% only 2% shall be considered for RE. If escalation is less than inflation rate, we can ignore negative percentage for RE.

- Since, mostly rental escalation clauses have increase in rentals less than expected increase in rent, we can book rent as expense in books on payment/ agreement basis from 1/4/15 for Ind AS purposes, with minor adjustment for free period rental. Re-computation of RE schedule is needed.

- Whatever difference we have in books on 1/4/15, shall be adjusted with opening retained earnings on 1/4/15.

Key differences in existing impacting Sample Co

- Gratuity Actuarial Valuation differences on account of assumptions like govt bond rates, attrition rate etc. will go to OCI and not to P&L.
- Business Valuation: For valuation we can use infinite period discounted cash flow instead of 5 years at the moment. Same ways for impairment calculations, we can use discounted cash flow infinite period.
- FX: Functional currency for most of the companies will be INR as currency which determines (in put cost) sales prices and cost is in INR, even if $ is used as currency for revenue. No change expected here.

Key differences in existing impacting Sample Co

- First time adoption for 31/3/15 BS, no need of FMV for business combination done before first time adoption 31/3/15. First time adoption Ind AS 101, has 7 mandatory exemptions and 21 optional exemptions, need to see where we need exemption.
- Share payments for RSU/ESOERP: We will have to account for RSU cost in books from FY 2015-16 to comply with IND AS even if foreign does not charge.

Key differences in existing impacting Sample Co

- Assets Retirement Obligation (ARO) for leased buildings
- Capital Lease/finance lease obligation.