Winds of Change in AS

M P Vijay Kumar FCA, FCMA, FCS

INSURANCE !!

This presentation should only be read along with the text of Ind AS.

The views expressed are those of the presenter and, therefore, do not necessarily represent the views of either the Council or any Committee(s)/Board(s) of the Council of the Institute of Chartered Accountants of India (ICAI).

Agenda – 90 minutes

- context setting
- what is different in IFRS?
- convergence Journey
- roadmap for Convergence
- what does convergence mean?
- companies act – inconsistencies ?
- ind as impact
- differences between Ind AS and existing AS
- carve-outs from IFRS

*The document is intended to provide a brief overview of the Ind ASs and is not a replacement for original text

Whirlwind?

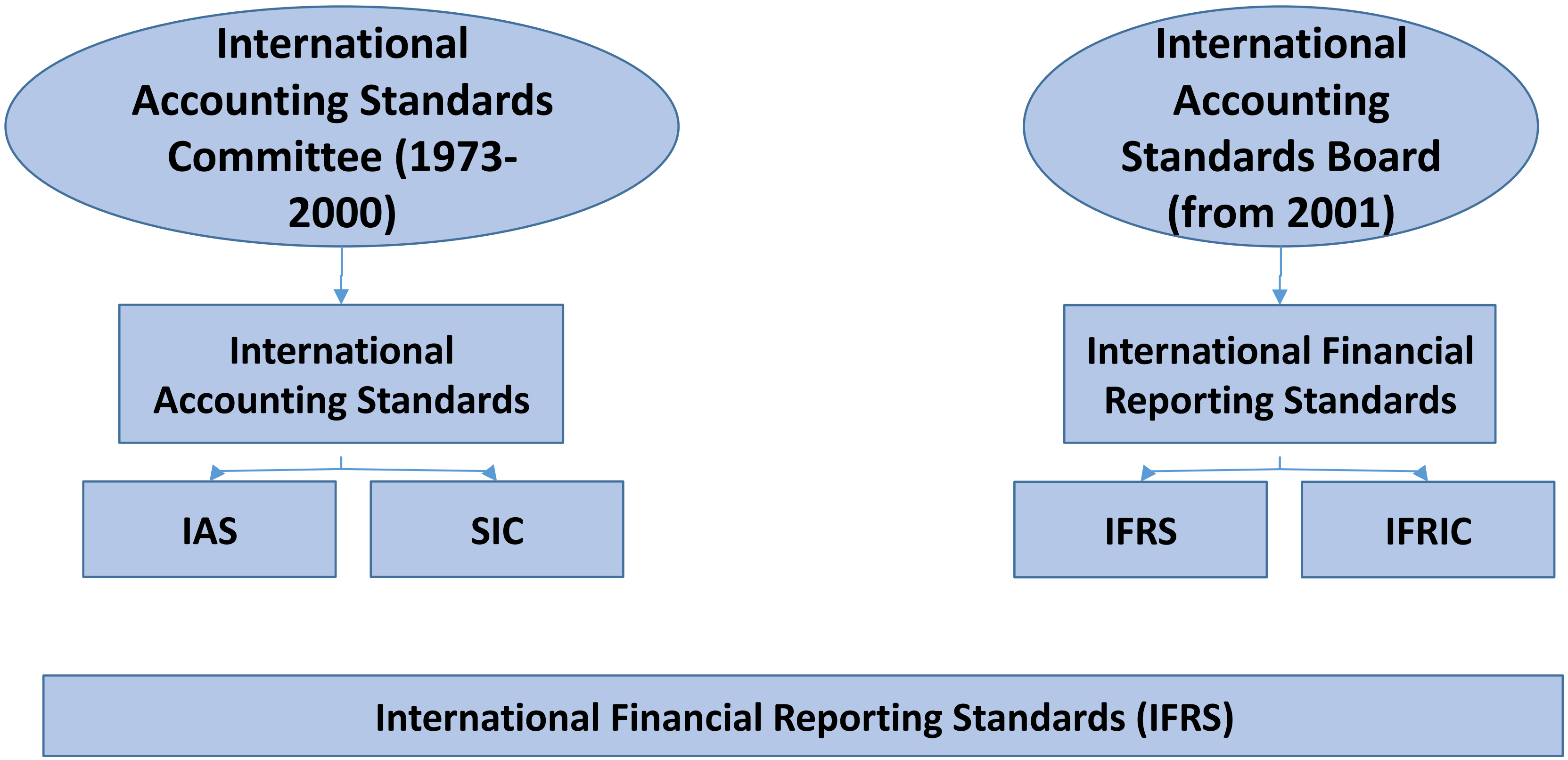
- The accounting profession worldwide is going through a sea of changes
- On the one hand “The Economist” predicts, accounting to be the worst affected profession in the wake of technology, while on the other, qualified professionals are found wanting across the globe
- Business transactions – getting complex with agreements for future performance and multiple covenants
- Accounting closely linked to taxation- fair valuations ; TP/BEPS etc
- The change only presents ocean of opportunities for global accountants
- The key to embracing this change is upgrading our skillsets

Regulatory changes – immediate past

- Revision of erstwhile Schedule VI
- Companies Act 2013
- Income Computation & Disclosure Standards
- Ind AS – live – at last !!
- Schedule III for Ind AS companies
- Schedule III for Ind AS companies - NBFC
- Upgrade of existing Accounting Standards
  - AS 10 already done

What is IFRS?

- **Set of accounting standards issued by a non-profit body called International Accounting Standards Board (IASB)**



IFRS – The number game

Particulars	Number
Total Number of IAS	41
IAS that are withdrawn	13
Number of IAS	28
Total Number of IFRS	17

Particulars	Number
Total Number of SIC	32
SIC that are withdrawn	25
Number of SIC	7
Total Number of IFRIC	21
IFRIC that are withdrawn	7
Number of IFRIC	14
Total Number of documents	66

(New!!!) Principles governing IFRS

- There can, and in fact, be no differences in core fundamentals of accounting vis-à-vis I GAAP

- The following principles
  1. Substance over form -Consolidation is accounting and not just reporting
  2. Fair Value
  3. Extensive disclosures

- Number of choices to be made – dealing with differences of opinions in applications

Ind AS –Convergence Journey

AS in timeline

AS 1
- 1979

AS 2 - 15
- 1994

Revision of existing standards
- 1999

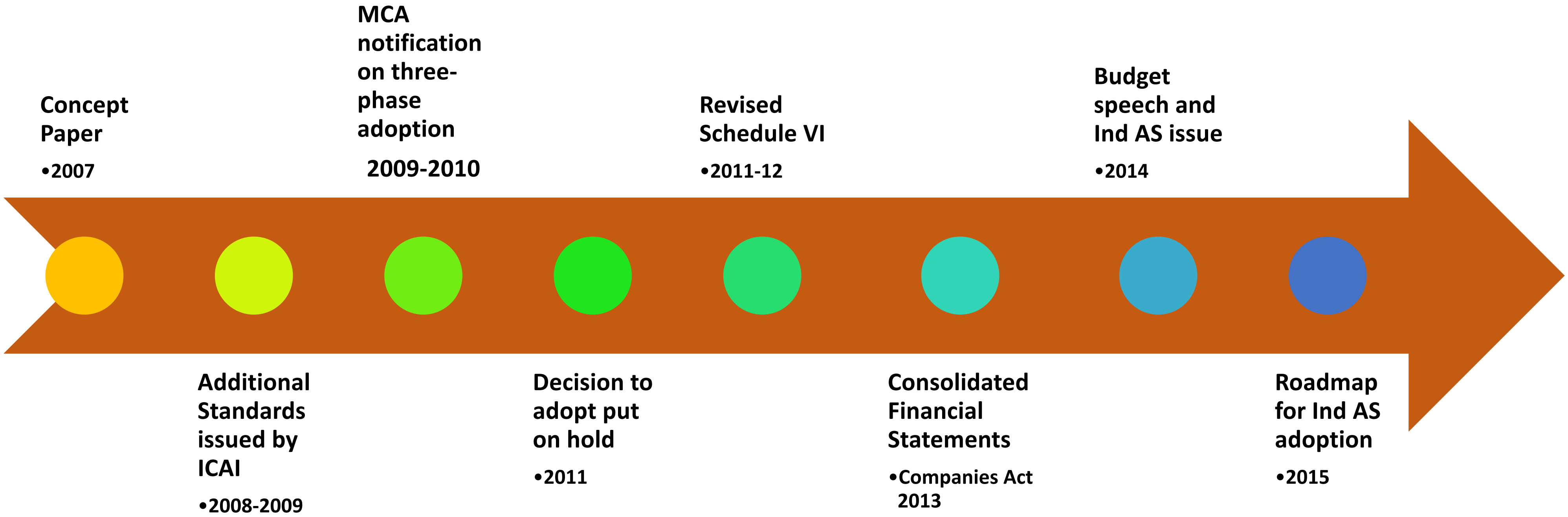
AS 16 - 29
- 2000-2003

Convergence decision
- 2007

Convergence project

- **Concept paper for convergence with IFRS in 2007**
- **Convergence is not migration from Indian Accounting Standards to IFRS**
- **Convergence is not adoption of IFRS**
- **Convergence is *"to design and maintain national accounting standards in a way that financial statements prepared in accordance with national accounting standards draw unreserved statement of compliance with IFRS"***

The convergence journey



Roadmap for implementation of Ind AS

Phase I - 1st April 2015	Phase II – 1st April 2016	Phase III – 1st April 2017
Voluntary basis – for all companies(with comparatives)	Companies having net worth >= INR 5 Billion Parent, Subsidiary, Associate or Joint Venture of companies covered above	All listed companies not covered in Phase II Unlisted companies with net worth > INR 2.5 Billion Parent, Subsidiary, Associate or Joint Venture of companies covered above

Banking, Insurance and NBFCs have separate roadmap
Companies listed on SME exchange not required to apply Ind AS
Companies not covered by roadmap will apply existing AS

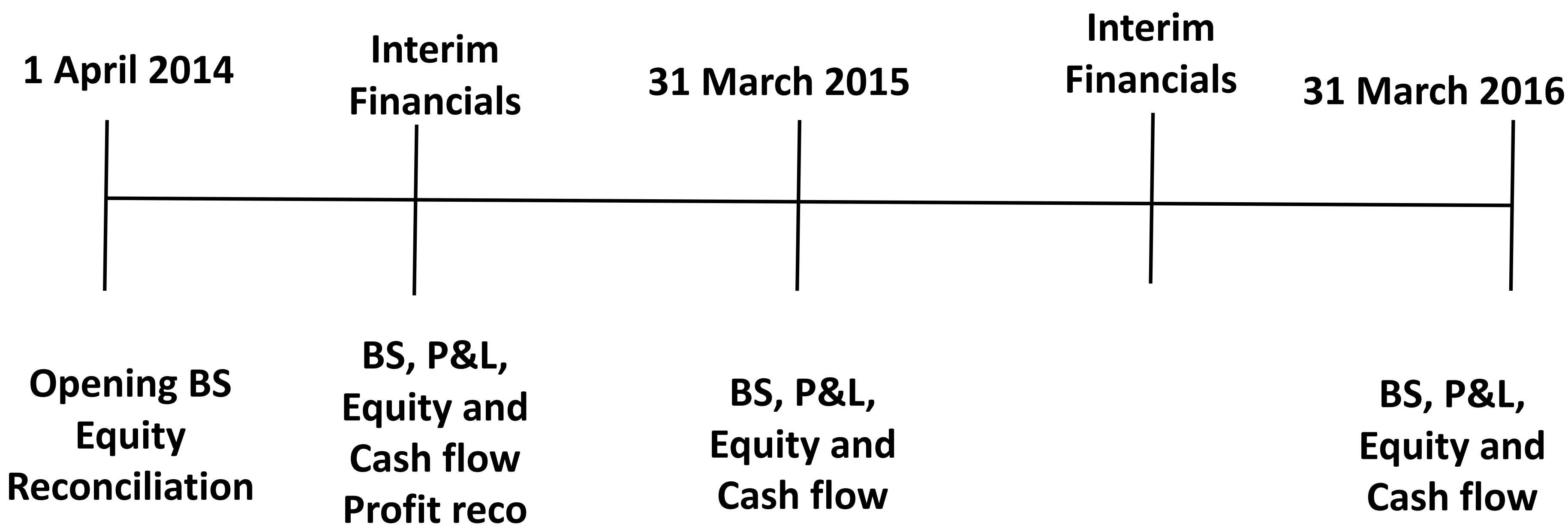
BFSI Roadmap for implementation of Ind AS

Phase I - 1st April 2018	Phase II – 1st April 2019
Scheduled commercial banks, insurance companies, NBFC having net worth >= INR 5 Billion	Listed NBFC having net worth < INR 5 Billion, Unlisted NBFC having net worth >= INR 2.5 Billion and < INR 5 Billion
Parent, Subsidiary, Associate or Joint Venture of companies covered above	Parent, Subsidiary, Associate or Joint Venture of companies covered above

Insurance companies from 1.4.2020

What this means

- **Phase I**



What this means

- **Phase II**

1 April 2015

Interim Financials

31 March 2016

Interim Financials

31 March 2017

Opening BS
Equity Reconciliation

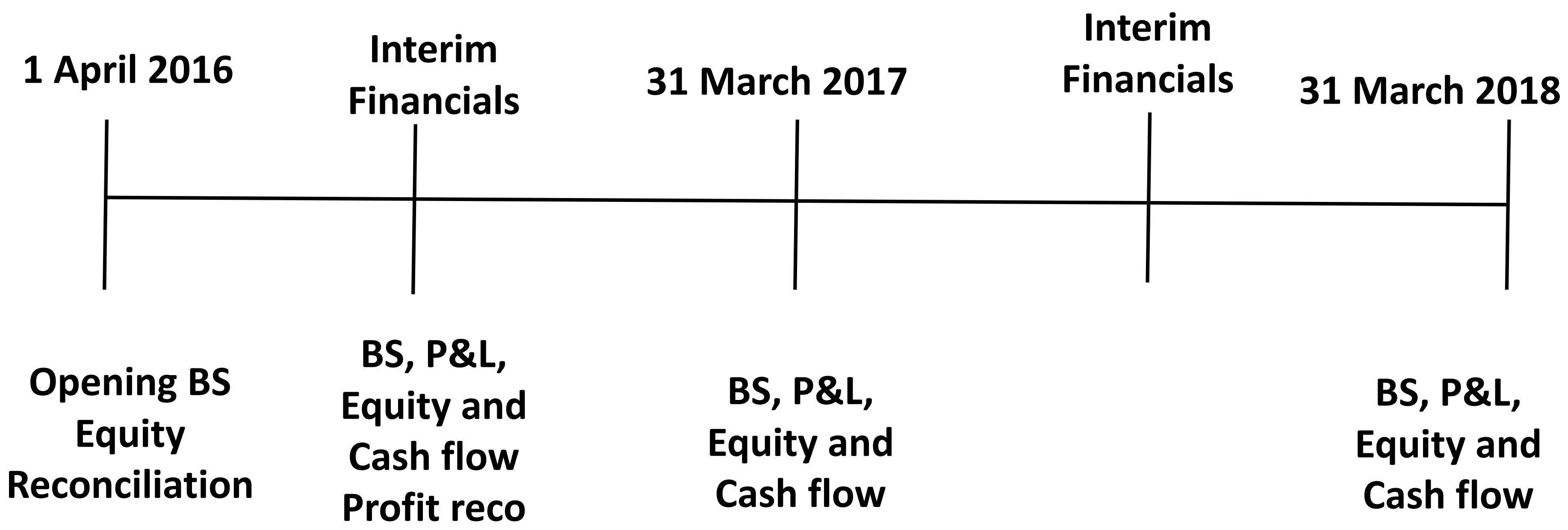
BS, P&L, Equity and Cash flow
Profit reco

BS, P&L, Equity and Cash flow

BS, P&L, Equity and Cash flow

What this means

- **Phase III**



Reporting Landscape after convergence

- Companies covered by Phases will apply Ind AS
- Companies not covered by Phases will apply existing AS issued by NACAS
- Non-corporates will apply AS issued by ICAI

Globally though

IFRS

Companies with public accountability

IFRS for SME

Companies that do not have public accountability

Ind AS – Count

Particulars	Number
Number of IAS	28
Number of Corresponding Ind AS	26
Number of IFRS	17
Number of Corresponding Ind AS	15
Number of SIC	7
Number of Corresponding Appendix incorporated in Ind AS	6
Number of IFRIC	14
Number of Corresponding Appendix incorporated in Ind AS	13
Total Number of Documents considered for Ind AS	60
IAS 26 and IAS 39 are not issued; IFRS 16 and 17 due for issue ;	

Companies Act, 2013
authority & inconsistencies

Sanctity to Accounting Standards under Company Law

Companies Act ,1956

- Section 211 (3C):In 1999, legal recognition to the AS was accorded (section 211(3C) Companies (Amendment) Act, 1999) requiring companies to follow AS prepared by ICAI and notified by the Central Government on recommendation by the National Advisory Committee on Accounting Standards (NACAS).

- The proviso to section 211(3C) provided that until the AS are notified by the Central Government, the AS specified by the ICAI shall be followed by the companies.

Companies Act , 2013

- Section 129 : Financial statements shall comply with the AS notified under Section 133.

- Section 133: Central Government may prescribe the AS **as recommended by the ICAI**, in consultation with and after examination of the recommendations made by the NFRA

Constitution of NFRA

- Section 132 : NFRA role :
  - Recommendation of AS to Govt
  - Recommendation of SA to Govt
  - Monitoring and enforcing the compliance of Accounting and Auditing Standards and also the powers to investigate professional and other misconduct arising therefrom.

- Transition : Till NFRA is constituted, the Central Government may prescribe the Accounting Standards as recommended by the ICAI in consultation with and after examination of the recommendations made by the NACAS constituted under section 210A of the Companies Act, 1956.

Inconsistencies between Companies Act 2013 and Ind AS

- Certain definitions in the Companies Act, 2013 are different from the definitions given in Ind AS, such as:
  - Holding/Subsidiary company – Determination of control
  - Associate/joint venture
  - Key Managerial personnel
  - Related Parties
  - Related Party transactions

- MCA has clarified through Companies (Accounts) Second Amendment Rules, 2015 as under:

  "Items contained in the financial statements shall be prepared in accordance with the definitions and other requirements specified in the Accounting Standards or the Indian Accounting Standards as the case maybe"

- Accordingly, for preparation of financial statements, definitions in the Accounting Standards should be followed.

Inconsistencies which lead to interpretational issues

Business Combination: Concept of appointed date

- Section 232 of the 2013 Act inter-alia provides that the Court scheme shall clearly indicate an appointed date from which it shall be effective and it shall be deemed to be effective from such date and not at a date subsequent to the appointed date.
- Ind AS 103, *Business Combination* , inter-alia, provides that the acquirer shall identify the acquisition date, which is the date on which acquirer obtains control of the acquiree.
- Accordingly, issue arises that from which date acquisition should be accounted for, i.e., the date on which the acquirer obtains the control or appointed date mentioned in the scheme.

Inconsistencies which lead to interpretational issues

Restatement of the financial statements

- Section 131 : Voluntary revision of financial statements if it appears that such financial statements do not comply with the provisions of section 129 or 134 of the said Act.

- Ind AS 8, prescribes restatements of financial statements for the correction of errors in the financial statements in order to reflect correct and true view of the financial statements.

- The issue is whether approval of Tribunal under section 131 is required to be sought in case of certain unintentional errors, omission, or change in accounting policies or accounting standards?

Inconsistencies which lead to interpretational issues

Deemed Dividend: Distribution of non-cash assets to owners

- Section 123 (5) of Company Act, 2013, specifies that no dividend shall be payable except in cash.
- Appendix A to Ind AS 10, *Events After the Reporting Period*, provides measurement of a liability to distribute non-cash assets as a dividend to its owners at the fair value of the assets to be distributed.

Treasury Shares

- The Companies Act, 2013, does not recognise the concept of treasury shares. Ind AS covers the accounting of treasury shares.
- In the financial statement, treasury shares are presented as deduction from equity as per Ind AS.
- Issue can arise whether such transactions are allowed in India since Ind AS deal with the same

Inconsistencies where clarity is required

Utilisation of securities premium

- Section 52(2) of Companies Act, 2013, provides five purposes for which securities premium can be utilised by the company. Section 52(3) prescribes three purposes for which securities premium can be utilised by such class of companies, as may be prescribed and whose financial statement comply with the accounting standards prescribed for such class of companies under section 133.

- Clarification prescribing the class of company to whom section 52(3) (i.e., Ind AS compliant companies) is applicable needs to be issued.

Standard-wise indexation of issues covered in ITFG Bulletins

Ind AS	Issues directly dealing with the Standard	Total Issues
Ind AS 8	Issue 64	1
Ind AS 12	Issue 65, 66, 67, 68 & 69	5
Ind AS 16	Issue 70, 71, 72, 73, 74, 75, 76, 77 & 78	9
Ind AS 17	Issue 79, 80 & 81	3
Ind AS 18	Issue 82, 83, 84 & 85	4
Ind AS 20	Issue 86, 87 & 88	3
Ind AS 21	Issue 89 & 90	2
Ind AS 23	Issue 91& 92	2
Ind AS 24	Issue 93	1
Ind AS 27	Issue 94 & 95	2
Ind AS 32	Issue 96, 97 & 98	3

Standard-wise indexation of issues covered in ITFG Bulletins

Ind AS	Issues directly dealing with the Standard	Total Issues
Ind AS 33	Issue 99 & 100	2
Ind AS 37	Issue 101	1
Ind AS 38	Issue 102	1
Ind AS 101	Issue 22 to Issue 47	26
Ind AS 103	Issue 48, 49 and 50	3
Ind AS 107	Issue 51 & 52	2
Ind AS 108	Issue 53	1
Ind AS 109	Issue 54,55,56,57,58,59 & 60	7
Ind AS 110	Issue 61,62 &63	3
Total issues related to Standards		**81**
Other issues related to roadmap, net-worth and Schedule III to the Companies Act, 2013		23
Total Issues		**104**

Impact !!!
Setting expectation

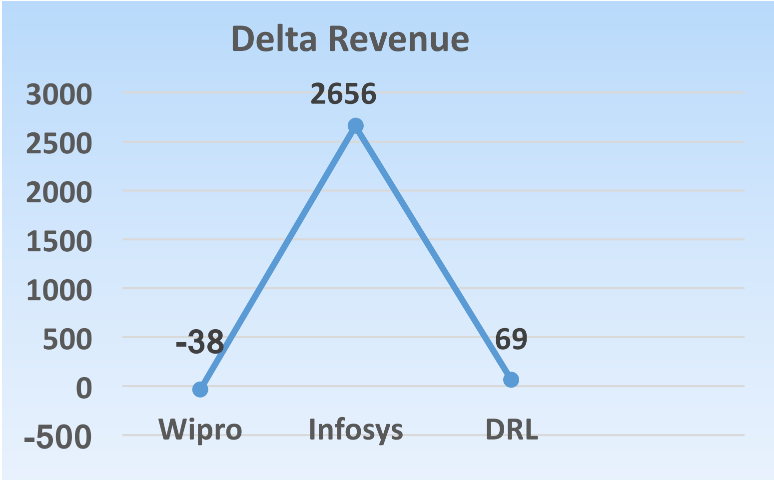
Study of Impact

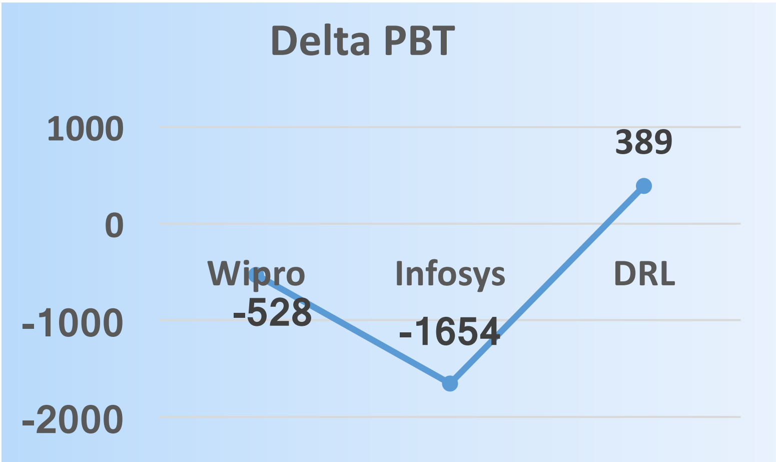
	Tata Motors Ltd			Dr.Reddy Laboratories		
Particulars	Crores	Crores		Crores	Crores	
	IGAAP	IFRS	Diff	IGAAP	IFRS	Diff
Revenue	262,796	262,526	(270)	14,703	14,819	116
Depreciation	13,449	11,046	(2,403)	759	810	51
Tax	6,915	7,642	727	563	598	35
Net Profit	13,986	12,829	(1,157)	2,336	2,212	(124)
Networth	56,694	53,935	(2,759)	9,853	11,130	1,277
Tangible Assets	50,765	53,822	3,057	4,183	4,809	626
Intangible Assets	51,523	53,822	2,299	1,193	1,506	313

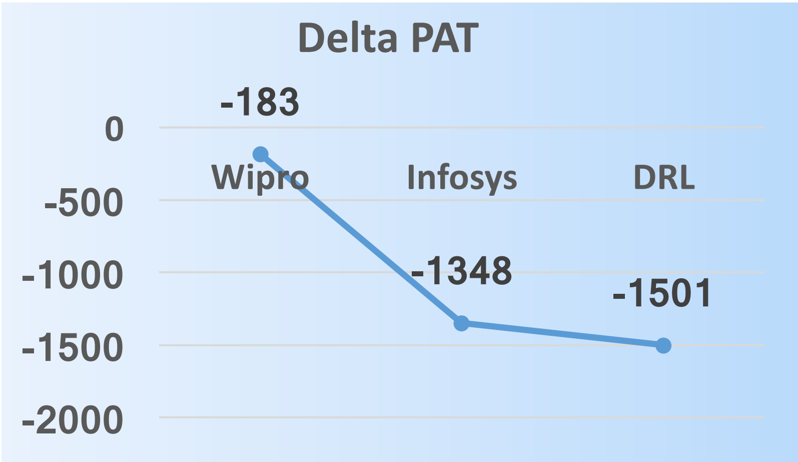
Study of Impact

	Infosys			Wipro Limited		
Particulars	Crores	Crores		Crores	Crores	
	IGAAP	IFRS	Diff	IGAAP	IFRS	Diff
Revenue	47,300	53,137	5,837	46,951	46,954	3
Depreciation	913	1,068	155	1,175	1,282	107
Tax	4,634	4,911	277	2,510	2,462	(48)
Net Profit	12,164	12,279	115	8,661	8,706	45
Networth	48,068	53,448	5,380	37,256	40,963	3,707
Tangible Assets	7,347	8,906	1,559	5,364	5,421	57
Intangible Assets	-	3,642	3,642	5,867	7,600	1,733

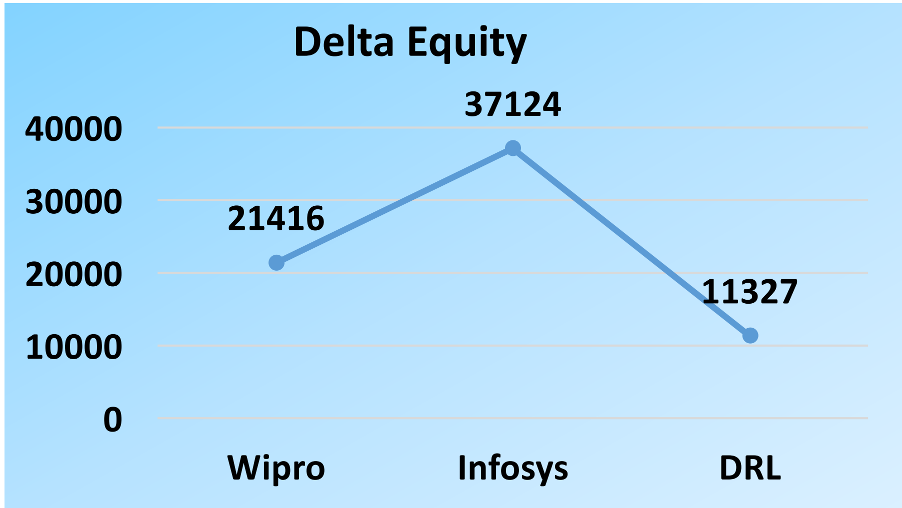
IFRS and IGAAP – Income Statement

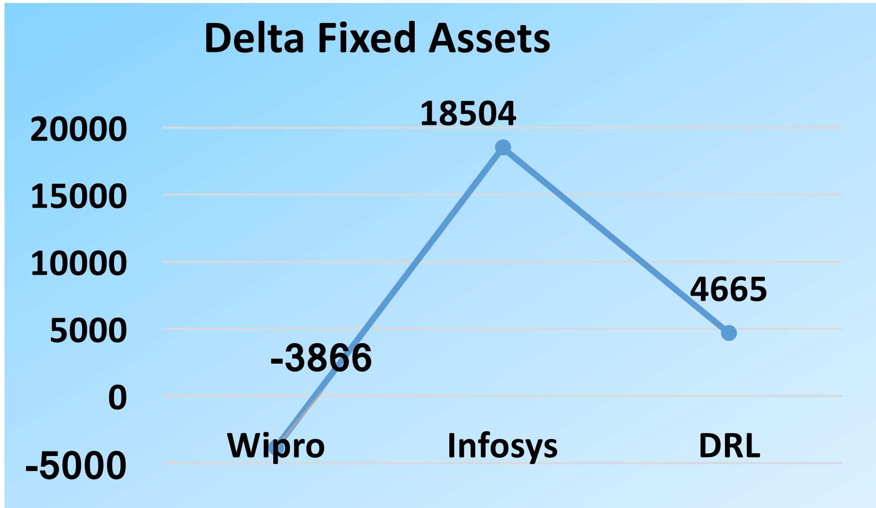


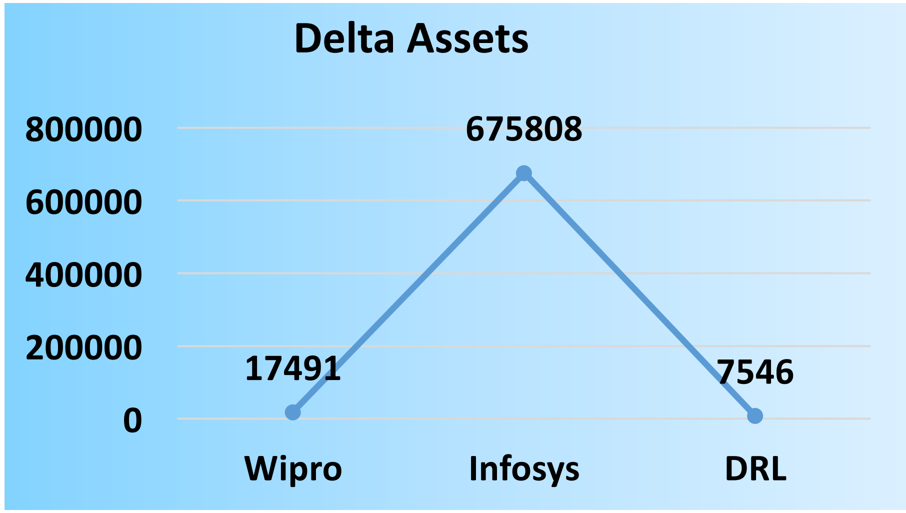


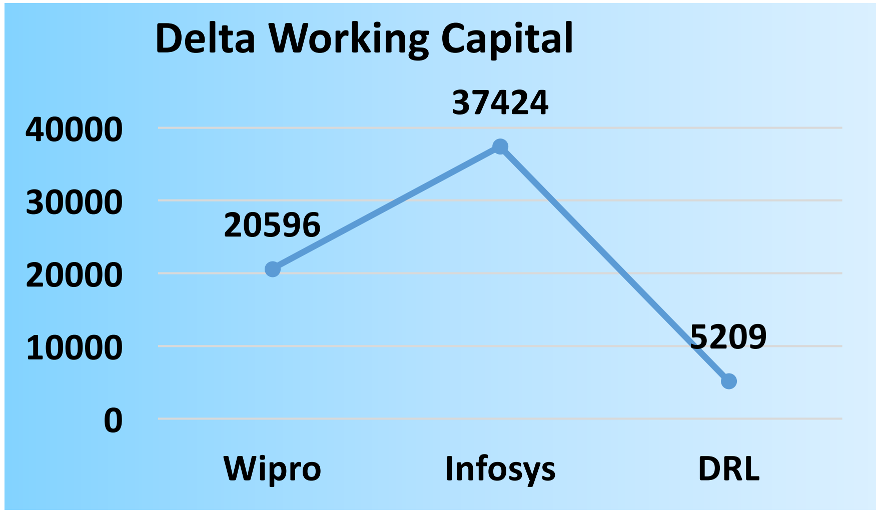


IFRS and IGAAP – Balance Sheet









Q1 Ind As transition - study

	Increase	Decrease	No change
Revenue	30%	48%	22%
EBITDA	59%	41%	0%
PAT	52%	48%	0%

Ind-AS
impact in brief

IMPACT of changes (Select)

Standard	Change	Treatment
Ind AS 8	Accounting policy change and prior period items	Retrospective application/restatement – third Balance Sheet
Ind AS 10	Dividend treatment	Proposed dividend is not a liability and treated as change in equity
Ind AS 12	Approach	The basis for determining deferred taxes from P&L approach to BS approach – Need for Tax Balance Sheet
Ind AS 103	Method of accounting	No pooling of interest method
	Reverse merger	Acquirer for accounting different from legal acquirer
	Identifiable Intangible Assets	Fair value should be allocated to intangible assets, which would not have been recognized under I GAAP
Ind AS 18 – Appendix	Service concession arrangement	Intangible assets recognition and the amortization policies are different

IMPACT of changes (select)

Standard	Change	Treatment
Ind AS 38	Indefinite life intangibles and goodwill	To be tested for impairment annually
Ind AS 17 – Appendix	Determining whether arrangement contains lease	A sub-contracting contract, which operates exclusively for the principal could be subject matter of lease
Ind AS 40	Disclosure of fair values	Fair value of investment property to be disclosed
Ind AS 110	Principles of consolidation	Definition of control is wider and substance-based. No exclusive determination using voting power
Ind AS 115	Disclosure for revenue contracts	Segmental (customer segmentation) disclosure, revenue conversion metrics, major customers to be given
	Principles of revenue recognition	The timing including identification of transaction price is undergoing significant change
IFRS 16	Types of lease	All leases to be taken to Balance Sheet

Schedule III vs schedule III

Particulars	Ind AS Schedule III	Non-Ind AS Schedule III
Presentation order	Assets followed by equity and liabilities	Equity followed by liabilities and assets
New elements	• Statement of changes in equity • Other comprehensive income • Financial assets & Financial liabilities • Investment Property • Biological assets other than bearer plants	
Renamed elements	• Property, plant and equipment • Other equity	• Tangible Assets • Reserves and Surplus
Additional disclosure	• Bank deposits with more than 12 months maturity under "other financial assets" • Cash and cash equivalents to include bank overdrafts – for cash flow statement	

Ind-AS
impact - Continued

Impact areas

Consolidation

- Concept of de-facto control – consolidation without majority holding or if minority possess veto power
- JV using equity method
- Minority interest at fair value

Financial Instruments

- Initial recognition at fair value net of transaction costs
- Subsequent measurement of Financial Assets at FVTPL/FVTOCI/Amortised cost
- Subsequent measurement of Financial liabilities at FVTPL/Amortised cost
- Debt/equity classification based on substance – compound instruments and preference shares
- Derivatives at FVTPL

Service concession arrangements

- Revenue from such arrangements are recognized based on Construction contracts
- A financial asset or an intangible asset is recognized and not a PPE
- Continue amortization policy as per existing GAAP for the intangible recognised

Impact areas

Employee Benefits/ESOPs	• ESOPs only at fair value • Actuarial gains or losses in OCI • Accounting for ESOPs of parent issued to employees of subsidiary
Property Plant and Equipment	• Depreciation method to be reviewed periodically along with useful life and consequently is not a change in accounting policy • Cost model or revaluation model • Using previous GAAP amount as deemed cost
Foreign currency fluctuations	• All prospective transactions and changes to exchange rates should be to profit or loss • For existing long term monetary items, policy as per previous GAAP can be continued
Leases	• Evaluation of substance of all the agreements for lease • Lease of land is operating lease • No straight lining when increase is expected offset inflation

Impact areas

Business combination

- All acquisitions at fair value
- Identified intangibles and Goodwill
- Testing of goodwill for impairment

Deferred taxes

- Balance sheet approach
- Any change in opening balance sheet will have corresponding impact in deferred taxes

Dividends

- Equity dividends directly to equity
- Treatment of preference dividend
- Treatment of DDT

Level of impact

Areas of change	Impact on Net worth	Impact on Profitability
Fair valuation of Land and PPE	Significant	Low
Fair valuation of financial instruments	Significant	Moderate
Deferred taxes	Moderate	Significant
Intangible assets and goodwill	Low	Moderate
Reclassification of actuarial gains and losses	Negligible	Significant
ESOPs	Moderate	Moderate
Consolidation of entities	Moderate	Moderate
Foreign currency translation	Moderate	Low

Sectoral impact areas

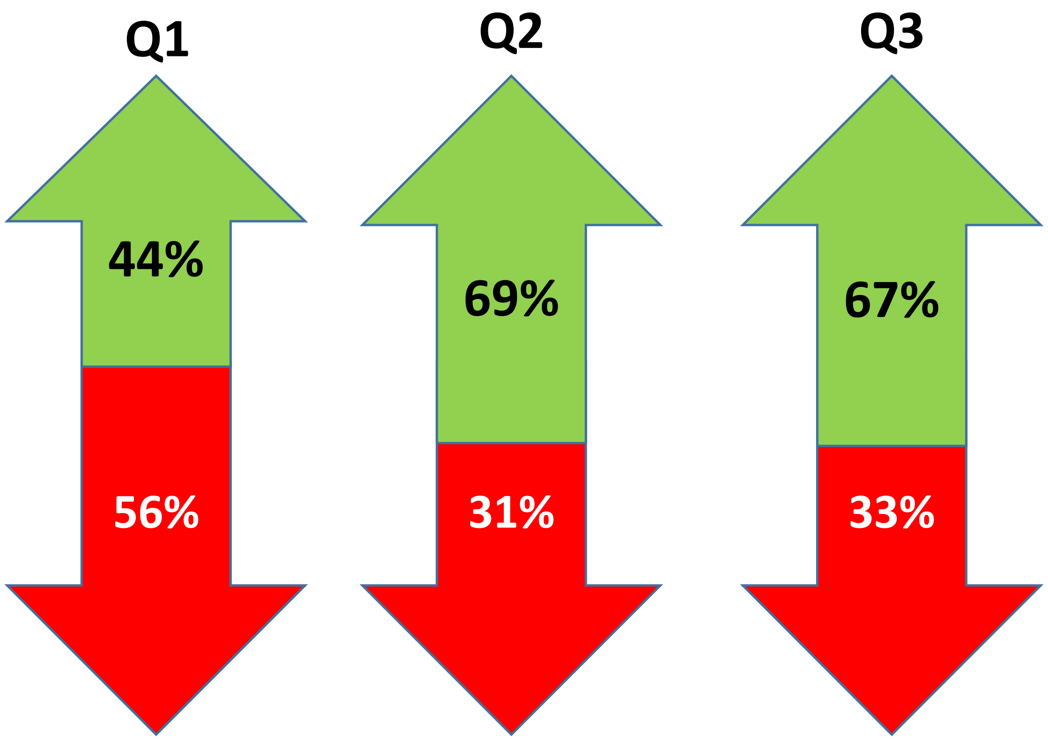
Area of change	Auto	IT	Pharma	Infra	Telecom	Retail
Revenue recognition	✔	✔		✔	✔	✔
Fair valuation of PPE	✔					✔
Fair valuation of FI (networth)	✔	✔	✔	✔	✔	✔
Fair valuation of FI (Profit or loss)	✔	✔	✔		✔	
Amortisation of Intangibles/Goodwill		✔	✔			
Consolidation	✔	✔	✔	✔		
Capitalisation of exchange differences	✔	✔		✔	✔	
Actuarial gains or losses	✔	✔	✔	✔	✔	✔
ESOPs	✔	✔	✔			
Capitalisation of spares	✔			✔		
Leases					✔	✔
Service concession arrangement				✔		

Impact areas

Area	Q1	Q2	Q3
Revenue	2.67%	5.37%	3.50%
EBITDA	0.54%	3.72%	2.63%
Interest	3.77%	0.02%	8.82%
Taxes	3.45%	0.51%	0.75%
PAT	1.28%	1.60%	0.38%

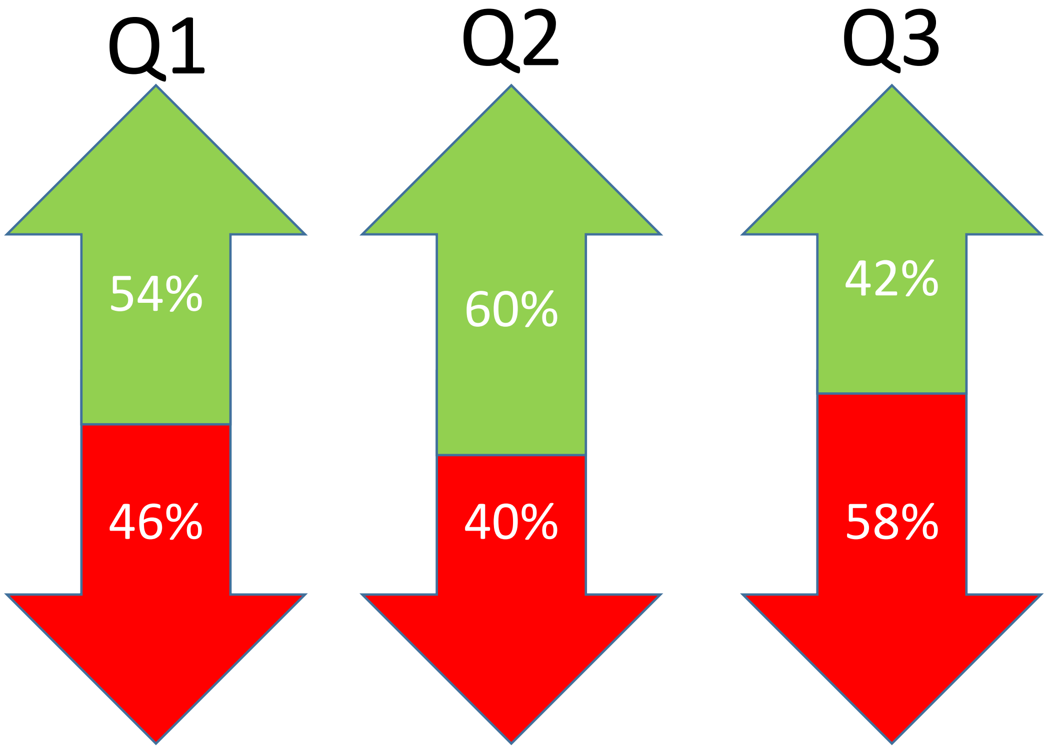
Revenue

- **Change in 84%(Q1), 97% (Q2), 95% (Q3) of the companies reported**
- **Key changes**
  - Excise duty presentation
  - Deferral of revenue
  - Awards and incentives to customers
  - Service concession arrangements
- **Excise duty consistently presented on gross basis from Q1**



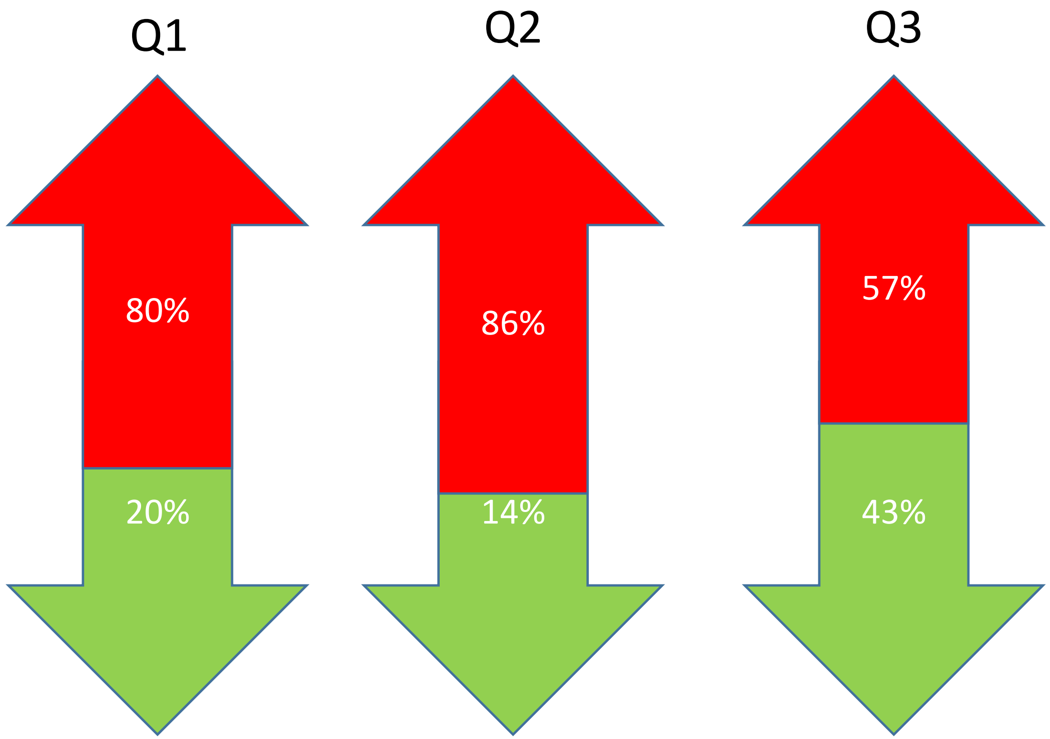
EBITDA

- **Change in all of the companies reported in all quarters**



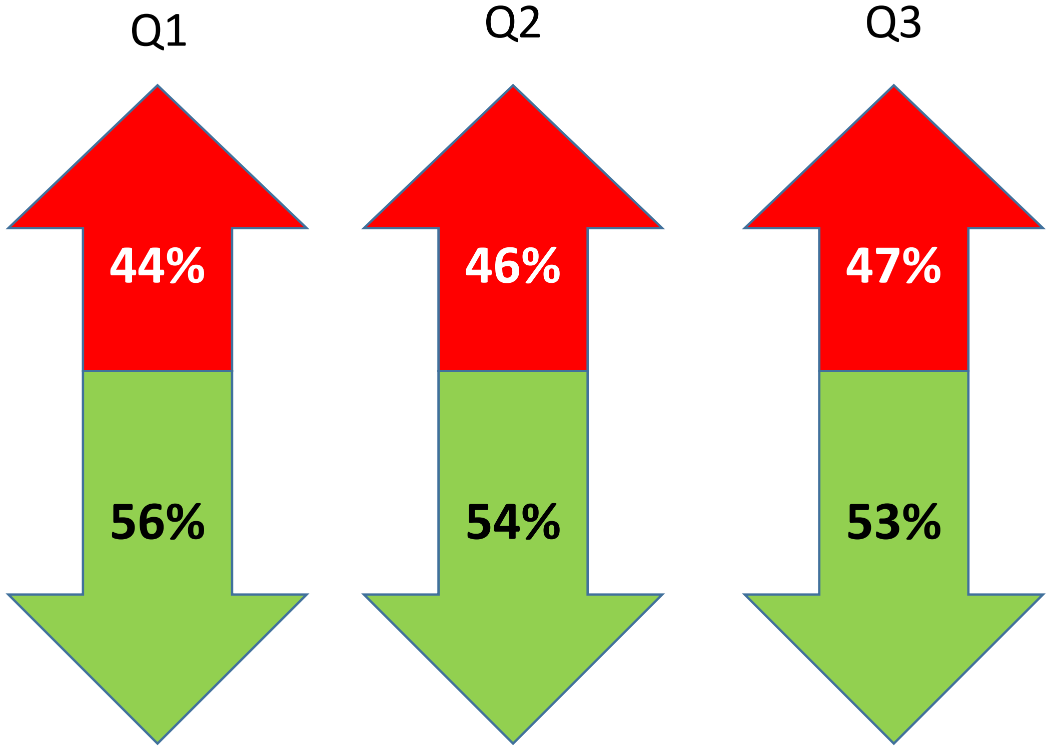
Interest

- **Change in 76%(Q1), 78% (Q2), 74% (Q3) of the companies reported**
- **Key changes**
  - **Financial instruments standard as more instruments are classified as debts**



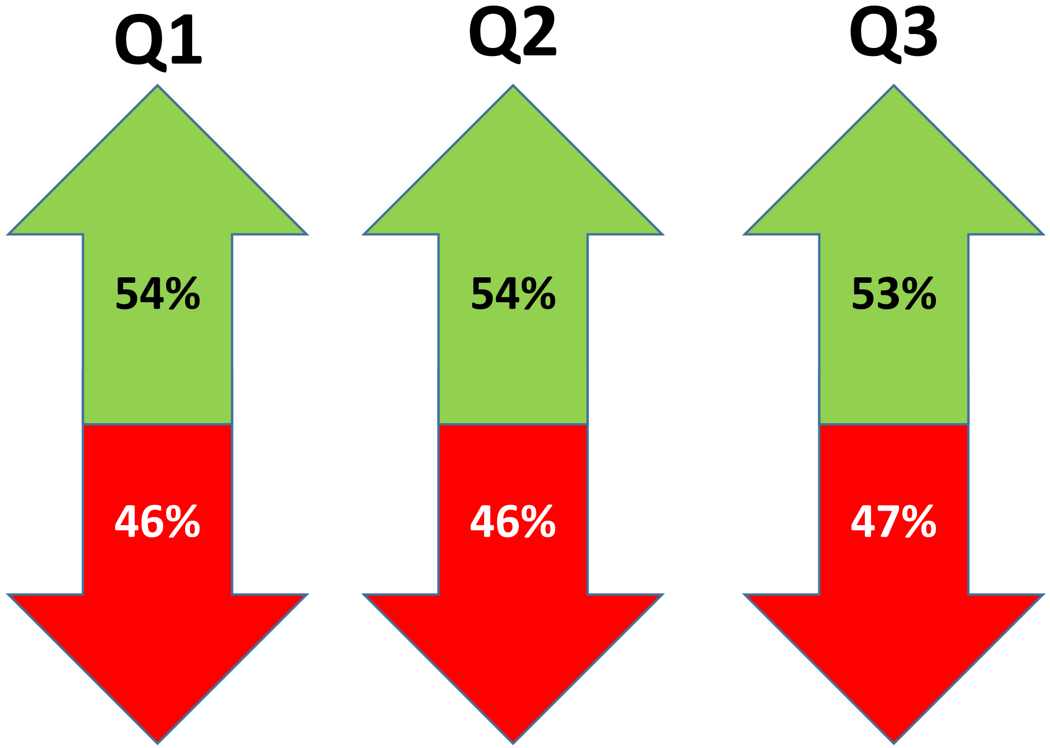
Taxes

- **Change in 99%(Q1), 99% (Q2), 100% (Q3) of the companies reported**
- **Key changes**
  - **Deferred tax liability on undistributed earnings**
  - **Deferred tax assets on carry forward business and long-term capital losses**
  - **Deferred tax on unrealized profit on intra-group transactions**



PAT

- **Change in all of the companies reported in all quarters**

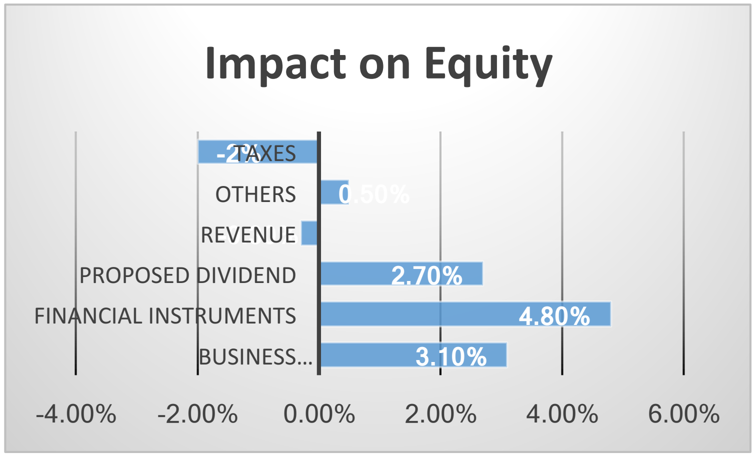


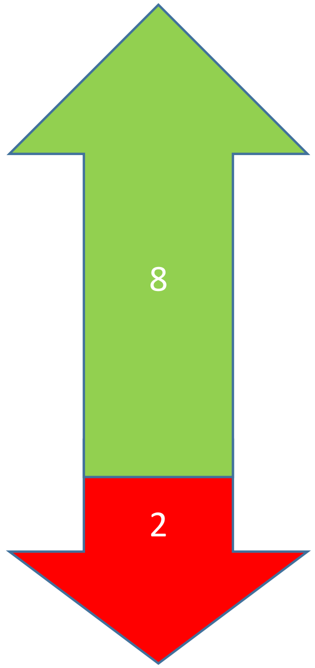
Ind AS-wise Impact

Area (% impact on profit as per AS)	Q1	Q2	YTD Q2
Revenue	2%	0.1%	0.4%
PPE	1.2%	55.3%	51.8%
Financial Instruments	19.3%	18.2%	18.6%
Foreign exchange fluctuations	32%	2.5%	3.2%
Employee Benefits/Share based payment	1.28%	4.3%	5.6%
Business Combinations	15.2%	2.9%	5.5%
Income taxes	14.5%	0.5%	1.7%
Others	3.7%	16.2%	13.3%

Equity reconciliations

- **Only 10 companies have presented equity reco**
- **Key changes**
  - Reversal of amortization of goodwill
  - Reversal of proposed dividend and DDT
  - Re-measurement of de-commissioning liability
  - Fair valuation of derivatives, investments, borrowings at amortised cost, impairment losses of FA
  - Derecognition of lease straight-lining obligations
  - Deferred tax impact on adjustments





Other adjustments

- Depreciation/amortization – life of indefinite life intangibles
- Reclassification of capital spares from inventory
- Lease straight-lining where inflation related
- Recognition of embedded leases
- Government grants on deferred income basis
- Discounting of decommissioning liabilities
- Exchange differences on translation of foreign operations

Ind-AS
CARVE OUTS RATIONALE

Carve outs and reasons

Standard	Scope of carve-out	Carve-out	Objective
Ind AS 101	Transitional provision	Use of Previous GaaP Carrying amount on the date of transition to be carrying amount as per Ind AS	To facilitate first-time adoption without undue cost and efforts
Ind AS 101	Primarily transitional but will have continuing difference	Exchange difference arising on translation of long-term foreign currency monetary items to be continued for already recognized differences on date of transition	To allow consistency with the objective of introducing Para 46A – which was introduced considering the full convertibility of Indian Rupee
Ind AS 101	Primarily transitional but will have continuing difference	Amortisation of Intangibles on service concession arrangements to continue on revenue-basis	To facilitate first-time adoption without undue cost and efforts

Carve outs and reasons

Standard	Scope of carve-out	Carve-out	Objective
Ind AS 103	Different treatment	Capital reserve to be recognized for gain on bargain purchase instead of P&L	Considering the Indian scenario, treatment of capital profit as revenue reserve was removed
Ind AS 103	Additional guidance	Scope to include common control transactions – treatment prescribed as in Appendix C	Since no guidance was available in IFRS, this was included.
Ind AS 32	Different treatment	Conversion option in FCCB not to be considered as Equity	Considering the Indian scenario where full convertibility is not available for INR and the nature of such bonds to raise capital abroad

Carve outs and reasons

Standard	Scope of carve-out	Carve-out	Objective
Ind AS 28	Different treatment	When it is impracticable to prepare financial statements using uniform accounting policies for associates, equity method of accounting can be based on existing financials	Considering practical scenario of only significant influence and not control, where associate cannot be forced to adopt Ind AS and in such cases, to avoid burden of cost on the investor
Ind AS 40	Different treatment	Fair value model for investment property is not permitted	To remove different accounting treatments by different companies

Carve outs and reasons

Standard	Scope of carve-out	Carve-out	Objective
Ind AS 17	Different treatment	Escalation in line with expected inflation need not be straight-lined	IFRS 16 on leases has considered this treatment.
Ind AS 1	Different treatment	Breach of covenants in long-term loans, when lender agrees not to demand before the financials statements are approved for issue can be treated as adjusting events and continue to be classified as non-current	Considering the Indian scenario where submission of stock report, receivables statement are considered covenants and will be rectified after the date of BS

IND-AS
CHANGES ON…

CHANGES ON..

- IFRS 15 – Effective from 1st January 2018 – Ind AS 115 already issued
- IFRS 16 – Effective from 1st January 2019 – Corresponding Ind AS to be issued
- IFRS 17 – Effective from 1st January 2020 – Corresponding Ind AS to be issued
- Dividend Distribution tax - Equity or expense
- Conceptual framework - under revision
- Insurance contracts - under revision
- Macro-hedging - to be issued
- Goodwill impairment - project on

Personal

My take on winds of change ?

- Data is connected from the source to the ledger via cloud-based applications. Accounting is morphing into what economists call "interaction jobs", where technical knowledge is assumed and higher value is applied to a person's ability to interact with internal and external clients, identify problems, come up with alternative solutions, determine which are affordable at this point in time and communicate and influence to deliver an outcome.

- The successful accountants of the future will be strong communicators, possess greater IT skills combined with strategic vision and they will be devoted to ongoing professional development. Globalisation is the future of accounting as more and more businesses require real-time manufacturing and information, mobile marketing and online tools, including the cloud, to expand their customer base internationally. Thus accounting, auditing and finance professionals with knowledge of international standards and regulations will thrive.

- ICAI is geared to this reality and 31 overseas chapters of ICAI is a testimony apart from embracing International accounting and assurance standards. Indian Chartered Accountants, thanks to the rigorous training and enviable forward looking curriculum, possess right insights and foresight to overcome challenges and make the best use of the opportunities.


ASK
QUESTIONS

THANK YOU!