Step up to Ind AS
Ind AS - an overview

India made a commitment towards the convergence of Indian accounting standards with IFRS at the G20 summit in 2009. In line with this, the Ministry of Corporate Affairs, Government of India (MCA) previously issued a roadmap for implementation of Indian Accounting Standards (Ind AS) converged with International Financial Reporting Standards (IFRS) beginning April 2011. However, this plan was suspended due to unresolved tax and other issues.

In the presentation of the Union Budget 2014-15, the Honorable Minister for Finance, Corporate Affairs and Information and Broadcasting proposed the adoption of Ind AS. The Minister clarified that the respective regulators will separately notify the date of implementation for banks and insurance companies. Also, standards for tax computation would be notified separately. In accordance with the Budget statement, the MCA has notified Company (Indian Accounting Standard) Rules 2015 vide its G.S.R dated 16 February 2015. Accordingly, it has notified 39 Ind AS and has laid down an Ind AS transition road map for companies other than banking companies, insurance companies and non-banking finance companies.

Ind AS roadmap

**Salient features:**

- Early adoption permitted from 1 April 2015, with one year comparatives
- Once adopted, cannot be revoked
- Companies not covered by the roadmap to continue to apply existing standards
- Phase I applicable from 1 April 2016 onward to:
  - Listed or unlisted companies whose net worth is \( \geq \) INR 500 crores
  - Holding, subsidiaries, joint ventures or associates of these companies
- Phase 2 is applicable from 1 April 2017 onward to:
  - Listed companies whose net worth is \(<\) INR 500 crores
  - Unlisted companies whose net worth is \( \geq \) INR 250 crores but \(<\) INR 500 crores
  - Holding, subsidiaries, joint ventures or associates of these companies
- Net worth for a company is to be calculated in accordance with its stand-alone financial statements as on 31 March 2014 or the first audited financial statements for accounting period which ends after that date. Accordingly, if any company’s networth is more than INR 500 crore as of March 31, 2015, then it will be covered in Phase 1 itself.
- Overseas subsidiary, associate, joint venture and other similar entity (ies) of an Indian company may prepare its stand-alone financial statements in accordance with the requirements of the specific jurisdiction. However, for group reporting purpose(s), it will have to report to its Indian parent under Ind AS to enable its parent to present CFS in accordance with Ind AS.
- As per exemption under Rule 5, Insurance companies, banking companies and non-banking finance companies are not required to apply Ind AS for preparing their financial statements either voluntarily or mandatorily, as specified in the roadmap (sub-rule (1) of rule 4).
Key differences between Indian GAAP and Ind AS in certain critical areas

There are many areas of differences between Indian GAAP and Ind AS because current Indian GAAP is driven by ‘form’ in a number of areas rather than “substance”, which is the focus under Ind AS. Certain critical areas that would have a transformational impact on transition to Ind AS are:

1. **Financial instruments (Ind AS 109)**
   Extant Indian GAAP does not include mandatory guidance on accounting for financial instruments. Standards for accounting for financial instruments are used as a reference and have not been notified by the MCA. As per the existing roadmap, India will directly transition to Ind AS 109, ahead of the equivalent IFRS 9, which will be implemented in 2018 in other jurisdictions that have adopted IFRS or permit IFRS. Extant Indian GAAP in the area of accounting for financial instruments is mainly driven by “form”. Ind AS 109 would have a significant impact on the way financial assets and liabilities are classified and measured, resulting in volatility in profit or loss and equity. The new impairment model will have a significant impact on the systems and processes of entities due to its extensive requirements for data and calculation. Additionally, significant impact is anticipated in the areas of debt vs. equity classification, compound financial instruments, derivatives and hedging, and foreign currency convertible bonds.

2. **Consolidated financial statements (Ind AS 110)**
   Ind AS 110 establishes a single control model for all entities (including special purpose entities, structured entities or variable interest entities). The implementation of this standard will require management to exercise significant judgment to determine which entities are controlled and are, therefore, required to be consolidated. It changes whether an entity is consolidated, by revising the definition of control. This is a radical change in the Indian environment, because by applying the new ‘control’ definition, it may change which entities are included within a group. This standard will be significant to companies that have complex holding structures and have formed special purpose vehicles.

3. **Revenue recognition (Ind AS 115)**
   The core principle of this standard is that an entity will recognize revenue when it transfers control over goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for underlying performance obligations arising from the transaction. This will require entities to use more judgement and make more estimates than under today’s revenue standards. Ind AS 115 is likely to have an impact on the identification of performance obligations, warranties, sales incentives, right of return and options granting a material right. In such a scenario, it will be critical for companies to clearly understand the effects of the new standard, provide early communication to stakeholders and undertake advanced planning.

4. **Business combinations (Ind AS 103)**
   Under extant Indian GAAP, there is no comprehensive standard for business combinations. There are separate standards that deal with amalgamation, consolidation and assets acquisition. Ind AS 103 will apply to all business combinations, including amalgamations. Once Ind AS 103 is effective, all assets and liabilities acquired will be recognized at fair value. Additionally, contingent liabilities and intangible assets not recorded in the acquiree’s balance sheet are likely to be recorded in the acquirer’s balance sheet on acquisition date. Goodwill on acquisition will not be amortized, but may only be tested for impairment.
Is Ind AS the same as the IFRS issued by IASB?

Ind AS is not the same as IFRS. It is a separate accounting framework based on IFRS as created by the MCA and has certain carve-outs to accommodate Indian business nuances.

Following are some of the key carve-outs in Ind AS vis-à-vis IFRS as issued by IASB:

- IFRS 1 defines the previous GAAP as the basis of accounting that a first-time adopter used immediately before adopting IFRS. However, Ind AS 101 defines the previous GAAP as the basis of accounting that a first-time adopter used for its reporting requirement in India immediately before adopting Ind AS. The change makes it mandatory for Indian entities to consider the financial statements prepared in accordance with existing notified Indian accounting standards as was applicable to them as previous GAAP when it transitions to Ind AS.

- Foreign exchange fluctuations: Ind AS provides an option to continue with the policy adopted for accounting for exchange differences arising from the translation of long-term foreign currency monetary items recognized 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. Under IFRS, such exchange difference is charged to the income statement.

- Foreign currency convertible bonds (FCCB): Ind AS states that where the exercise price for the conversion of the FCCB is fixed, irrespective of any currency, it is to be classified as equity rather than as an embedded derivative. IFRS on the other hand, requires that where the conversion of bond into equity shares is fixed, but the exercise price for such conversion is defined in currency other than the functional currency of the entity, the conversion aspect is to be accounted as embedded derivative.

- Straight lining of lease rentals: Keeping in mind the Indian inflationary situation, Ind AS states that the straight lining of lease rentals may not be required in cases where periodic rent escalation is due to inflation. IFRS does not provide an exception to straight lining of lease rentals where rent escalation is due to inflation.

- Property, plant and equipment: Ind AS permits (subject to limited exceptions around change in functional currency) an entity to use carrying values of all property, plant and equipment as on the date of transition to Ind AS, in accordance with the previous GAAP, as an acceptable starting point under Ind AS. IFRS does not provide a similar option on first-time adoption.

- IFRS 3 requires bargain purchase gain arising on business combination to be recognized in profit or loss. Ind AS 103 requires the same to be recognized as other comprehensive income and accumulated in equity as capital reserve, unless there is no clear evidence for classifying the business combination as a bargain purchase. In this case, it is to be recognized directly in equity as capital reserve.

- Consequent to the changes made in Ind AS 1, it has been provided in the definition of ‘Events after the reporting period’ that in case of breach of a material provision of a long-term loan arrangement on or before the end of the reporting period with the effect that the liability becomes payable on demand on the reporting date, if the lender, before the approval of the financial statements for issue, agrees to waive the breach, it shall be considered as an adjusting event. Under IFRS, these breaches will result in classification of loan as current instead of non current.
Transition to Ind AS is not just an “accounting change”

Considering the potential wide-ranging effects of the transition, the implementation effort would impact functions outside of the finance department, including IT, legal, sales, marketing, human resources, investor relations and senior management.

A number of related workstreams should be considered in this effort, including:

- Accounting and financial reporting
- Tax
- Business processes and systems
- Change management, communication and training

In addition, it is critical to have strong project management skills to coordinate the roles of the various business functions and to keep the workstreams running smoothly and on schedule.
Key differences between Ind AS and Indian GAAP

Revenue recognition

Key differences

- Ind AS 115 Revenue from Contracts with Customers is a comprehensive standard that deals with revenue recognition. It supersedes AS 9 Revenue Recognition and AS 7 Construction Contracts.
- Ind AS 115 has introduced a five-step model with a single principle for recognizing revenue that applies to all contracts. AS 9 specifies different recognition and measurement criteria for varying streams of revenue.
- Ind AS 115, unlike AS 9 Revenue Recognition requires revenue to be measured at the amount of consideration to which an entity expects to be entitled (rather than contractually specified) in exchange for transferring the promised goods or services.
- Ind AS 115 has introduced the concept of variable consideration. It takes various forms, including (but not limited to) price concessions, volume discounts, rebates, refunds, credits, incentives, performance bonuses and royalties. An entity’s past business practices can cause consideration to be variable if there is a history of providing discounts or concessions after goods are sold. AS 9 currently contains no guidance in this regard.
- For recognition of revenue from rendering of services, Ind AS 115 requires that revenue should be recognized over time by measuring progress toward completion. AS 9 provides an option to use either the proportionate completion method or the completed service contract method for specified transactions for recognizing revenue from service transactions.

Impact on financial reporting

- **Multiple element arrangements**
  According to AS 9, revenue is measured by the charge made to customers or clients for goods supplied and services rendered and by the charges and rewards arising from the use of resources by them. In the absence of a fair value concept, it sometimes becomes difficult to determine revenue for a contract that contains multiple elements such as sale of goods and rendering of services. Ind AS 115 prescribes that the transaction price in such arrangements must be allocated to each separate performance obligation, so that revenue is recorded at the right time and in the right amount. Under Indian GAAP, an EAC opinion deals with accounting in the case of multiple element contracts in a limited way.

- **Control model**
  Ind AS 115 has introduced the control model to determine the point of revenue recognition. Management needs to determine, at contract inception, whether control of a good or service transfers to a customer over time or at a point in time. Arrangements where the performance obligations are satisfied over time are not limited to services arrangements. Complex assets or certain customized goods constructed for a customer, such as a complex refinery or specialized machinery, could also be transferred over time, depending on the terms of the arrangement. Revenue is recognized over time if any of the following three criteria are met:
  - The customer simultaneously receives and consumes the benefits provided by the entity’s performance as the entity performs...
  - The entity’s performance creates or enhances an asset that the customer controls as the asset is created or enhanced...
  - The entity’s performance does not create an asset with an alternative use to the entity...and the entity has an enforceable right to payment for performance completed to date
This model may have the highest impact for companies engaged in construction or real estate business.

- **Reduced volatility of revenue recognition for rendering of services**
  Since Ind AS 115 requires revenue to be recognized over time by measuring progress toward completion, entities that defer revenue based on the completed service contract method under AS 9 will experience a significant impact on their income statement. The volatility of the income statement of such entities will be streamlined by the application of Ind AS 115, and the profit or loss for the period will better represent the efforts put in by the entities during the period.

**Impact on an organization and its processes**

Ind AS 115’s core principle is that an entity will recognize revenue when it transfers goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This will require entities to use more judgment and make more estimates than under current Indian GAAP. Unlike Indian GAAP, Ind AS 115 provides detailed guidance on the identification of separate performance obligations of a single transaction. It will be essential to apply the recognition criteria to the separate performance obligations of every transaction to reflect the substance of the transaction. Therefore, marketing strategies, such as free maintenance services for cars, loyalty points by hotels and supermarkets and free handsets by telecom operators, would need to be carefully evaluated to gauge their impact on revenue recognition. Ind AS 115 requires stand-alone selling prices to be determined for all of the identified performance obligations. Companies that do not currently estimate stand-alone selling prices will need to involve personnel beyond those in the accounting or finance departments. Personnel responsible for an entity’s revenue recognition policies may need to consult with operating personnel involved in pricing decisions to determine estimated stand-alone selling prices, especially when there are limited or no observable input.
Financial instruments

Key differences

Ind AS 109 Financial Instruments, Ind AS 32 Financial Instruments: Presentation, Ind AS 107 Financial Instruments: Disclosures and Ind AS 113 Fair Value Measurement deal with the presentation, recognition, measurement and disclosure aspects of financial and equity instruments in a comprehensive manner. Pronouncements that deal with certain types of financial instruments in extant Indian GAAP are AS 11, The Effects of Changes in Foreign Exchange Rates, AS 13, Accounting for Investments and ICAI Announcement on Accounting for Derivatives.

1. Ind AS 32 requires the issuer of a financial instrument to classify the instrument as a liability or equity on initial recognition, in accordance with its substance and the definitions of these terms. The application of this principle requires certain instruments that have the form of equity to be classified as liability. For example, under IndAS 32, mandatorily redeemable preference shares on which a fixed dividend is payable are treated as a liability. Under extant Indian GAAP, classification is normally based on form rather than substance.

2. Ind AS 32 requires compound financial instruments, such as convertible bonds, to be split into liability and equity components, and each component is recorded separately. Extant Indian GAAP entails no split accounting, and financial instruments are classified as either a liability or equity, depending on their primary nature. For example, a convertible debenture is generally treated as liability.

3. Ind AS 109 contains three principal classification categories for financial assets, namely, measured at amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). A financial asset is subsequently measured at amortized cost if the asset is held within a business model whose objective is to collect contractual cash flows. The contractual terms of the financial asset give rise to cash flows that are solely the payments of principal and interest (SPPI). A financial asset is subsequently measured at FVOCI if it meets the SPPI criterion and is held in a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets. All other financial assets are classified as being subsequently measured at FVTPL. At initial recognition of an equity investment that is not held for trading, an entity may irrevocably elect to present in OCI the subsequent changes in fair value. Under extant Indian GAAP, long-term investments are recorded at cost less “other than temporary” diminution in value of investments. Current investments are recorded at lower of cost or market price.

4. Under Ind AS 109, all financial liabilities are classified into two categories, namely, FVTPL and other financial liabilities. Initial measurement of all financial liabilities is at fair value. Subsequent to initial recognition, FVTPL liabilities are measured at fair values, with gain or loss (other than gain or loss attributable to “own credit risk”) being recognized in income statement. Gain or loss attributable to “own credit risk” for FVTPL liabilities is recognized in equity. Other financial liabilities are measured at amortized cost using the effective interest rate for each balance sheet date. Under extant Indian GAAP, no accounting standard provides detailed guidance on the measurement of financial liabilities. The common practice is to recognize financial liability for consideration received on its recognition. Subsequently, interest is recognized at contractual rate, if any.

5. Ind AS 109 defines a derivative as a financial instrument or other contract having the following three characteristics:
   a. Its value changes in response to the change in a specified interest rate, financial instrument price, etc.
   b. It requires no or smaller initial net investment.
   c. It is settled at a future date.

As per Ind AS 109, all derivatives, except those used for hedge purposes, are measured at fair value, and any gains/losses are recognized in profit or loss. In India, AS 11 deals with foreign

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1 Ind AS 113 Fair Value Measurement consolidates fair value measurement guidance from across various Ind ASs into a single standard. It does not change when fair value can or should be used.
currency forward exchange contracts (except for those entered into to hedge a firm commitment or highly probable forecast transaction). Accounting prescribed under AS 11 for such forward contracts is based on whether the contract is for hedge or speculation purposes. For derivatives not covered under AS 11, the ICAI Announcement on Accounting for Derivatives requires a mark-to-market loss to be provided for open derivative contracts as on the balance sheet date. Mark-to-market gains generally remain outside the balance sheet. Ind AS 109 deals with various aspects of hedge accounting in a comprehensive manner. It defines three types of hedging relationships, namely, fair value hedges, cash flow hedges and hedges of net investments in a foreign operation. It also lays down prerequisite conditions to apply hedge accounting. In India, AS 11 deals with forward exchange contracts for hedging foreign currency exposures (except for those arising from firm commitments or highly probable forecast transactions). There is no standard for other types of hedge.

6. Ind AS 109 has introduced a new “expected credit loss model” for the impairment of financial assets. It applies to financial assets that are not measured at FVTPL, including loans, lease and trade receivables, debt securities, contract assets under Ind AS 115 and specified financial guarantees and loan commitments issued. It does not apply to equity instruments. The model uses a dual measurement approach, under which the loss allowance is measured as either 12 month expected credit losses or lifetime expected credit losses. Under extant Indian GAAP, there is no detailed guidance on methodology for determining the impairment of financial assets.

7. Ind AS 107 requires entities to provide comprehensive disclosures in their financial statements to enable users to evaluate:
   a. The significance of financial instruments for its financial position and performance, and
   b. The nature and extent of risks arising from financial instruments, and how the entity manages those risks.

The disclosures required under Ind AS 107 include quantitative and qualitative information. Under extant Indian GAAP, ICAI has issued an Announcement on Disclosure regarding Derivative Instruments, which requires certain minimum disclosures to be made concerning financial instruments.

8. Ind AS 113 defines fair value, provides principles-based guidance on how to measure fair value and requires information about those fair value measurements to be disclosed. It provides a framework to reduce inconsistency and increase comparability in fair value measurements used in financial reporting. It does not address the question of which assets or liabilities are to be measured at fair value or when those measurements must be performed. An entity must look to other standards in that regard. The standard applies to all fair value measurements, when fair value is required or permitted by Ind AS, with limited exceptions. Under extant Indian GAAP, there is no detailed guidance on methodology for determining fair value measurements.

Impact on financial reporting

Recognition and measurement

Ind AS 109 requires balance sheet recognition for all financial instruments (including derivatives). It makes greater use of fair values than extant Indian GAAP. All financial assets and liabilities are initially recognized (in the balance sheet) at fair value. In the case of FVTPL assets, liabilities and derivatives (other than those used for hedging) and subsequent changes in fair value are recognized in profit or loss. The use of fair values sometimes causes volatility in the income statement or equity. To comply with the Ind AS 109 requirement to measure all derivatives at fair value, entities have to make use of valuation tools.

Impairment

Ind AS 109 requires a provision for impairment to be recognized at inception. The measurement basis depends on whether there has been a significant increase in credit risk since initial recognition. Thus, under Ind AS, a day one impairment loss is recognized even if the entity does not expect any default in repayment.
Debt
Debt and equity classifications are substantially changed as a result of several provisions in Ind AS 32 and Ind AS 109. Some of the instruments, such as redeemable preference shares, are classified as equity, based on their form under extant Indian GAAP. This may contain liabilities on adoption of Ind AS. Similarly, on adoption of Ind AS, compound instruments that are classified as debt or equity, depending on their primary nature, need to be split into debt and equity. Each portion is then treated separately.

De-recognition
Because of the strict criteria for derecognizing financial assets in Ind AS 109, some financial asset disposal transactions (particularly during the sale of trade receivables) may be reclassified as guaranteed loans. This risk is greater since, SPEs involved in such transactions may be consolidated by the vendor entity in accordance with the strict criteria of Ind AS 110 Consolidated Financial Statements. Under extant Indian GAAP, no specific guidance is available on the consolidation of SPEs.

Comprehensive disclosures
Ind AS 107 requires very comprehensive disclosures regarding financial instruments and risks to which an entity is exposed, as well as the policies for managing such risks. Comprehensive information on the fair value of financial instruments would enhance the transparency and accountability of financial statements.

Impact on an organization and its processes
The implementation of Ind AS 32 and 109 will have a significant impact on all industrial and commercial entities and banks will be impacted the most. In particular, entities with central treasury functions will have to review their operational processes and consider implications for their loan loss provisions and current hedge accounting policies. In addition to accountants, operational personnel from various departments must be involved in implementing Ind AS 32 and Ind AS 109, including the following:

- Treasury teams (front office, back office, and middle office),
- Sales representatives in charge of negotiating contracts,
- Purchasing personnel, and
- Legal staff

For example, identifying derivatives would be an entity-wide process under Ind AS 109. Embedded derivatives are also considered as derivatives and must be recognized separately from their host contracts (debts or sales contracts). In addition, certain contracts, which were previously not classified as derivatives, may qualify as such and will be required to be measured at fair value (resulting in an impact on profit or loss).

Therefore, Ind AS 109 implementation will include identification of derivatives, creation of day one impairment loss and documentation of hedges; it will involve:

- The treasury department: for analyzing all financial contracts, particularly debt contracts, and setting parameters to measure significant change in credit risk for financial assets since initial recognition,
- Sales representatives: for identifying any embedded derivatives in the form of indexation to a financial instrument price, interest rate or any other variable without a close link with the host contract,
- Purchasing department personnel: for performing similar analysis on supply contracts, including any indexing provisions in commodity contracts, and
- Operational personnel: for documenting hedges.
Business combinations

Key differences

1. Ind AS 103 Business Combinations applies to most business combinations, including amalgamations (where the acquiree loses its existence) and acquisitions (where the acquiree continues its existence). Under current Indian GAAP, there is no comprehensive standard dealing with all business combinations. AS 14 Accounting for Amalgamations applies only to amalgamations, i.e., when acquiree loses its existence and AS 10 Accounting for Fixed Assets applies when a business is acquired on a lump-sum basis by another entity. AS 21 Consolidated Financial Statements, AS 23 Accounting for Investments in Associates in Consolidated Financial Statements and AS 27 Financial Reporting of Interests in Joint Ventures apply to subsidiaries, associates and joint ventures, respectively.

2. Ind AS 103 requires all business combinations within its scope to be accounted under the purchase method, excluding business combinations of entities or businesses under common control, which are to be accounted using the pooling of interest method. Current Indian GAAP permits both the purchase method and the pooling of interest method in the case of amalgamation. The pooling of interest method is allowed only if the amalgamation satisfies certain specified conditions.

3. Ind AS 103 permits the net assets taken over, including contingent liabilities and intangible assets, to be recorded at fair value. Indian GAAP permits the recording of net assets at carrying value. Contingent liabilities of the acquiree are not recorded as liabilities under Indian GAAP.

4. Ind AS 103 prohibits amortization of goodwill arising on business combinations, and requires it to be tested for impairment annually. Indian GAAP requires amortization of goodwill in the case of amalgamation. With reference to goodwill arising on acquisition through equity, no guidance is provided in Indian GAAP.

5. Under Ind AS 103, acquisition accounting is based on substance. Reverse acquisition is accounted assuming the legal acquirer is the acquiree. In Indian GAAP, acquisition accounting is based on form. Indian GAAP does not deal with reverse acquisitions.

6. Ind AS 103 requires that contingent consideration in a business combination be measured at fair value at the date of acquisition, and that this is recognized in the computation of goodwill/negative goodwill. Subsequent changes in the value of contingent consideration depend on whether they are equity instruments, assets or liabilities. If they are assets or liabilities, subsequent changes are generally recognized in profit or loss for the period. Under Indian GAAP, AS 14 requires that where the scheme of amalgamation provides for an adjustment to the consideration contingent on one or more future events, the amount of the additional payment is included in the consideration and consequently goodwill, if payment is probable and a reasonable estimate of the amount can be made. In all other cases, the adjustment is recognized as soon as the amount is determinable. No guidance is available for contingent consideration arising under other types of business combinations.

7. Ind AS 103 specifically deals with accounting for pre-existing relationships between acquirer and acquiree, and for re-acquired rights by the acquirer in a business combination. Indian GAAP does not provide guidance for such situations.

8. Ind AS 103 provides an option to measure any non-controlling (minority) interest in an acquiree at its fair value, or at the non-controlling interest's proportionate share of the acquiree’s net identifiable assets. Under Indian GAAP, AS 21 does not provide the first option. It requires minority interest in a subsidiary to be measured at the proportionate share of net assets at book value.

9. Ind AS 103 requires that, in a business combination achieved in stages, the acquirer remeasures its previously-held equity interest in the acquiree at its acquisition date fair value. The acquirer is to recognize the resulting gain or loss, if any, in profit or loss. There is
no such requirement under Indian GAAP. Under AS 21, if two or more investments are made in a subsidiary over a period of time, the equity of the subsidiary at the date of investment is generally determined on a step-by-step basis.

Impact on financial reporting
The changes brought in by Ind AS 103 are going to affect all stages of the acquisition process — from planning to the presentation of the post-deal results. The implications primarily involve providing greater transparency and insight into what has been acquired, and allowing the market to evaluate the management’s explanations of the rationale behind a transaction. The key impact of Ind AS 103 is summarized below:

- **Depiction of more appropriate value of an acquisition**
  Following an acquisition, financial statements will look very different. Assets and liabilities will be recognized at fair value. Contingent liabilities and intangible assets that are not recorded in the acquiree’s balance sheet are likely to be recorded at fair value in the acquirer’s balance sheet. In a business combination achieved in stages, the acquirer shall remeasure its previously-held equity interest in the acquiree at its acquisition date fair value. The acquirer shall also have an option to measure non-controlling interest at fair value. These changes in the recognition of net assets, and the measurement of previously-held equity interests and non-controlling interests, will significantly change the value of goodwill recorded in financial statements. Goodwill reflected in financial statements will project actual premium paid by an entity for the acquisition.

- **Greater transparency**
  Significant new disclosures are required regarding the cost of the acquisition, the values of the main classes of assets and liabilities, and the justification for the amount allocated to goodwill. All stakeholders will be able to evaluate the actual worth of an acquisition and its impact on the future cash flow of the entity.

- **Significant impact on post-acquisition profits**
  Under Indian GAAP, net assets taken over are normally recorded at book value, and hence, the charges to the profit and loss account for amortization and depreciation expenses are based on carrying value. However, net assets taken over will be recorded at fair value under Ind AS 103. This will result in a charge to the profit and loss account for amortization and depreciation based on fair value, which is the true price paid by the acquirer for those assets. Goodwill is not required to be amortized, but is required to be tested annually for impairment under Ind AS 103. Negative goodwill is required to be credited to capital reserve. In a business combination achieved in stages, the previously-held equity interest in the acquiree is measured at its acquisition date fair value. The resulting gain or loss, if any, is recognized in the profit and loss account. These items will increase volatility in the income statement.

- **Accounting for business combinations vis-à-vis High Court order**
  In India, ‘law overrides Accounting Standards’ is an accepted principle. Hence, accounting is based on the treatment prescribed by the High Court in its approval, even though it may not be in accordance with Accounting Standards. However, the Companies Act 2013 specifically requires accounting treatment prescribed in the amalgamation or demerger schemes to be in accordance with accounting standards. Going forward, entities to which Ind AS will be applicable will need to ensure that schemes filed with the High Court do not prescribe any treatment, or that the treatment prescribed is in accordance with Ind AS 103.
Impact on an organization and its processes

- **Use of experts**
  The acquisition process should become more rigorous, from planning to execution. More thorough evaluation of targets and structuring of deals will be required to withstand greater market scrutiny. Expert valuation assistance may be needed to establish values for items such as new intangible assets and contingent liabilities.

- **Purchase price allocation**
  Under Indian GAAP, no emphasis was given to purchase price allocation, as net assets were generally recorded based on the carrying value in the acquiree’s balance sheet. Ind AS 103 places significant importance on the purchase price allocation process. All identifiable assets of the acquired business must be recorded at their fair values. Many intangible assets that would previously have been included within goodwill must be separately identified and valued. Explicit guidance is provided for the recognition of such intangible assets. Contingent liabilities are also required to be fair valued and recognized in the acquirer’s balance sheet.

- **Deal terms**
  Closer scrutiny of contingent payments to employees or selling shareholders in a business combination may be required to assess if they would form part of the acquisition consideration or were payments in lieu or compensation for future employment and hence needed to be expensed. No detailed guidance is currently available in the current Indian standards for such an evaluation.
Group accounts

Key differences

1. Under Ind AS, the application of the equity method to associates/joint ventures is mandatory, even if an entity does not have any subsidiaries. Under Indian GAAP, the Companies Act 2013 too requires the application of the equity method or proportionate consolidation to account for associates/joint ventures even when the entity has no subsidiaries (to be applicable for the financial year beginning after April 1, 2015).

2. Under Ind AS 110, consolidation is required for all subsidiaries except investment entities, subject to certain conditions. Indian GAAP provides for two exemptions from consolidation.

3. The definition of control is different under Ind AS, as compared to the current Indian GAAP. Under the new control model, an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee, and has the ability to affect those returns through its power over the investee. An investor may still have power over an investee even when the investor does not have a majority of the voting rights of that investee. An investor may have power over specified assets of an investee that are considered to be a separate ‘deemed entity’ (a silo), such that control could exist at a level below a legal entity.

4. Potential voting rights, which are currently exercisable, are considered for determination of control under Ind AS. Indian GAAP is silent on whether potential voting rights are to be considered for control. However, under AS 23, potential voting rights are not considered for determining significant influence in the case of an associate. Thus, an analogy can be drawn in the case of a subsidiary as well.

5. Both Ind AS and Indian GAAP require the use of uniform accounting policies for preparation of Consolidated Financial Statements (CFS). However, Indian GAAP provides an exemption on the grounds of impracticality. Ind AS allows a three-month gap between financial statements of a parent or investor and its subsidiary, associate or jointly-controlled entity. Indian GAAP allows a six-month gap for subsidiaries and jointly-controlled entities. For associates, there is no time gap prescribed.

6. Ind AS, changes in ownership interests of a subsidiary (that do not result in the loss of control) are accounted for as an equity transaction, and have no impact on goodwill or the profit and loss statement. Indian GAAP provides no guidance on changes in ownership interest of a subsidiary that do not result in loss of control.

7. Ind AS requires losses incurred by the subsidiary to be allocated between the controlling (parent) and non-controlling interests, even if the losses exceed the non-controlling equity investment in the subsidiary. Under Indian GAAP, excess losses attributable to minority shareholders over the minority interest are adjusted against the majority interest, unless the minority has a binding obligation to, and is able to, make good the losses.

8. Under Ind AS 111, joint arrangements are classified as either joint operations or joint ventures. Application of the equity method is required for arrangements classified as joint ventures. Under Indian GAAP, joint ventures are accounted under the proportionate consolidation method.

Impact on financial reporting

- **Preparation of CFS**

  Under Indian GAAP, there is no guidance on the consolidation of Special Purpose Entities, and hence, many SPEs are not being consolidated. Under Ind AS, SPEs which satisfy certain criteria need to be consolidated.

  Adoption of Ind AS does not always result in consolidation, but may result in de-consolidation of certain subsidiaries in some cases. Under Indian GAAP, two groups can consolidate the same entity, i.e., one group consolidates as it holds the majority ownership stake, whereas, another group consolidates as it controls the board of directors. Under Ind AS, control can be held only by one entity, and it is unlikely that two entities would consolidate the same company.
• Uniform accounting policies
Current Indian GAAP provides an exemption from the use of uniform accounting policies for the consolidation of subsidiaries, associates and joint ventures on the grounds of impracticality. Ind AS does not provide such an exemption and mandates the use of uniform accounting policies for subsidiaries, associates and joint ventures. This is likely to pose significant challenges, especially in the case of associates where the entity does not have control over the associate. All entities will have to gear their systems, or develop systems such as preparation of group accounting manuals, to ensure compliance with this requirement. On conversion to Ind AS, many group entities will have to change their accounting policies to bring them in line with the parent entity.

• Financial year-ends of all components in the group
Current Indian GAAP allows a maximum of six months between the financial statements of a parent and a subsidiary, and that of a venturer and a joint venture. There is no time limit prescribed between the financial statements of an investor and an associate. Ind AS allows a maximum of three months for subsidiaries, associates and joint ventures. On conversion to Ind AS, many entities may be compelled to change the year-ends of their group entities to comply with this requirement and to avoid reporting results at multiple dates.

Impact on an organization and its processes
• Coordination with the management of associates and joint ventures
Under Ind AS, there is no exemption from the requirement of uniform accounting policies. Also, the time gap between the financial statements of an investor and an associate can be maximum three months. Hence, an entity needs to initiate dialogue with the management of the associate or joint venture to obtain the requisite data as per the group accounting policies for the purpose of consolidation.

• Updation of group structures and impact on ratios
Conversion to Ind AS may result in consolidation of certain entities, such as SPEs, and de-consolidation of certain other entities. It will also require potential voting rights that are currently exercisable or convertible, including potential voting rights held by another entity, to be considered when assessing whether another entity is a subsidiary, associate or joint venture of the entity. This will require updating the organization structure maintained by the entity. Further consolidation of previously-unconsolidated entities may adversely affect key ratios and performance indicators, such as risk-based capital ratios of a financial institution.

• Management judgment
Adopting these new standards will require time, effort and the exercise of considerable judgment because of the lack of “bright lines”. Many of these judgments will require a comprehensive understanding of an entity’s business, its operations, and legal rights and obligations. Accounting personnel are unlikely to be able to make such decisions alone, and will require input from sources such as operations personnel and legal counsel. Management should be closely involved in this assessment, and entities may also wish to involve their Audit Committees and independent auditors in discussions on material areas of judgment. Key discussions and decisions should be documented. Assessing and monitoring the impact of the new standards will, therefore, require substantial management involvement and coordination. Management should plan accordingly and begin this process early. Key assessments include:
• Whether an entity has control if it holds less than a majority of voting rights in an investee (de facto control) — Applying the concept of de facto control is likely to be an important change in practice for entities that have significant, but not majority (i.e., less than 50%) equity interests in other entities, and may result in those other entities being consolidated. Because there are no bright lines, applying this concept will require significant judgment of the facts and circumstances. For example, how large does an investor’s interest need to be relative to others? How widely dispersed do the other investors need to be?
• Whether potential voting rights give power — An investor must consider both its potential voting rights and those held by others, and also whether these rights are substantive (i.e., the holder has the practical ability to exercise the right). For example, is the option ‘in the money’? Would the party or parties that hold the rights benefit from their exercise, such as by realizing synergies? Are there any barriers to exercising the option, such as financial penalties or narrow exercise periods?

• **Regulatory compliance**
  The change in financial measures resulting from the implementation of the new standards could affect compliance with regulatory requirements in certain industries. For example, this may be the case when entities are required to maintain leverage or gearing ratios within certain levels. If entities were to consolidate a previously-unconsolidated investment operating in a regulated industry, this may expose the group to regulatory requirements not previously considered. In addition, some entities may have a regulatory requirement to report on internal controls of the group. If those entities are now required to consolidate a previously-unconsolidated entity, management should evaluate the internal controls it has in place related to the newly-consolidated entity.
Income taxes

Key differences

- **AS 22 Accounting for Taxes on Income** is based on the income statement liability method, which focuses on timing differences. **Ind AS 12 Income Taxes** is based on the balance sheet liability method, which focuses on temporary differences. One example of the temporary vs. timing difference approach is revaluation of fixed assets. Under Indian GAAP, no deferred tax is recognized on upward revaluation of fixed assets where such revaluation is credited directly to revaluation reserve. Under Ind AS, companies will recognize deferred tax on revaluation component, if other recognition criteria are met.

- **Ind AS 12** requires the recognition of deferred taxes in case of business combinations. Under Ind AS, the cost of a business combination is allocated to the identifiable assets acquired and liabilities assumed by reference to their fair values. However, if no equivalent adjustment is allowed for tax purposes, it would give rise to a temporary difference. Under Indian GAAP, business combinations (other than amalgamation) will not give rise to such deferred tax adjustment.

- Where an entity has a history of tax losses, the entity recognizes a deferred tax asset arising from unused tax losses or tax credits only to the extent that it has sufficient taxable temporary differences, or there is other convincing evidence that sufficient taxable profit will be available under Ind AS. Under Indian GAAP, if the entity has carried forward tax losses or unabsorbed depreciation, all deferred tax assets are recognized only to the extent that there is virtual certainty supported by convincing evidence that sufficient future taxable income will be available against which such deferred tax assets can be realized. Ind AS 12 does not lay down any requirement for consideration of virtual certainty in such cases.

- Under Ind AS, an entity should recognize a deferred tax liability in consolidated financial statements for all taxable temporary differences associated with investments in subsidiaries, branches and associates, and interests in joint ventures, except to the extent that the parent, investor or venturer is able to control the timing of the reversal of the temporary difference, and it is probable that the temporary difference will not reverse in the foreseeable future. Under Indian GAAP, deferred tax is not recognized on such differences.

- Under Ind AS, deferred taxes are recognized on temporary differences that arise from the elimination of profits and losses resulting from intra-group transactions. Deferred tax is not recognized on such eliminations under Indian GAAP. The deferred taxes in the CFS are a simple aggregation of the deferred tax recognized by various group entities.

- Disclosure required for income taxes is likely to increase significantly on transition to Ind AS. Examples of certain critical disclosures mandated in Ind AS are: an explanation of the relationship between tax expense (income) and accounting profit; an explanation of changes in the applicable tax rate(s) compared to the previous accounting period; the amount (and expiry date, if any) of deductible temporary differences, unused tax losses, and unused tax credits for which no deferred tax asset is recognized in the statement of financial position.

Impact on financial reporting

- **Deferred tax accounting for the group**
  Till date, the deferred taxes in the CFS are a simple aggregation of the deferred tax recognized by various group entities. On transition to Ind AS, deferred taxes in the CFS will be significantly different from that under Indian GAAP. This is because of GAAP differences explained above, especially with respect to undistributed profits of subsidiaries, associates and joint ventures and intra-group transactions.

- **Acquisitions**
  Deferred tax is recognized on fair value adjustment of acquired assets, liabilities and contingent liabilities recorded as part of business combination accounting. Goodwill under Ind AS is determined accordingly. Reversal of deferred tax asset/liability in future years affects the tax expense or income.
of those years. Therefore, the effect of acquisition deferred taxes on future financial statements will
differ significantly under Ind AS and Indian GAAP.

- **Entities in tax losses**
  Due to the strict principle of virtual certainty under Indian GAAP, only in very rare cases can entities
  recognize deferred tax assets, where they have carried forward losses and unabsorbed depreciation.
  The 'convincing evidence' principle under IFRS is less stringent in comparison. Hence, the probability
  of recognizing deferred tax asset on carried forward tax losses and unabsorbed depreciation is
  higher under Ind AS.

**Impact on an organization and its processes**
Ind AS 12 implementation requires accounting personnel to work effectively with the tax department to:
- Monitor and calculate tax bases of assets and liabilities
- Monitor tax losses and tax credits of all components in the group
- Assess recoverability of deferred tax assets
- Determine possible offsets between deferred tax assets and liabilities
- Monitor changes in tax rates and collect applicable tax rates to determine the amount of
  deferred tax in the event of asset disposal
- Understand implications of double tax treaty, where there are foreign operations
- Prepare more detailed disclosures – tax reconciliation

Tax teams should be involved, both at the group and subsidiary level. If no tax specialists are available at
the subsidiary level, tools (e.g., accounting and tax manuals, including checklists that enable group
entities to accurately determine tax bases) and appropriate training should be provided to ensure quality
reporting. The group needs to do a thorough review of existing tax planning strategies to test alignment
with any organizational changes created by Ind AS conversion.
Employee benefits and share-based payments

Key differences

1. Ind AS 19 Employee Benefits requires the impact of remeasurement in net defined benefit liability (asset) to be recognized in other comprehensive income. Remeasurement of net defined liability (asset) comprises actuarial gains or losses, return on plan assets (excluding interest on net asset/liability) and any change in effect of asset ceiling. Indian GAAP currently requires such impacts to be taken to profit and loss account.

2. Under Ind AS, the liability for termination benefits has to be recognized based on constructive obligation. Indian GAAP requires it to be recognized based on legal obligation.

3. Ind AS 19 has significantly enhanced disclosure requirements for defined benefit plans. New disclosures mandated under Ind AS are information that explains the characteristics of its defined benefit plans and risks associated with them. These also reflect a sensitivity analysis for each significant actuarial assumption as of the end of the reporting period, showing how the defined benefit obligation would have been affected by changes in the relevant actuarial assumption that were reasonably possible at that date. The fair value of the plan assets should be disaggregated into classes that distinguish the nature and risks of those assets, subdividing each class of plan asset into those that have a quoted market price in an active market and those that do not.

4. Under Ind AS, employee share-based payments should be accounted for using the fair value method. In contrast, Indian GAAP permits an option of using either the intrinsic value method or the fair value method.

5. Ind AS provides detailed guidance on accounting for group and treasury share transactions. No such guidance is provided in Indian GAAP.

Impact on financial reporting

- **Reduced volatility in income statement on account of actuarial differences**
  Actuarial gains and losses arise due to changes in actuarial assumptions, such as with respect to the discount rate, increase in salary, employee turnover, mortality rate, etc. The requirement to account for actuarial gains and losses in other comprehensive income will reduce volatility in their income statement arising on account of actuarial differences.

- **Timing of recognition of termination benefits**
  Under Ind AS, termination benefits are required to be provided when the scheme is announced and the management is demonstrably committed to it. Under Indian GAAP, termination benefits are required to be provided for based on legal liability when employee signs up for the Voluntary Retirement Scheme (VRS) rather than constructive liability. This is generally a timing issue for creating a provision.

- **True value of ESOP**
  Indian GAAP permits entities to account for Employee Stock Ownership Plans (ESOPs), either through the fair value method or the intrinsic value method though disclosure is required to be made of the impact on profit or loss of applying the fair value method. It is observed that most Indian entities prefer to adopt the intrinsic value method. The drawback of this method is that it does not factor in option and time value when determining compensation cost. Under Ind AS, the accounting for ESOPs will have to be remeasured using the fair value method. This may result in increased charges for ESOPs for many entities, and will have a significant impact on key indicators such as earnings per share.
Accounting for share-based payments to non-employees
In recent times, it has been observed that many entities are entering into partnership agreements with their vendors to provide them with opportunities of sharing profits of a particular venture by offering them share-based payments. This mode of payment is considered as an incentive tool intended to encourage vendors to complete efficient and quality work. Under Indian GAAP, AS 10 requires a fixed asset acquired in exchange for shares to be recorded at its fair market value or the fair market value of the shares issued, whichever is more clearly evident. For other goods and services, there is no guidance on recognizing the cost of providing such benefits to vendors in lieu of goods or services received. Different accounting policies are being followed by Indian entities, ranging from no-charge to accounting, as per principles of IFRS 2 Share-based Payment. On transition to Ind AS, an entity will have to account for such benefits under the fair value method laid down in Ind AS 102.

Accounting for group ESOPs
In India, a subsidiary normally does not account for ESOPs issued to its employees by its parent entity, contending that clear-cut guidance is not available and it does not have any settlement obligation. Under Ind AS 102, such ESOPs will have to be accounted as per principles laid down in Ind AS 102, i.e., either as equity-settled or as cash-settled plans, depending on specific criteria. As per Ind AS 102, a receiving entity whose employees are being provided ESOP benefits by a parent will have to account for the charge. This will reflect the true compensation cost of receiving employee benefits.

Impact on an organization and its processes
- Ind AS 19 and Ind AS102 are likely to have a major impact on many organizations. Additional liabilities arising from the adoption of Ind AS102 will negatively impact financial results and ratios. In some situations, the ability to pay dividends may be affected and there may also be implications from restrictive covenants in existing debt/equity agreements. As a result, entities should carry out a comprehensive review of their rewards and recognition mechanisms in order to ensure that these continue to support business strategies in a cost-effective manner. Along with cash cost, accounting cost also needs to be considered. The impact on key stakeholders (senior management, employees, potential recruits, trade unions, pension trustees and rating agencies) needs to be understood. While Ind AS 102 may have a negative effect, Ind AS 19 may have the opposite effect, since actuarial losses are allowed to be recognized in other comprehensive income.

- Senior management, finance, operational and human resource personnel will need to work closely with each other, their actuaries and their external advisors to ensure a full understanding of the accounting and business impact of alternative employee benefits and of emerging best practices in an IFRS environment.

- Actuarial principles under Ind AS 19 are different from AS 15. Entities need to engage with their actuaries and ensure that the actuarial report, going forward, is in accordance with revised principles laid down in Ind AS 19. Actuaries should also be asked to furnish detailed information required under Ind AS 19.
Property, plant and equipment, intangible assets, investment property and leases

Key differences

Property, plant and equipment:

1. Ind AS 16 Property, Plant and Equipment mandates component accounting, whereas AS 10 recommends, but does not require it. However, the Companies Act will require companies following AS 10 to apply component accounting mandatorily from financial years commencing 1 April 2015.

2. Major repairs and overhaul expenditure are capitalized under Ind AS 16 as replacement costs, if they satisfy the recognition criteria. In most cases, Indian GAAP requires these to be charged off to the profit and loss account as incurred.

3. There is no specific guidance under Indian GAAP for assets purchased on deferred settlement terms. Cost of fixed assets generally includes the purchase price for deferred payment term, unless interest element is specifically identified in the arrangement. However, under Ind AS, the difference between the purchase price under normal credit terms and the total amount incurred would be recognized as interest expense over the period of the financing. There is no specific guidance under Indian GAAP on whether the cost of an asset includes costs of its dismantlement, removal or restoration, the obligation for which an entity incurs as a consequence of installing the item. Under Ind AS, the cost of an asset would specifically include such a cost and would have to be added to the purchase price at initial recognition.

4. Under Indian GAAP, an entity has an option to recognize unrealized exchange differences on translation of certain long-term monetary assets/liabilities as adjustment to cost of an asset. Such an amount shall be depreciated over the balance useful life of the asset. Under Ind AS, all foreign exchange differences shall generally be charged to profit and loss account. However, the transitional relief under Ind AS allows companies to continue with the capitalization of foreign exchange differences for long term monetary items that were recognized under Indian GAAP.

5. Ind AS 16 requires estimates of useful lives, depreciation method and residual values to be reviewed at least at the end of each financial year. Indian GAAP does not mandate an annual review of these, but recommends periodic review of useful lives.

6. Any change in depreciation method is treated as an accounting policy change under Indian GAAP whereas it is treated as a change in estimate under Ind AS.

7. Both Ind AS and Indian GAAP permit the revaluation model for subsequent measurement. If an asset is revalued, Ind AS 16 mandates revaluation to be done for the entire class of property, plant and equipment to which that asset belongs, and the revaluation to be updated periodically. In Indian GAAP, revaluation is not required for all the assets of the given class. It is sufficient that the selection of the assets to be revalued is made on systematic basis, e.g., an entity may revalue a class of assets of one unit and ignore the same class of assets at other location. Also, there is no need to update revaluation regularly under Indian GAAP.

Intangible assets:

8. Per Under Ind AS 38, intangible assets can have indefinite useful lives. Such assets are required to be tested for impairment and are not amortized. Under Indian GAAP, there is no concept of indefinite useful life of intangible assets. Further, Indian GAAP contains a rebuttable presumption that the life of intangibles should not exceed 10 years, which is absent in Ind AS.

9. Under Ind AS allows revaluation model for accounting of an intangible asset, provided an active market exists. Indian GAAP does not contain any such revaluation model for subsequent measurement of intangible assets.
Leases:

10. Ind AS17 deals specifically with land leases. Land leases are classified as finance or operating leases based on the general criteria laid down in the standard. When a lease includes both land and building elements, an entity assesses the classification of each element as a finance lease or an operating lease separately. Under Indian GAAP, no accounting standard deals with land leases. According to an Expert Advisory Committee (EAC) opinion, long-term land lease may be treated as finance lease.

11. Ind AS 17 requires an entity to determine whether an arrangement, comprising a transaction or a series of related transactions, that does not take the legal form of a lease but conveys a right to use an asset in return for a payment or series of payments, is a lease. Under Appendix C of Ind AS 17, Determining whether an Arrangement contains a Lease, such determination shall be based on the substance of the arrangement, e.g., power purchase agreements and outsourcing contracts may have the substance of lease. Indian GAAP does not provide any guidance for such arrangements.

Impact on financial reporting

- Component accounting
  Under Ind AS16, a component of an item of property, plant and equipment with a cost that is significant in relation to total cost of the item, shall be separately depreciated. Hence, entities need to divide the cost of an asset into significant parts if their useful life is different, and depreciate them separately. This will require entities to restructure their fixed asset register and recompute depreciation. Also, the requirement of estimating residual value is likely to change depreciation of many assets, as Indian entities normally presume 5% of the value of assets as their residual value, rather than making any estimate of the residual value. It may be noted that component accounting is a requirement under the Companies Act 2013, and even companies that continue to follow Indian GAAP will have to carry out component accounting.

- Revaluation of fixed assets
  Indian entities, which have selectively revalued fixed assets or intend to revalue the fixed assets, will have to determine whether they want to continue with the revaluation model or not. This decision is crucial for an entity if it wants to continue with the revaluation model. It will have to:
  - Adopt the revaluation model for the entire class of assets that cannot be restricted to some selective location
  - Update such revaluation on regular basis
  - Take a depreciation charge in the income statement based on revalued amounts

- Intangible assets
  Unlike Indian GAAP, amortization will not be required under Ind AS for an intangible asset for which there is no foreseeable limit on the period over which the asset is expected to generate net cash inflow for the entity. However, annual impairment testing will be required for such an asset. This can create volatility in profit and loss. Also, the entity will be able to reflect intangible assets at their fair value, provided there is an active market for them. This will help the entity project the real value of their intangible assets in the balance sheet to their stakeholders.

- Service contracts
  Under IND AS, service contracts, such as power purchase contracts, waste management contracts and outsourcing contracts, may have to be accounted for as leases, if the use of the specific asset is essential to the operations and satisfies certain conditions. In such cases, the lease is analyzed in light of IND AS 17 Leases to determine its classification. Such contracts are currently not assessed...
for identifying leases under Indian GAAP, though there is no restriction on doing so. This can have a substantial impact, as the service provider may be required to derecognize the asset from its books if it satisfies the finance lease classification.

**Impact on organization and its processes**

Several provisions of Ind AS 16, Ind AS 40 and Ind AS 17 may require entities to transfer responsibilities, previously assumed by the finance function, to operational personnel for the purpose of:

1. Validating costs of parts of property, plant and equipment items (including determining cost of directly attributable costs) and defining relevant components
2. Identifying investment properties
3. Validating useful lives and depreciation methods for items of property, plant and equipment (component-wise)
4. Regularly reviewing useful lives, depreciation methods, residual values and valuation of unused property, plant and equipment
5. Reviewing various arrangements to identify lease arrangement

The maintenance of a fixed asset register will be a cumbersome exercise, since this will now have to be more granular to include components and major repairs that are capitalized. It will be difficult, if not impossible, to maintain them manually and hence, appropriate ERP packages need to be implemented or the existing ones need to be modified to capture such information.

The purchase department needs to be trained so as to acquire specific skills in order to identify leases in a service contract. This will ensure that service contracts, which are in substance leases, are properly accounted for as leases in accordance with Ind AS 17.
Presentation of financial statements – covers accounting policy / prior period items and change in estimates

Key differences

1. Ind AS 1 is significantly different from the corresponding AS 1. While Ind AS sets out overall requirements for the presentation of financial statements, guidelines for their structure and minimum requirements for their content, AS 1 does not offer any standard outlining overall requirements for presentation of financial statements. The format and disclosure requirements are set out under Schedule III to the Companies Act, 2013.

2. Ind AS 1 requires the presentation of a statement of comprehensive income as part of financial statements. This statement presents all items of income and expense recognized in profit or loss, together with all other items of income and expense (including reclassification adjustments) that are not recognized in profit or loss as required or permitted by other Ind ASs. An entity is required to present a single statement of profit or loss and other comprehensive income presented in two sections. The sections will be presented together, with the profit or loss section presented first followed directly by the other comprehensive income. The concept of "other comprehensive income" does not currently exist under Indian GAAP, however, information relating to movement in reserves, etc., is generally presented in the caption reserves and surplus in the balance sheet.

3. Ind AS 1 requires presentation of all transactions with equity holders in their capacity as equity-holders in the statement of changes in equity (SOCIE). The SOCIE is considered to be an integral part of financial statements. The concept of a SOCIE is not there under current Indian GAAP; however, information relating to appropriation of profits, movement in capital and reserves, etc., is presented on the face of the profit and loss account and in the captions share capital and reserves and surplus in the balance sheet. Under the Companies Act, SOCIE is required to be prepared only if applicable. Furthermore, under Ind AS 1 minority interest (referred to as non-controlling interest) is presented as a component of equity while under the current Indian GAAP it is presented separately from liabilities and equity.

4. Ind AS 1 requires disclosure of:
   a. Critical judgments made by management in applying accounting policies
   b. Key sources of estimation uncertainty that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year
   c. Information that enables users of its financial statements to evaluate the entity’s objectives, policies and processes for managing capital

   There are no such disclosures required under current Indian GAAP.

5. Ind AS 1 prohibits any item to be presented as an extraordinary item, either on the face of the income statement or in the notes, while AS 5 Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies, in Indian GAAP, specifically requires disclosure of certain items as extraordinary items.

6. Ind AS 1 requires a third balance sheet as at the beginning of the earliest comparative period, where an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements, to be included in a complete set of financial statements. AS 5 requires the impact of
material changes in accounting policies to be shown in financial statements. There is no requirement to present an additional balance sheet.

7. Ind AS 1 requires dividends recognized as distributions to owners and related amounts per share to be presented in the statement of changes in equity or in the notes. The presentation of such disclosures in the statement of profit and loss is not permitted. Under Indian GAAP, a proposed dividend is shown as appropriation of profit in the profit and loss account.

8. Under Ind AS 1, an entity whose financial statements comply with Ind ASs is required to make an explicit and unreserved statement of such compliance in the notes. Such requirement is not there in current Indian GAAP.

Impact on financial reporting
Ind AS 1 essentially sets out overall requirements for presentation of financial statements. While financial statement presentation under Schedule III of the Companies Act is similar to Ind AS 1, differences still remain. Ind AS 1 significantly impacts the presentation of financial statements. These affects are covered under the following broad parameters:

- **Enhanced transparency and accountability**
  The disclosure of information required by Ind AS 1, with reference to critical judgments made by management in applying accounting policies and to key sources of estimation uncertainty that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, is not only likely to bring improved transparency in financial statements, but it is also expected to put additional onus on entities to ensure that estimates and judgments made are justifiable, since, they are publicly accountable for them.

- **Better presentation of financial statements**
  Under Ind AS 1, each entity should present its balance sheet using current and non-current assets and liabilities classifications on the face of the balance sheet, except, when a presentation based on liquidity provides information that is reliable and more relevant. Furthermore, SOCIE is mandatory. While Schedule III of the Companies Act requires presentation using the current and non-current classification, it does not mention about “order of liquidity” for presentation of assets and liabilities in balance sheet. In addition, SOCIE is required to be presented only if applicable.

Impact on organization and its processes
Till now, we have discussed the impact of Ind AS convergence on financial reporting. However, the impact on an organization implementing Ind AS may be very different, from what can be understood only by solely analyzing the impact on financial reporting.

Although, Ind AS 1 will be unlikely to have any bottom line impact on entities, they will be required to review and modify, if necessary, their organization and processes to ensure that information to comply with all disclosure requirements of Ind AS 1 is collected.

Many entities, particularly those not subject to any externally imposed capital requirements, may not have well documented and formally established objectives, policies and processes for managing capital. To comply with the Ind AS 1 requirement for making disclosures regarding capital, such entities will need to formalize and document their objectives, policies and processes for managing capital. This will involve personnel, not only from the entity’s accounts department, but also those from other functions, such as finance and treasury. The above discussion is based on existing Schedule III and AS 1. Recently, the ICAI has issued an Exposure Draft of the Ind AS compliant Schedule III to the Companies Act 2013. Our analysis above will change significantly if the proposed changes were currently effective.
Related party disclosures

Related party transactions cover transactions with certain defined parties, regardless of whether any price is charged or not. It is common for every entity to enter transactions with related parties. Therefore, the differences between Indian GAAP and Ind AS will impact many entities.

Key differences

1. Definition of related party according to Ind AS 24 is more enhanced than AS 18. Under Ind AS 24, KMP of holding company, associate or joint venture of a member of a group of which the other entity is a member, another joint venture of the same third party, one entity is a joint venture of a third entity and the other entity is an associate of the third entity, post-employment benefit plan for the benefit of employees of either the company or an entity related to the company results in related party relationship.

2. According to Ind AS 24, an entity discloses that the terms of related party transactions are equivalent to those that prevail in arm's length transactions, only if such terms can be substantiated. AS 18 has no such stipulation on substantiation of related party transactions when the same is disclosed to be on arm's length basis.

3. Ind AS 24 requires disclosure of key management personnel’s compensation in total and for certain specified categories, such as short-term employee benefits and post-employment benefits. AS 18 does not have such requirement.

Impact on financial reporting

- Identifying related parties
  Entities will be required to reassess the list of related parties for enhanced relationships, which gets covered under the scope of definition of related party in Ind AS 24. It should be noted that approval requirements under SEBI Clause 49 for related party transactions will also get triggered for transactions with related party within the scope of Ind AS 24.

Impact on organization and its processes

Entities will need to strengthen/change their reporting processes and information technology systems to map new related parties covered in Ind AS 24 and track transactions with specific related parties.
Segment reporting

Key differences

1. Ind AS108 adopts management reporting approach to identify operating segments. It is likely that in many cases, the structure of operating segments will be the same under Ind AS 108 as under AS 17 Segment Reporting. This is because AS 17, like Ind AS 108, considers reporting segments as the organizational units for which information is reported to key management personnel for the purpose of performance assessment and future resource allocation. When an entity's internal structure and management reporting system is not based on either product lines or geography, AS 17 requires the entity to choose one as its primary segment reporting format. Ind AS 108, however, does not impose this requirement to report segment information on a product or geographical basis and in some cases this may result in different segments being reported under Ind AS108 as compared with AS 17.

2. An entity is first required to identify all operating segments that meet the definition in Ind AS 108. Once all operating segments have been identified, the entity must determine which of these operating segments are reportable. If a segment is reportable, then, it must be separately disclosed. This approach is the same as that required by AS 17, except that it does not require the entity to determine a “primary” and “secondary” basis of segment reporting.

3. Ind AS108 requires that the amount of each segment item reported is the measure reported to the Chief Operating Decision Maker (CODM) in internal management reports, even if this information is not prepared in accordance with the Ind AS accounting policies of the entity. This may result in differences between the amounts reported in segment information and those reported in the entity's primary financial statements. In contrast, AS 17 requires the segment information to be prepared in conformity with the entity's accounting policies for preparing its financial statements.

4. Unlike AS 17, Ind AS108 does not define terms such as “segment revenue”, “segment profit or loss”, “segment assets” and “segment liabilities”. As a result, diversity of reporting practices will increase.

5. As Ind AS108 does not define segments as either business or geographical segments and does not require measurement of segment amounts based on an entity's Ind AS accounting policies, an entity must disclose how it determined its reportable operating segments, along with the basis on which disclosed amounts have been measured. These disclosures include reconciliations of the total key segment amounts to the corresponding entity amounts reported in Ind AS financial statements.

6. A measure of profit or loss and assets for each segment must be disclosed. Additional line items, such as interest revenue and interest expense, are required to be disclosed if they are provided to the CODM (or included in the measure of segment profit or loss reviewed by the CODM). AS 17, in contrast, specifies the items that must be disclosed for each reportable segment.

7. Under Ind AS, disclosures are required when an entity receives more than 10% of its revenue from a single customer. In such instances, an entity must disclose this fact, the total amount of revenue earned from each such customer and the name of the operating segment that reports the revenue. This is not required by AS 17.

Impact on financial reporting

- Change in segment reporting approach

On adoption of Ind AS 108, the identification of an entity’s segments may change from the position under AS 17. Ind AS108 requires operating segments to be identified on the basis of internal reports on components of the entity that are regularly reviewed by the CODM, in order to allocate resources to the segment, and to assess its performance. AS 17 requires an entity to identify two sets of segments, business and geographical, using a risk-and-reward-approach, with the entity’s “system of internal financial reporting to key management personnel” serving only as the starting point for the identification of such segments.
• **Goodwill impairment**  
Ind AS 36 requires goodwill to be allocated to each CGU or to groups of CGUs. The relevant CGU or group of CGUs must represent the lowest level within the entity at which the goodwill is monitored for internal management purposes, and may not be larger than an operating segment. If different segments are reported under Ind AS 108, than were reported under AS 17, it follows that there will be differences between the CGUs that make up an Ind AS 108 segment and those that made up an AS 17 segment. As a result, the CGUs supporting goodwill may no longer be in the same segment under Ind AS 108 as under AS 17. It may, therefore, be necessary to reallocate goodwill associated with CGUs that are affected by the change from AS 17 to Ind AS 108. It is possible that this reallocation of goodwill could “expose” CGUs for which the carrying amount, including the allocated goodwill, exceeds the recoverable amount, thereby, giving rise to an impairment loss.

• **Customer concentration**  
On adoption of Ind AS, entities will be required to furnish a disclosure of customer concentration, which will enable investors to assess risk faced by a company. The company will have to compile information of revenue generated by each customer to furnish disclosures required by Ind AS 108.

**Impact on organization and its processes**

• **Reconciliation of management information system with financial statement**  
Ind AS 108 requires segment reporting to be made based on information furnished to chief decision makers. If the policies followed for computing information for management information system does not match with those used in financial statements, an entity will need to furnish reconciliation. Hence, entities need to devise or upgrade systems to prepare reconciliation between the MIS and the accounting system.

• **Identification of CODM**  
Reporting under Ind AS 108 is based on information furnished to the CODM. The term CODM defines a function rather than an individual with a specific title. The function of the CODM is to allocate resources and assess operating results of the segments of an entity. The CODM could either be an individual, such as the chief executive officer, the chief operating officer, a group of executives such as the board of directors or a management committee. Entities should review their management structure to identify the CODM.
**Leveraging from global experience of conversion to IFRS and Ind AS conversion process**

**Global experience of conversion to IFRS**

Currently, there are more than 100 countries across the world where entities are required or permitted to speak a common financial accounting language, such as, IFRS. India will join the list of such countries albeit with the convergence model. Adopting IFRS in the financial statements increases comparability of entities within the country as well as with their global counterparts. IFRS is also looked upon as a reliable framework by users of financial statements. It helps entities gain cross-border capital listing and it also helps management, who may be based in another country, to follow uniform systems of reporting across the group in entities with worldwide presence.

Most countries in the EU adopted IFRS for accounting periods beginning on, or after 1 January 2005. All these entities have undergone the conversion exercise from their local GAAP to IFRS. Below are some of the issues encountered and the key lessons one can learn from their experiences.

<table>
<thead>
<tr>
<th>Issues Identified</th>
<th>Key lessons learnt</th>
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<tbody>
<tr>
<td>Scale and complexity of the project and the time frame needed were underestimated.</td>
<td>Conducting a thorough impact assessment followed by a detailed planning exercise up front is crucial for a successful transition. Conversions could entail functional changes as well as technical accounting changes.</td>
</tr>
<tr>
<td>Project lacked adequate buy-in from senior management early on in the project.</td>
<td>The “tone at the top” is an important driver of change. Board sponsorship of a project is crucial.</td>
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<td>Projects suffered from poor project management</td>
<td>The importance of having a proper project management office function capable of coordinating project activities and a well-structured conversion methodology cannot be overemphasized.</td>
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<tr>
<td>Marginal accounting differences can have a significant effect on financial results.</td>
<td>A methodical approach to review accounting differences is essential to assess financial effects.</td>
</tr>
<tr>
<td>Unfamiliarity of “numbers” and principles arising from changes.</td>
<td>Technical training will be a critical component of the conversion, especially for business unit heads that may not be familiar with the implications of changes that new standards will bring. Investor relations will also need a strong educational grounding to communicate the impact to investors.</td>
</tr>
<tr>
<td>Poor communication existed between project team and business units regarding effects of changes.</td>
<td>Invest the time necessary to roll out business process changes such as accounting practices, updated control mechanisms and changes in reporting requirements to the wider organization.</td>
</tr>
<tr>
<td>Changes were often not fully embedded in back offices and general ledger systems.</td>
<td>EU companies that used manual workarounds to meet short deadlines are now redesigning processes and augmenting their systems to eliminate the inefficiencies these workarounds created. Indian companies should also use the time available to proactively</td>
</tr>
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</table>
workarounds” were created, including “spreadsheet accounting.”

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<th>Top-side solutions did not work.</th>
<th>Top-side solutions do not allow the organization to adjust, and the finance group feels “all the pain.” It is important to “push down” the conversion to the transaction level throughout the organization as early as possible.</th>
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<tr>
<td>Tax personnel were frequently underrepresented in the conversion process.</td>
<td>Tax implications of the conversion process may extend beyond accounting effects. Involving tax personnel early in the process may mitigate the potential for unexpected results. Companies will benefit from sufficient resources and adequate lead time to address tax issues and to make necessary changes to tax processes and technology.</td>
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Ind AS conversion process

What is an Ind AS conversion?
In an Ind AS conversion an entity undertakes to change its financial reporting from its current GAAP to Ind AS. Obviously, differences between the Indian GAAP treatment and IFRS will be one of the key inputs to the conversion process in case of Indian entities. These differences may vary significantly from one entity to another depending on the industry and the current accounting policies chosen under Indian GAAP. However, the magnitude of an Ind AS conversion project will not depend solely on the magnitude of the GAAP differences, but will be influenced by other factors such as:

- The quality and flexibility of the existing financial reporting infrastructure
- The size and complexity of the organization
- The effect of GAAP changes on the business

Ultimately, the purpose of an Ind AS conversion is to put entities in a position, where they are able to report, unaided and reliably, under Ind AS and are able to recognize the Ind AS dimension of their actions. However, before the actual start of the conversion project, an initial diagnostic phase should put companies in a position where they are aware of:

- The differences between Ind AS and the entity's current accounting policies
- The impact of the change to Ind AS on financial statements
- The impact of the change to Ind AS on tax, business IT and process
- The impact of Ind AS on future business decisions
- An understanding of the approach underlying the formulation of Ind AS

Need for conversion methodology
Many entities perceive conversion projects purely as a technical accounting exercise. With a major underlying difference of principle – as embodied in Ind AS – this is a grave mistake. Ind AS conversions, if not properly planned, are likely to lead to a number of unfortunate results. Common among these are:

- Failure to involve all people with the required knowledge, business decisions taken in ignorance of consequences of financial reporting, unreliability and slowness in producing Ind AS financial statements
- Gross underestimation of the time required to convert

Conversion to Ind AS will be an exercise in change management. Adopting Ind AS may affect many facets of an organization beyond its financial reporting. Every aspect of a company affected by financial information has the potential for change (for example, key performance indicators, employee and executive compensation plans, management’s internal reporting, investor relations and analyst information). Both the process and the implications of the conversion can vary widely among companies based on a number of variables, such as levels of expertise, degree of centralization of accounting processes and data collection, and the number of existing accounting methods currently being used. Often, information and data not currently collected and/or warehoused may be needed to produce the required Ind AS information.

The conversion to Ind AS will entail a business wide change management exercise and should be approached using a structured methodology encompassing best practices of project management. Such methodology ensures conversion assignments are properly planned and executed. The methodology also ensures that the typical pitfalls for the inexperienced conversion team are avoided by:

- Promoting the re-use of knowledge
- Avoiding costly dead-ends resulting from poor planning and co-ordination
- Ensuring efficient use of staff time
- Allowing a mix of experienced and less experienced staff, thereby, facilitating knowledge transfer
- Improving the quality of work

To take full advantage of opportunities arising as a result of conversion to Ind AS, the conversion methodology needs to be flexible and customized to the needs of an entity. As with any major finance transformation project, the full support of the board and senior management will be critical to the success of the conversion effort. Boards should pay close attention to details of management’s proposed
approach to the Ind AS conversion to satisfy themselves that it covers all appropriate areas and is based on sound project management principles. While management will be responsible for the conversion execution, boards need to be confident in management’s plan, thoroughness and diligence. Management should inform the board and the audit committee on a regular basis regarding its plan and progress. As such, audit committees should generally include a standing Ind AS agenda update item at their periodic meetings.

The process
A sample methodology for conversion is shown above, which management may consider for Ind AS conversion.

The methodology takes, as a starting point, the fact that an Ind AS conversion project needs to address more than just accounting issues and that a conversion project is sufficiently complicated to warrant professional project management. It is for these reasons that the methodology comprises five phases—each of which deals with a specific part of the conversion. Throughout the project it recognizes five different workstreams, each dealing with a specific aspect of the conversion process. This is to facilitate involvement of specialists on need basis. It is, however, important to recognize that these phases can overlap one another and entities need not wait for completion of one phase to end before beginning another. Moreover, a clear breakdown of all the activities by workstream is not always possible as a mandatory allocation of activities by phase. Therefore, this methodology should be tailored according to project specificities, starting point and in place project structure, etc.

Key goals and outputs of each phase
- Diagnostic
  This phase involves high level identification of accounting and reporting differences and its consequences to the business, IT, processes and tax. The major outcome management expected from this phase includes an impact assessment report, which provides implications on above areas. It also entails determining a high-level road map for future phases of the conversion. This phase will also help management to identify potential interdependence between the Ind AS conversion project and current or planned organization-wide initiatives (for example, new accounting system implementations such as ERP and finance transformations) and an assessment of, whether the company has adequate resources to complete a conversion.
Design and planning
This phase involves setting up the project infrastructure, the project management function, including conversion roadmap and change management strategy. The aim of this phase is to set-up a core Ind AS team, framing conversion time-tables and deciding on detailed way-forward. Formation of the project structure, project charter, communication plan, training plan and expanded conversion roadmap are typical outputs from this phase.

Solution development
The objective of this phase is to identify solutions to various issues identified in relation to accounting and reporting, tax, business process and system changes. Typical output from this phase comprises Ind AS accounting manuals, group reporting packages, Ind AS skeleton accounts, group accounting policies, technical papers on Ind AS accounting issues, crystallizing the impact on current and deferred tax, developing solutions for tax functions and identifying processes, which need to be re-designed, modified or developed.

Implementation
This phase involves roll out of solutions developed in the previous phase. In this phase the company will conduct a process of dry-run of financial statements to ensure that before the reporting deadline, the company is geared up to prepare Ind AS financial statements. Following dry-run accounts, the company will roll-out finaldeliverables, i.e., the opening Ind AS balance sheet and the first Ind AS financial statements. All business and process solutions developed will also be implemented to facilitate the company transition to the new reporting framework.

Post-implementation
This phase involves an assessment of how various solutions developed work in the implementation phase and the identification of any issues in the operational model. These issues are tackled in this phase to ensure successful on-going functioning of systems and processes in IFRS reporting regime. On-going update training is also provided, to ensure that the company’s personnel are updated with latest Ind AS developments, and also changes are made in systems and processes. IFRS manuals will also need to be regularly updated for changes in IFRS.

Concluding remarks
Considering comparables, the Ind AS conversion date for India is 2016-17 with comparative 2015-16. Experience tells us that major European companies took about eighteen months to two years to convert from national GAAP to IFRS. The right time to start thinking and converting to Ind AS is ”NOW”. This process cannot be delayed any further. More importantly, there are no disadvantages to getting a start on the process, but the advantages include:

- Securing the right people, whether by engaging a third party to provide assistance or by hiring them directly
- Reduce the burden on valuable accounting, financial reporting and IT resources as the conversion date approaches
- More time to train employees on Ind AS and to have them become comfortable with the standards and interpretations
- Discussing financial reporting effects of conversion to Ind AS with analysts to provide them with confidence that this significant undertaking is well in hand.