Ind AS
Developments

Are you ready to disclose the effect of adopting Ind AS 115?

The better the question. The better the answer.
The better the world works.

What you need to know

With adoption of Ind AS 115 becoming mandatory in 2018, all entities will have to start their projects to implement the new revenue standard.

Highlights

The new revenue standard, Ind AS 115 Revenue from Contracts with Customers, becomes effective for annual periods beginning on or after 1 April 2018.

The implementation of Ind AS 115 may have a significant effect on the financial statements of many entities as the amount of revenue and contract costs and/or the timing of their recognition may differ significantly from current practice. Also, significant additional disclosures are required by the new standard.

This standard is the Indian equivalent of the global standard IFRS 15, which becomes effective for annual periods beginning on or after 1 January 2018. Whilst almost all entities globally indicate to have started their IFRS 15 implementation projects, little information, if any, was disclosed in the 2016 financial statements about the expected effect. In 2017, we expect enhanced disclosures to be given by these companies. Since the time lag between the date of notification and effective date of Ind AS 115 is quite narrow, we have leveraged on the global activities in the area of implementation of the IFRS 15 standard to provide an insight on the readiness effort and potential impact for implementation of the standard in India.

We have globally surveyed the 2016 annual financial statements of 207 Fortune 500 IFRS preparers. Of those we surveyed:

- Only 1% provided quantitative information about the expected effect of IFRS 15; 33% qualitatively disclosed aspects of the standard that could have a significant effect on financial statements
- Only 15% disclosed the expected transition method

Building a better working world

Disclosure requirements for standards issued but not yet effective

When an entity has not applied a new standard that has been issued but is not yet effective, Ind AS 8 *Accounting Policies, Changes in Accounting Estimates* and *Errors* requires the entity to disclose that fact together with known, or reasonably estimable, information relevant to assessing the possible impact that the application of a standard will have on the financial statements in the period of initial application.[1] An entity is required to consider disclosing all of the following:

- The title of the new standard
- The nature of the impending change or changes in accounting policy
- The date by which application of the standard is required
- The date at which it plans to apply the standard initially
- A discussion of the impact that initial application of the standard is expected to have on the entity's financial statements or, if that impact is not known or reasonably estimable, a statement to that effect.[2]

Regulators' perspective

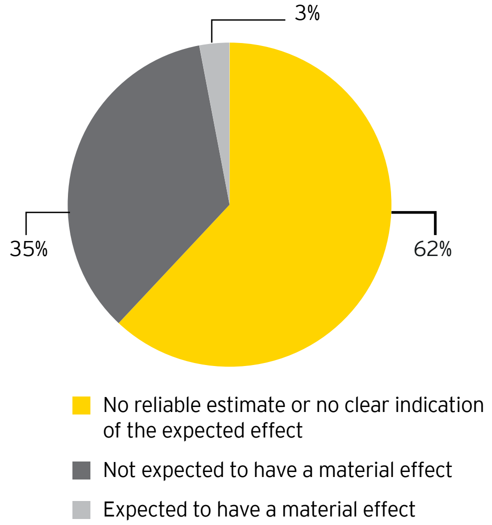
During 2016, several global regulators stressed the importance of entities providing relevant disclosures in relation to IFRS 15 and indicated an expectation that an entity's disclosures should evolve in each reporting period as more information about the effects of the new standard becomes available. In 2017, companies are expected to give quantitative impact as well.

Ind AS 115 is effective from 1 April 2018. Since Indian companies have a very limited timeframe for transitioning to Ind AS 115, they should focus on implementing the new standard immediately. Also, they need to focus on providing necessary disclosures required by Ind AS 8 in their annual financial statements for the year ended 31 March 2018.

Survey of disclosures prior to adoption of IFRS 15

Disclosures about the effect of adopting IFRS 15

As discussed above, IAS 8 requires an entity to disclose information about the expected effect on its financial statements of adopting a new standard or, if that impact is not known or reasonably estimable, a statement to that effect.



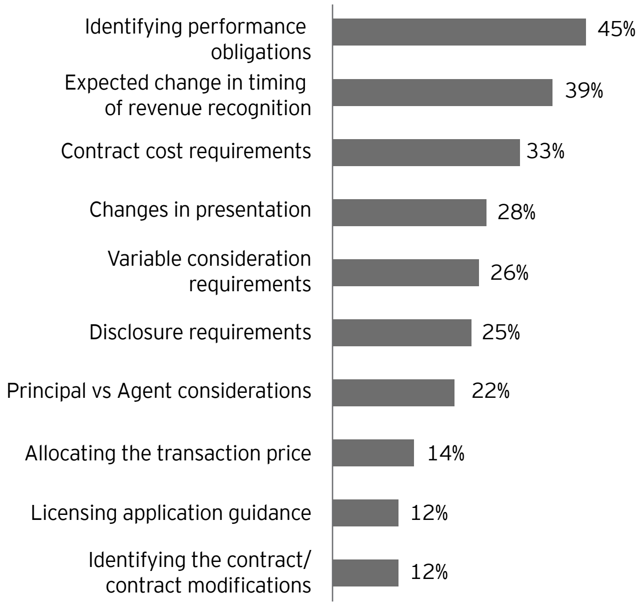
Of the entities we surveyed globally, the majority of preparers either indicated that they did not yet have a reliable estimate, or did not give a clear indication of the expected effect. 35% of the entities indicated that they did not expect the standard to have a material impact; one-third of those entities are in financial services sectors.

The disclosure of qualitative information was more common, with 33% of the entities disclosing the aspects of the standard that could have a significant effect on financial statements.

1 Ind AS 8.30

2 Ind AS 8.31

The top 10 most commonly mentioned topics in qualitative disclosures that global entities believe will have an effect, in descending order, are:



Other topics mentioned included customer options for additional goods or services, non-refundable upfront fees and measures of progress over time.

Disclosures about the method to transition to IFRS 15

IFRS 15 requires retrospective application. The standard-setters decided to allow either a full retrospective adoption, in which the standard is applied to all of the periods presented, or a modified retrospective adoption. Entities electing the modified retrospective method apply the standard retrospectively to only the most current period presented in the financial statements (i.e., the initial period of application). The entity has to recognise the cumulative effect of initially applying IFRS 15 as an adjustment to the opening balance of retained earnings. Some relief exists ('practical expedients') for both methods, e.g., for completed contracts or contracts that were modified before the beginning of the earliest period presented. Regulators may expect an entity to disclose whether they intend to apply the full or modified retrospective method.

Only 15% of the global entities we surveyed disclosed the expected transition method in their 2016 annual financial statements. More than two-thirds of those that disclosed this information stated that they intended to use the modified retrospective approach.

How we see it

The above information is based on the 2016 financial statements of global entities. We expect that global companies will give enhanced disclosures in their 2017 financial statements. This includes providing detailed, entity-specific and quantitative information.

In India, since the time lag between the date of notification and effective date of Ind AS 115 is quite narrow, Indian entities should immediately start gearing up for the transition to the new revenue recognition standard. They need to kick-start the efforts to ensure they are able to provide appropriate disclosures as required in Ind AS 8 in their 2017-18 annual financial statements and gear up for quarterly reporting for the year 2018-19 based on the new revenue recognition standard.

For further information, please contact:

- Sandip Khetan – sandip.khetan@in.ey.com
- Jigar Parikh – jigar.parikh@in.ey.com
- Charanjit Attra – charanjit.attra@in.ey.com
- Vish Dhingra – vish.dhingra@in.ey.com
- Devesh Prakash – devesh.prakash@in.ey.com

Ernst & Young Associates LLP

EY | Assurance | Tax | Transactions | Advisory

About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit ey.com.

Ernst & Young Associates LLP is one of the Indian client serving member firms of EYGM Limited. For more information about our organization, please visit www.ey.com/in.

Ernst & Young Associates LLP is a Limited Liability Partnership, registered under the Limited Liability Partnership Act, 2008 in India, having its registered office at 22 Camac Street, 3rd Floor, Block C, Kolkata - 700016

EYIN1803-001
ED None

JG

ey.com/in

@EY_India EY|LinkedIn EY India EY India careers ey_indiacareers