Introduction to Ind AS

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Journey so far…

Status of IFRS convergence In India

- MCA issued press release in May 2010 with roadmap for adoption of converged Ind AS from April 2011. However, the same was deferred due to various reasons.
- A revised roadmap was submitted by ICAI to MCA in March 2014.
- In the finance budget on 10 July 2014, the Finance Minister iterated that there is an urgent need to converge current Indian accounting standards with IFRS
- The Finance Minister proposed for adoption of new Ind AS by Indian companies from financial year 2015-16 voluntarily and from financial year 2016-17 on a mandatory basis
- On 2 January 2015, MCA issued a press release to lay down revised roadmap for implementation of Ind AS for companies other than banking, Insurance and NBFC's
- On 16 February 2015, MCA notified the Companies (Indian Accounting Standards) Rules, 2015 which laid down the road map for applicability of Ind AS for companies other than banking, insurance and NBFCs
- On 18 January 2016, MCA issued a press release laying down the road map for implementation of Ind AS for scheduled commercial banks, insurance companies and NBFCs

Conversion to Ind-AS

MCA roadmap - companies other than banking, insurance and NBFCs

Phase 1*

- Companies listed in or outside India (debt/ equity) with net-worth INR 500 Crores or more
- Unlisted companies with net-worth of INR 500 Crores or more
- Holding, subsidiary, JV or associate companies of aforesaid companies

2015-16		2016-17	
April	March	April	March
Opening Balance Sheet 1 April 2015	Comparative for 31 March 2016		Financial statements for year ended 31 March 2017

Phase 2*

- All other listed companies
- Unlisted companies with net-worth of INR 250 Crores or more
- Holding, subsidiary, JV or associate companies of aforesaid companies

2016-17		2017-18	
April	March	April	March
Opening Balance Sheet 1 April 2016	Comparative for 31 March 2017		Financial statements for year ended 31 March 2018

** Those entities who are required to prepares FS as per Ind-AS are also required to prepare CFS as per Ind-AS*

MCA roadmap - scheduled commercial banks and insurer/ insurance companies

Scheduled commercial banks

2018-19		2019-20	
April	March	April	March

Opening Balance Sheet
1 April 2017

Comparative
for
31 March 2018

Financial statements for year ended
31 March 2019

No adoption of Ind AS permitted for Urban Cooperative Banks (UCBs) and Regional Rural Banks (RRBs)

** Those entities who are required to prepares FS as per Ind-AS are also required to prepare CFS as per Ind-AS*

Insurer/ insurance companies

Ind AS will now be implemented effective 2020-21 with 1 April 2019 as date of transition

MCA roadmap - NBFCs

Phase 1*

- NBFCs having net worth of INR 500 crores or more
- Holding, subsidiary, JV or associate companies of aforesaid companies

2017-18		2018-19	
April	March	April	March

Opening Balance Sheet 1 April 2017

Comparative for 31 March 2018

Financial statements for year ended 31 March 2019

Phase 2*

- All listed NBFCs
- Unlisted NBFCs with net-worth of INR 250 crores or more
- Holding, subsidiary, JV or associate companies of aforesaid companies

2018-19		2019-20	
April	March	April	March

Opening Balance Sheet 1 April 2018

Comparative for 31 March 2019

Financial statements for year ended 31 March 2020

No voluntary adoption of Ind AS permitted for NBFCs

** Those entities who are required to prepares FS as per Ind-AS are also required to prepare CFS as per Ind-AS*

How close we are to IFRS?

Key carve outs from IFRS

- Option to consider Indian GAAP carrying value of property, plant and equipment as deemed cost
- Permits deferral/capitalization of exchange differences on long term monetary items acquired till the date of convergence
- Non-current classification of loan with breach of covenants
- Straight lining of lease rentals not required for rent escalation in line with expected inflation
- Business Combination-Bargain purchase can not be credited to P&L
- Associates permitted to have different accounting policies, if otherwise impracticable
- FCCB - Continue to be equity

Key curtailment of options from IFRS

- Investment property to be measured only at cost
- P&L can be presented only using nature of expenses method wise
- Classification of interest and dividend paid/received to be in line with existing requirement in cash flow statement
- Government grants to be set up only as deferred income
- Common control mergers to be accounted for only using the pooling of interest method

Corresponding IFRS and Ind-AS

- Companies Accounting Standard Rules 2015
- 39 Ind AS standards notified and hosted on MCA website

- Ind-AS is closely aligned to IASB IFRS
- However, carve-outs still exist

- IND AS are applicable to only those entities which are covered under IND AS roadmap

IFRS	Ind-AS	
IFRS 1	Ind AS 101	First Time Adoption of Ind AS
IFRS 2	Ind AS 102	Share Based Payment
IFRS 3	Ind AS 103	Business Combination
IFRS 4	Ind AS 104	Insurance Contracts
IFRS 5	Ind AS 105	Non Current Assets held for sale and discontinued operations
IFRS 6	Ind AS 106	Exploration for and evaluation of Mineral Resources
IFRS 7	Ind AS 107	Financial Instruments: Disclosures
IFRS 8	Ind AS 108	Operating Segments
IFRS 9	Ind AS 109	Financial Instruments

IFRS	Ind-AS	
IFRS 10	Ind AS 110	Consolidated Financial Statements
IFRS 11	Ind AS 111	Joint Arrangements
IFRS 12	Ind AS 112	Disclosure of interest in other entities
IFRS 13	Ind AS 113	Fair Value Measurement
IFRS 14	Ind AS 114	Regulatory Deferral accounts
IFRS 15	Ind AS 115	Revenue from Contracts with Customers
IFRS 16	Ind AS 116 (ED)	Leases
IAS 1	Ind AS 1	Presentation of financial statements
IAS 2	Ind AS 2	Inventories
IAS 7	Ind AS 7	Statement of cash flows

Corresponding IFRS and Ind-AS

IFRS	Ind-AS	
IAS 8	Ind AS 8	Accounting policy, change in accounting estimates and error
IAS 10	Ind AS 10	Events after reporting date
IAS 12	Ind AS 12	Income Taxes
IAS 16	Ind AS 16	Property, Plant and equipment
IAS 17	Ind AS 17	Leases
IAS 19	Ind AS 19	Employee Benefits
IAS 20	Ind AS 20	Accounting for Govt. Grants & disclosures
IAS 21	Ind AS 21	Effect of change in foreign exchange rate
IAS 23	Ind AS 23	Borrowing Costs
IAS 24	Ind AS 24	Related Party Disclosures
IAS 26	Not issued	

IFRS	Ind-AS	
IAS 27	Ind AS 27	Separate Financial Instruments
IAS 28	Ind AS 28	Investment in Associates and Joint ventures
IAS 29	Ind AS 29	Financial reporting in Hyperinflationary economies
IAS 32	Ind AS 32	Financial Instrument: Presentation
IAS 33	Ind AS 33	Earnings per share
IAS 34	Ind AS 34	Interim Finance Reporting
IAS 36	Ind AS 36	Impairment of assets
IAS 37	Ind AS 37	Provision, contingent liabilities and contingent assets
IAS 38	Ind AS 38	Intangible assets
IAS 39	Not Issued	Financial Instruments: Recognition and Measurement
IAS 40	Ind AS 40	Investment Property
IAS 41	Ind AS 41	Agriculture

Ind AS compliant revised Schedule III issued by MCA

- MCA vide notification dated 6 April 2016 has issued **Ind-AS compliant revised Schedule-III** to the Companies Act, 2013 for companies other than banking, insurance and NBFCs

PDF Document

Key principles

Substance Over Form

Focus on achieving Balance Sheet right

Extensive use of fair value

Advantages of convergence to IFRS

Why Ind AS?

- Investing abroad
- Credibility of domestic capital markets to foreign capital providers
- Easier access to foreign capital markets
- Enhanced comparability with international peers
- Keep “one set of books”
- Global education and training
- More opportunity for local people
- FPO to India

First-time adoption : general principles

Step 1	Step 2	Step 3	Step 4
Recognise all assets and liabilities required to be recognised by Ind-AS.	De-recognise all assets and liabilities not permitted by Ind-AS.	Reclassify all items in accordance with Ind-AS.	Measure all assets and liabilities in accordance with Ind-AS and evaluate First Time exemptions
e.g., constructive obligation or leases	**e.g., proposed dividends**	**e.g., compound financial instrument**	**e.g., fixed assets**

Transition requirements

- Same accounting policies to be used in opening Ind-AS balance sheet and the reporting period presented under Ind-AS.
- Retrospective application required, except for specific exemptions and exceptions given in Ind-AS 101.
- The resulting amount to be adjusted in retained earnings.

Ind AS 101 : optional exemptions

20 Optional exemptions

Fixed assets related	Business combination related	Financial instruments related	Others
Deemed cost of PPE / invest. property and certain intangible assets	Business combination	Compound financial instrument	Severe hyperinflation
Decommissioning liabilities included in PPE	Investment in subsidiaries / associates / JV	Fair value measurement of financial asset and financial liability	Non-current assets held for sale and discontinuing operations
Leases	Assets and liabilities of subsidiaries, associates, and joint ventures	Designation of previously recognized financial instruments	Share-based payment transactions
Service concession agreements	Cumulative translation difference	Extinguishing financial liabilities with equity	Insurance contracts
Stripping costs in the production phase	Joint arrangements	Designation of contracts to buy or sell non financial item	Transfer of assets from customers

Ind AS 101 : mandatory exceptions

Ind AS 101 prohibits retrospective application in certain cases

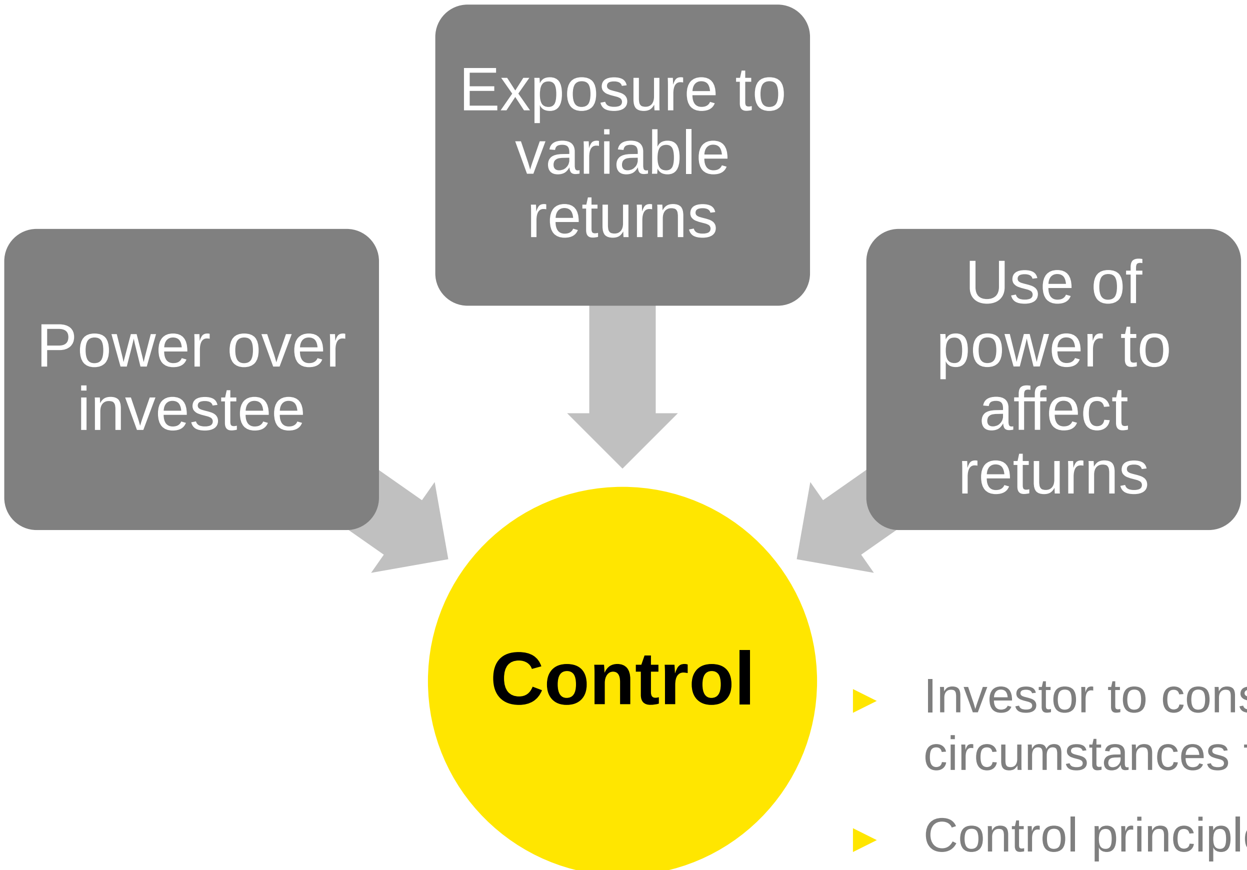
- Retrospective application prohibited for:
  - Use of estimates
  - Hedge accounting
  - De-recognition of financial assets and financial liabilities
  - Some aspects of accounting for non-controlling interests
  - Classification and measurement of financial assets
  - Impairment of financial assets
  - Embedded derivatives
  - Government loans

Key impact areas - balance sheet and profit and loss

The possible game changers from Indian GAAP

- **Consolidated financial statements**
- **Financial Instruments**
- **Business combinations**
- **Presentation and disclosures**
- **Revenue recognition**
- **Taxation**

Consolidation- new definition of control



- Investor to consider all facts and circumstances for control assessment
- Control principles equally applicable to structured entities (also known as SPEs)

Financial instruments

- Financial assets classified into:
  - Amortised Cost : - Discounting of security deposit may be required
  - Fair Value through OCI
  - Fair value through P&L

- Equity Investment in unlisted companies to be carried at fair value

- Financial liabilities classified into
  - Fair value through P&L
  - Amortised cost

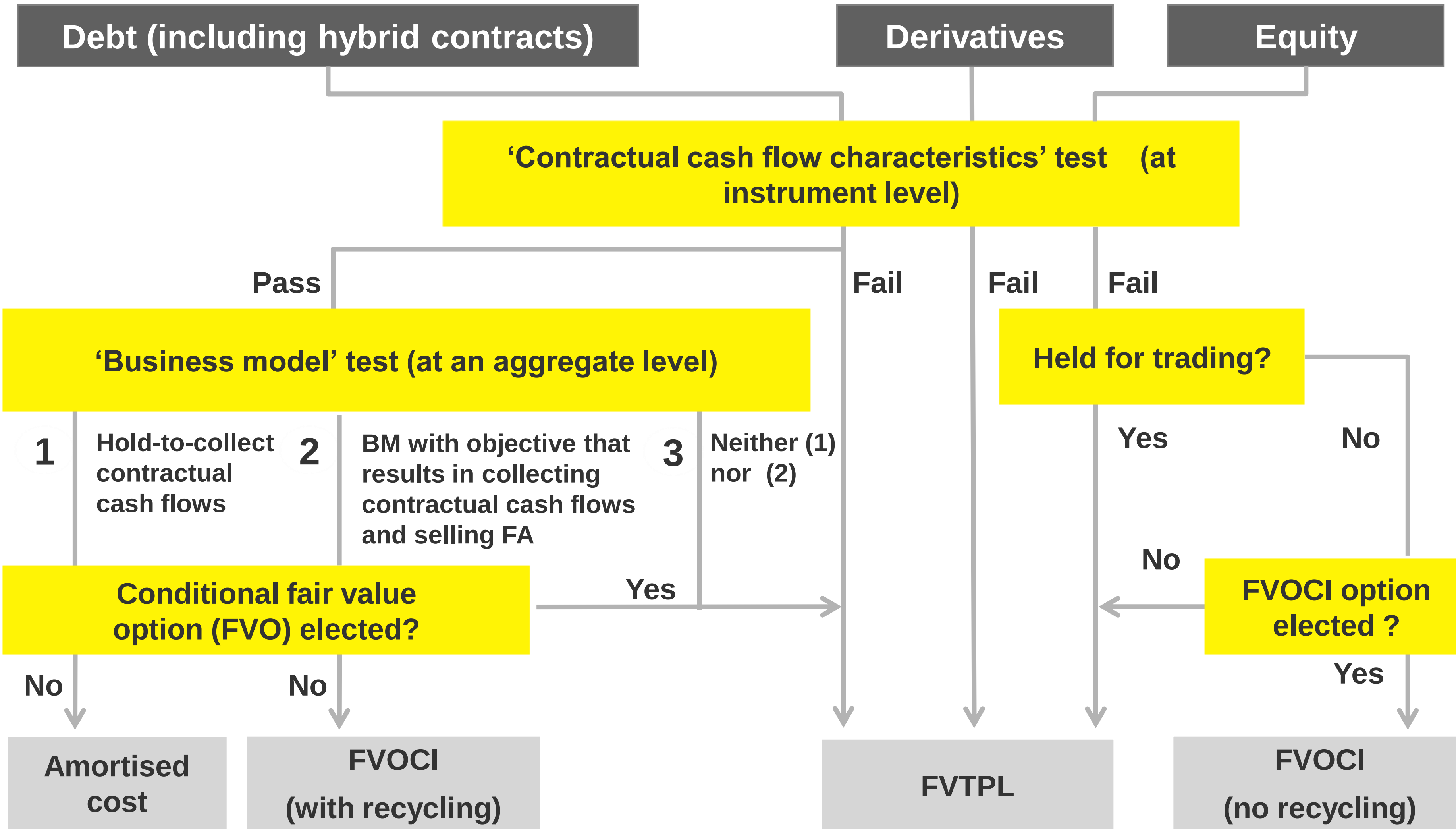
- Equity versus liability classification

- Processing costs incurred on term loans to be amortised over the period of loan using the effective interest rate method

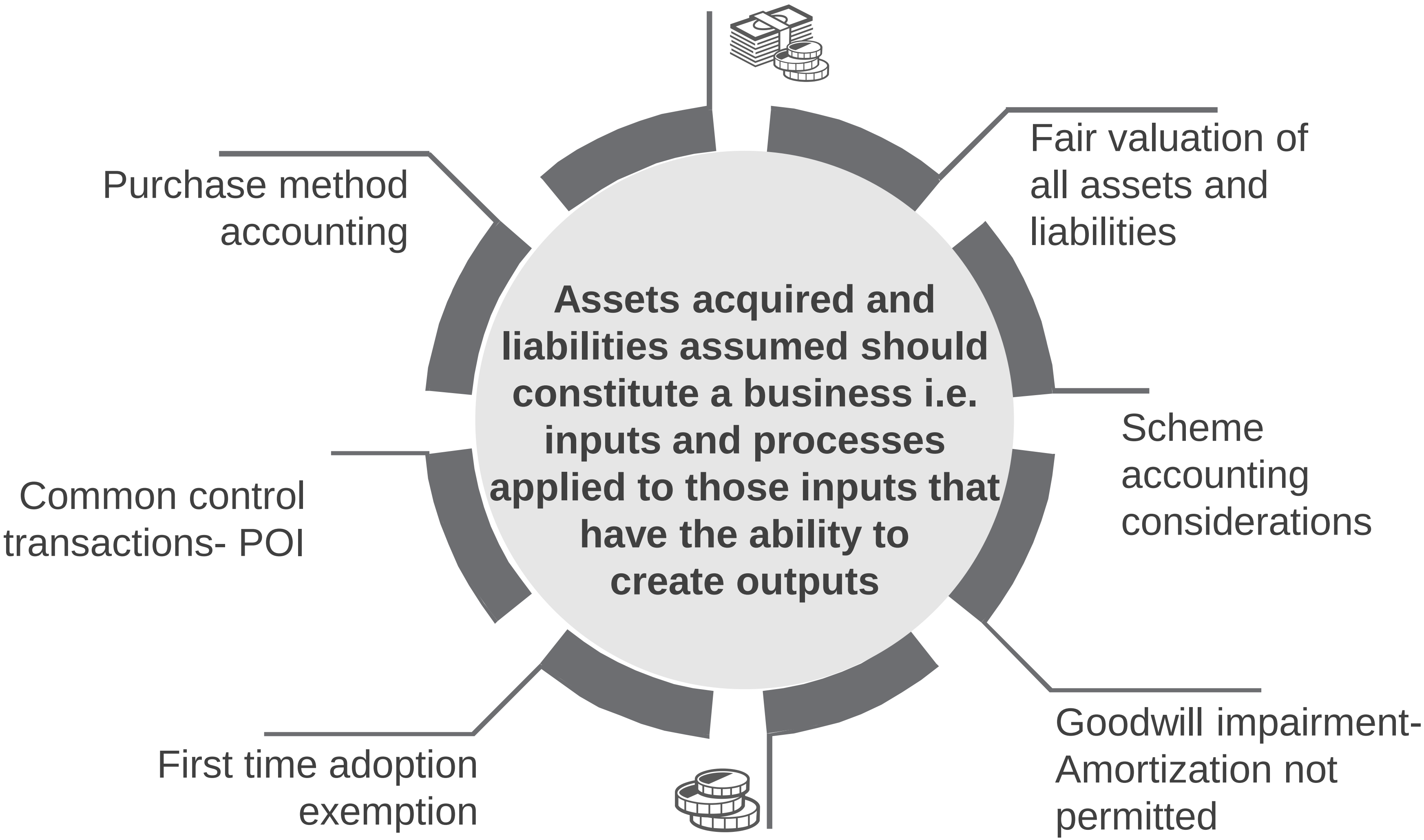
- Evaluation of various contracts to identify embedded derivatives, all derivatives to be classified as FVTPL

- Significant new disclosures on capital management, Four categories of disclosures – balance sheet level, income statement level, qualitative and quantitative disclosure requirements for financial assets and liabilities (information required to be disclosed for credit, liquidity and market risks)

Revised classification and measurement model of financial assets



Business combinations



Disclosures and presentation

Ind AS 1	**Statement of changes in equity and other comprehensive income**
	Significant estimates and judgments
	Capital management
Ind AS 107	**Financial risk management including sensitivity analysis**
Ind AS 108	**Operating Segment**
Ind AS 113	**Fair value measurement disclosures**

Companies	Fin. statements pages Indian GAAP	Fin. statements pages IFRS
Tata Motors	40	88
Bharti Airtel	90	136
Dr. Reddy's Lab.	50	70

Disclosures and presentation

Format for disclosure

- Ind AS based Schedule III of the Companies Act 2013 to be followed
- Ind AS prescribes minimum structure on financial statements and contains guidance on disclosure

Other requirements

- Extra-ordinary items disclosure prohibited under Ind AS
- Impact of new pronouncements to be disclosed
- Disclose all the judgments made by the management in applying accounting policies and key sources of estimation uncertainty that have a significant risk of causing a material adjustment

Segment reporting:

- Identification of segment based on MIS – the manner in which it is looked by Chief Operating Decision Maker
- Customer concentration
- Reconciliation between MIS and reported Ind AS numbers
- Accounting policy for reportable segments and the basis on which it is prepared
- Separate disclosure of external revenues product-wise and country-wise

Revenue recognition

- Measurement of revenue at fair value of consideration
- Discounting to present value in case of deferred consideration
- Completed contract method not permissible for revenue recognition in case of rendering of services
- Accounting for discounts and incentive schemes
- Computation of interest income

Income taxes

- Deferred taxes based on temporary differences as against timing differences under Indian GAAP (Balance sheet approach)

- All Ind - AS adjustments to have a corresponding tax impact

Impact of transition to Ind AS

Impact of transition to Ind AS

Impact on net worth

Increase

Reasons

- Reversal of proposed dividend, which was earlier recognised as per IGAAP
- Fair valuation of PPE
- Fair valuation of investments

Net worth increase

Rs 67,970 crores
3 companies — fair value of investments

Rs 17,300 crores
7 companies — fair value of PPE

Rs 30,000 crores
23 companies — reversal of proposed dividend

Impacted sectors

Consumer & industrial products, Oil & Gas, automobile & transportation, telecom, media & entertainment, pharmaceuticals & chemicals and information technology

Decrease

Reasons

- Reclassification of financial instruments from “equity classified” instruments under erstwhile IGAAP to “debt classified” in Ind AS
- Recognition of impairment loss on financial assets
- Fair valuation of PPE, which also had a positive impact on the net worth of a few companies
- Change in the method of depletion of oil and gas assets for oil and gas companies

Sectors such as mining and metal, real estate, infrastructure, and power and utilities have shown a mixed trend

Impact of transition to Ind AS

Impact on profit

Increase

Reasons

- Measurement of investments at fair value through profit and loss
- Capitalization of spares as PPE
- Reclassification of government grant to profit and loss, which were earlier taken to capital reserve as per IGAAP

Net profit increase

Rs 5,200 crores
Increase in profit of 39 companies

Impacted sectors

Automobile & transportation, telecom, media & entertainment and information technology

Decrease

Net profit decrease

Rs 40,900 crores
Decrease in profit of 35 companies

Reasons

- Recognition of cost of employee stock options at fair value
- Recognition of impairment loss on financial assets using the expected credit loss (ECL) model
- Change in the method of depletion of oil and gas assets, which had a significant negative impact on the net profit of the companies in the oil and gas sector
- Fair valuation of PPE on the transition date positively impacted net worth but increased the depreciation charge for subsequent years, which adversely impacted profits

Impacted sectors

Oil & gas and mining and metals

Impact of transition to Ind AS

Impact on revenue

"Revenue" for almost for all companies across sectors has been adversely impacted (excluding the excise duty amount).

Net revenue impact

Rs 2,17,600 crore
Excise duty included in revenue

Rs 15,300 crore
Decrease in revenue of 53 companies

Reason

- Recognition of revenue at fair value with adjustments for discounts, incentives, rebates etc.
- In presence of a financing component in the transactions, entities have now factored this under Ind AS by reporting revenue as the discounted value of future cash flows
- Inclusion of excise duty in revenues, as it is a levy on production and not sales. Such inclusion will result in decrease in gross margin percentage across sectors

Impacted sectors

consumer/ industrial products & retail, automobiles & transportation and oil & gas

Impact of transition to Ind AS

Impact on EBITDA

Increase

EBITDA increase

Rs 8,000 crores
Increase in EBITDA of 45 companies

Impacted sectors

Consumer/industrial products & retail and automobiles & transportation.

Decrease

EBITDA decrease

Rs 30,000 crores
Decrease in EBITDA of 30 companies

Reasons

- One oil and gas company recorded an impairment loss of approximately Rs 20,000 crore
- One steel company recorded reclassification gain on equity instrument from profit and loss to other comprehensive income (OCI) of approximately Rs 3,500 crore
- One IT company reversed approximately Rs 3,000 crore from the profit and loss account to reserves and surplus relating to profit on transfer of business

Standards that made their presence felt

Ind AS 101 First-time adoption of Ind AS

Policy choices available under Ind AS 101

	No. of companies		
Key policy choices available at transition date	Opted for fair value as deemed cost	Opted for carrying value as deemed cost	Retrospective adoption
PPE	7	68	-
Investments in subsidiaries, associates and joint ventures	3	72	-
Business combination	-	-	1
Foreign currency translation reserve reset to zero *	-	-	-

Rs 43,900 crore
Increase in net worth of 3 companies due to fair valuation of PPE

Rs 68,600 crore
Increase in net worth of 2 companies due to fair value of investments in group companies

Rs 26,600 crore
Decrease in net worth of 4 companies due to fair valuation of PPE

Rs 630 crore
Decrease in net worth of 1 companies due to fair value of investments in group companies

**** Majority of the companies have continued to avail the benefit of para 46A of AS 11 of erstwhile IGAAP as it was extended to Ind AS in relation to borrowings that existed as of 31 March 2016***

Standards that made their presence felt

Ind AS 109 Financial Instruments

Particulars	Impact
Fair value of financial assets / financial liabilities	Generally a positive impact on net profit and net worth
ECL model	Negative impact on the profits and net worth of companies
Compound financial Instrument	Split accounting may have a positive or a negative impact on the net worth of companies

Rs 55,000 crore
Increase in net worth of 47 companies due to fair value of financial instruments

Rs 4,000 crore
Decrease in net worth of 13 companies due to ECL

Rs 3,300 crore
Decrease in net worth of 9 companies due to fair value of financial instruments

Impact on net worth – standalone as at 31 March 2016:

- 50 Positive Impact
- 19 Negative Impact
- 5 No impact

Impact on profit – standalone for the year ended 31 March 2016

- 38 Positive Impact
- 32 Negative Impact
- 5 No impact

Other Impact areas include discounting of security deposits, fair value of derivative and financial guarantees

Standards that made their presence felt

Ind AS 16 Property, plant and equipment

Particulars	Impact
Capitalization of stores and spares	Positive impact on net profit and net worth
Major overhaul expenses	Positive impact on net profit and net worth due to capitalization of major overhaul expenses
Change in depreciation / depletion method	Positive impact on net profit and net worth of companies

Rs 700 crore
Increase in net worth of 8 companies due to capitalization of spares

Rs 2,900crore
Increase in profits of 36 companies due to reduction in depreciation charge

Rs 4,000 crore
Decrease in profits of 29 companies due to increase in depreciation charge

Rs 840 crore
Decrease in net worth of 8 companies due to enabling assets etc.

Impact on net worth – standalone as at 31 March 2016:

- 8 Positive Impact
- 8 Negative Impact
- 58 No impact

Impact on profit – standalone for the year ended 31 March 2016

- 36 Positive Impact
- 29 Negative Impact
- 10 No impact

Standards that made their presence felt

Ind AS 12 Income Taxes

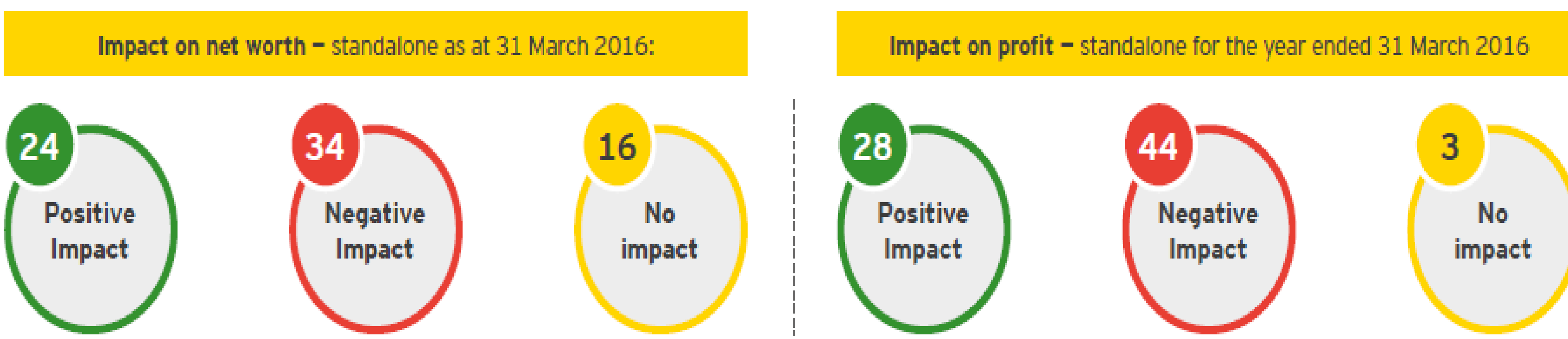
Particulars	Impact
Balance sheet approach	Resulted in additional deferred tax charge
Reasonable certainty required by recording deferred tax assets	More companies may record deferred tax asset

Rs 5,100 crore
Increase in net worth of 24 companies

Rs 7,400crore
Increase in net profits of 28 companies

Rs 18,600 crore
Decrease in net worth of 34 companies

Rs 2,100 crore
Decrease in net profits of 44 companies



Standards that made their presence felt

Ind AS 18 Revenue Recognition

Particulars	Impact
Fair value considerations	Negative impact on revenue
Presentation of excise duty	Excise duty included in revenue aggregates to Rs 2,17,600 crore

Impact on revenue – impact on standalone revenue for the year ended 31 March 2016

Rs 15,300 crore
Decrease in revenue of 53 companies

Ind AS 19 Employee Benefits

Remeasurement of defined benefit assets/liabilities

Ind AS 19 - impact on profits for the year ended 31 March 2016

Rs 645 crore
Increase in profits of 39 companies

Rs 156 crore
Decrease in profits of 16 companies

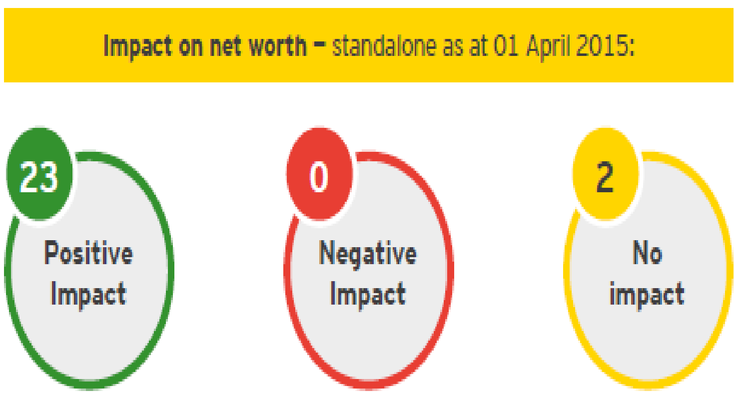
Standards that made their presence felt

Ind AS 10 Events after the Reporting Date

Proposed dividends

Rs 30,000 crore
Increase in net worth of 23 companies at transition date

Rs 50,000 crore
Increase in net worth of 54 companies at March 2016



Key disclosures

- 53 out of 74 companies reported no changes in their reporting segments
- 25 out of 74 companies had provided their equity reconciliation statement as at 1 April 2015

Key take away

Key take away

- Converting to Ind-AS is more than a technical exercise; it presents many business challenges and opportunities
- Management buy-in is one of the biggest initial challenges
- Do not underestimate the amount of work involved (Ind-AS conversion can take 6+ months to complete)
- Need a fully dedicated project team with early involvement of all departments affected by the conversion
- Interaction with internal controls and systems is key
- Focus on education, resource and training – use Ind AS experts, actuaries and valuers
- Consider the impact on investor relations – timing and nature of communications
- Start early

Recent updates

Ind AS 115- Overview: Five-step model

1	Identify the contract(s) with a customer	Contract	
2	Identify the separate performance obligations (PO) in the contract	Performance obligation (PO #1)	Performance obligation (PO #2)
3	Determine the transaction price	Transaction price	
4	Allocate the transaction price to the separate POs	Allocated transaction price to PO #1	Allocated transaction price to PO #2
5	Recognise revenue when the entity satisfies a PO	Recognise revenue PO #1	Recognise revenue PO #2

Ind AS 115- Key challenges for life-science entities

- Thorough analysis of colloboration agreements to develop a drug is necessary to conclude whether the whole agreement or only elements of it are in the scope of Ind AS 115.
- Activities of the licensor after granting the license which significantly affect the granted IP might have consequences on the timing of revenue recognition.
- Detailed analysis of licensing agreements and colloboration agreements in scope is necessary to conclude whether one or multiple performance obligations exist and what revenue recognition pattern is appropriate.
- Non-observable stand-alone selling prices need to be estimated. The estimate of variable consideration (eg. milestone payments) requires significant judgment and an assessment of their potential reversal. Sales- or usage-based royalties are treated differently.
- Extended payment terms might result in recognition of interest revenues.
- Sell-through model for sales to distributors and consignment stock might no longer be appropriate.
- The accounting for contract modifications is complex and differs significantly depending on whether a new performance obligation is created and on the pricing.

Exposure Draft on Ind AS 116- Overview

- Recently, ICAI issued Exposure Draft on Ind AS 116
- Lessees will have a single on-balance sheet accounting model for all leases, with exemptions for short-term leases and leases of low-value assets
- Lessor accounting is substantially unchanged
- Lessees and lessors will have additional disclosure requirements compared to current accounting

New standard will be effective for annual periods beginning on or after 1 April 2019

Thank you