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STUDENTS' ECONOMIC FORUM

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"IND AS", PART - I

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SIB STUDENTS' ECONOMIC FORUM

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Theme No: 312: **"Ind AS", Part - I**

A well informed customer will make the policy makers as well as organizations which produce goods and render services more responsive to the customer needs. This will also result in healthy competition among organizations and improve the quality of its products.

The "SIB Students' Economic forum" is designed to kindle interest in the minds of younger generation. We highlight one theme in every monthly meeting of the "Forum". This month the topic for discussion is "Ind AS".

Financial year 2016-17 is a year of monumental change in the financial reporting landscape of India. From 1st April 2016, Indian Accounting Standards (Ind AS), converged with International Financial Reporting Standards (IFRS) for a new accounting norm for all listed and unlisted companies. The transition would have significant impact on, not only, the financial results of many of these companies, but would also have far reaching consequential business impact.

Ind AS contains several significant differences in many areas compared to the erstwhile Indian Generally Accepted Accounting Principles (IGAAP). At the heart of Ind AS, lie requirements of fair valuation and accounting for time value of money, instances of which were far and few under IGAAP. Ind AS contains new concepts of control and joint control, due to which there is a, change in holding-subsidiary or joint venture relations.

1. Briefly explain the roadmap for implementation of Ind AS?

a) Voluntary adoption

Companies can voluntarily adopt Ind AS for accounting periods beginning on or after 1st April 2015 with comparatives for period ending 31st March, 2015. However, once they have chosen to report under Ind AS, they cannot switch back even where reports under Ind AS is not mandatory.

b) Mandatory applicability

Phase - I:

Ind AS will be mandatorily applicable to the listed and unlisted companies having net worth of Rs.500 crore or more, along with their holding, subsidiary, joint venture or associate companies for periods beginning on or after 1st April 2016, with comparatives for the period ending 31st March 2016.

Phase - II:
Ind AS will be mandatorily applicable to the following companies along with their holding, subsidiary, joint venture or associate companies for periods beginning on or after 1st April 2017, with comparatives for the period ending 31st March 2017

i) For listed company having net worth of less than Rs. 500 crore.
ii) For unlisted company having net worth of Rs. 250 crore or more but less than Rs. 500 crores.

Once a company starts following the Ind AS mandatorily on the basis of criteria specified for Ind AS, it will be required to follow the Ind AS for all the subsequent financial statements even if any of the criteria specified do not subsequently apply to it.

c) Non Applicability
Companies whose securities are listed or in the process of listing on SME exchanges shall not be required to apply Ind AS. Such companies shall continue to comply with the existing Accounting Standards unless they choose to follow Ind AS.

2. Whether Ind AS is applicable to standalone / consolidated financial statements?
The Ind AS is applicable to both standalone and consolidated financial statements. An overseas subsidiary, associate, joint venture and other similar entity of an Indian company may prepare its standalone financial statements in accordance with the requirements of the specific jurisdiction. However, the Indian parent will have to mandatorily prepare its consolidated financial statements in accordance with the Ind AS if it meets the criteria specified for Ind AS.

An Indian company which is a subsidiary, associate, joint venture and other similar entity of a foreign company should prepare its financial statements in accordance with Ind AS. Companies preparing consolidated financial statements for the accounting period beginning on or after 1st April 2016 will be required to apply the Ind AS effective for financial year ending on 31st March 2017.

3. What is the timeframe for implementing the Ind AS in banks?
The Scheduled Commercial (excluding RRBs) shall comply with the Indian Accounting Standards (Ind AS) for financial statements for accounting periods beginning from 1st April 2018 onwards, with comparative figures for the preceding accounting period ending 31st March 2018.

4. Whether Ind AS is applicable to the Payment Bank and Small Finance Bank?
The Payment Bank and Small Finance Bank has to follow the banking sector road map as prescribed by RBI i.e., with effect from 1st April 2018. In case the holding company has Payment Banks or Small Finance Banks as its subsidiaries, the holding company is covered by the corporate sector roadmap for implementation of Ind AS

and the Payment bank or Small finance bank as its subsidiary shall follow the banking sector roadmap prescribed by RBI.

5. What is the difference between the Ind AS and IFRS?
India has chosen a path of International Financial Reporting Standards (IFRS) convergence rather than adoption. Hence, Ind AS are primarily based on the IFRS issued by the International Accounting Standards Board (IASB). However, there are certain carve-outs from the IFRS.

a) Under IFRS, EPS is not required in separate financial statements if both consolidated and separate financial statements are presented. Under Ind AS, the disclosure of EPS is required in both consolidated as well as separate financial statements.

b) Under Ind AS, where any item of income and expense, which is otherwise required to be recognized in profit or loss, is debited or credited to the securities premium account or other reserves, the amount in respect thereof shall be deducted from profit or loss from continuing operations for the purpose of calculating EPS. There is no such provision in IFRS.

c) Law overrides accounting standard - In case of conflict between Ind AS and the law, the provisions of law will prevail and financial statements are to be prepared in compliance with the law.

6. What are the benefits available by implementing the Ind AS?
a) Increased transparency: The new standards lay more stringent norms for detailed disclosures, which will help enhance the transparency and governance standards.

b) Facilitate comparability: Ind AS will present a more comparable picture of the peer set, as it addresses various areas where the current IGAAPs do not offer any specific guidance, and hence, corporates follow different policies, which makes their financials incomparable.

c) More appropriate representation: Ind AS, based on the principles of substance over form and fair valuation will present a more contemporary picture of the state of affairs as against IGAAPs, which are based on the principle of conservatism.

d) Appealing to foreign investors: While Ind AS is not the same as IFRS but much closer to international standards that investors are familiar with and have confidence in and in turn, should improve the appeal of Indian companies to foreign investors.

7. What are the challenges in implementing the Ind AS?
a) Extensive disclosures: These are required to explain the transition to the shareholders for every change in estimate, accounting policy, reclassification or

recognition/de-recognition of assets and liabilities. However, companies will have to decide how much to disclose so as to meet the regulatory requirements while maintaining a competitive edge

b) Regulatory capital: For companies operating in a regulated environment (for example insurance companies, banks, etc.) where the Ind AS financial statements will be the basis for regulatory reporting and hence conversion to Ind AS might have an impact on regulatory capital. This might require additional capital and where regulated subsidiaries are involved, restrict distribution to the parent.

c) Valuations: Due to financial rejig under Ind AS, the financials will undergo a tangible shift, impacting revenue, EBITDA, earnings and net worth. Hence, the parameters on which companies are being valued have to be revised.

d) First time adoption: First time adoption of Ind AS is an opportunity for all entities to align their accounting policies to best practices, it also offers room for cleaning up of books, the interpretation of which is a challenge for investors.

e) Management estimates: Accounting in Ind AS is based on management estimates. It would be challenging in initial periods to maintain accuracy and consistency in estimates.

f) Fair value: Use of fair value approach will bring in a lot of volatility in accounting. Since this concept is new there is lack of knowledge and technical expertise to determine fair value.

8. Briefly explain the First-time transition process of Ind AS?

An entity moving from IGAAP to Ind AS needs to apply the requirements of Ind AS 101 (First time adoption of Indian Accounting Standard). It applies to an entity's first Ind AS financial statements and the interim reports presented under Ind AS 34, 'Interim financial reporting', which are part of that period. The basic requirement is for full retrospective application of all Ind AS, effective at the reporting date.

Comparative information is prepared and presented on the basis of Ind AS. Almost all adjustments arising from the first-time application of Ind AS are adjusted against opening retained earnings of the first period. Disclosures of certain reconciliations from IGAAP to Ind AS are required.

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