Ind AS Convergence with IFRS:

- **By CA Niketa Agarwal**
- niketa@sjaykishan.com
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- ***+91 98362 97062***

Ind AS–Indian Accounting Standards converged with International Financial Reporting Standards (IFRS) has now become a reality. Soon after the revised roadmap for implementing Ind AS was announced in January, 2015, the MCA through notification dated 16th February, 2015 issued the Companies (Indian Accounting Standards) Rules, 2015 (Rules) which lays down a roadmap for companies other than insurance companies, banking companies and non-banking finance companies (NBFC) for implementation of Ind AS converged with IFRS. The Rules will come into force from the date of its publication in the Official Gazette.

Applicability:

- **Voluntary Phase**: Early adoption permitted from 1 April 2015.
- **Mandatory Phase I :** applicable from 1 April 2016 onward to:
    - Listed or unlisted companies whose net worth is >= INR 500 crores
    - Holding, subsidiaries, joint ventures or associates of these companies
- **Mandatory Phase 2** : applicable from 1 April 2017 onward to:
    - Listed companies whose net worth is < INR 500 crores
    - Unlisted companies whose net worth is >= INR 250 crores but < INR 500 crores
    - Holding, subsidiaries, joint ventures or associates of these companies

Other Significant Clarifications:

- All the companies applying Ind AS are required to present comparative information according to Ind AS for one year. This requires companies to start applying Ind AS from the beginning of the previous period.
- The Ind AS would apply to stand-alone and consolidated financial statements (CFS).
- 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.
- The net worth for implementation of Ind AS should be calculated based on the stand-alone financial statements of the company as on 31st March, 2014 or the first audited financial statements for accounting period ending subsequently.
- Net worth is to be calculated as defined u/s 2(57) of the Companies Act, 2013. It is the aggregate value of the paid-up share capital and all reserves created out of the profits and securities premium account, after deducting the aggregate value of the accumulated losses, deferred expenditure and miscellaneous expenditure not written off, as per the audited

balance sheet, but does not include reserves created out of revaluation of assets, write-back of depreciation and amalgamation.

- Once a company applies Ind AS voluntarily, it will be required to follow the Ind AS for all the subsequent financial statements. Thus, no roll back is permitted.
- Companies not covered under the road map can either apply Ind As voluntarily or continue to apply existing accounting standards i.e., accounting standards prescribed in the Companies (Accounting Standards) Rules, 2006 prescribed under the Companies Act, 1956.
- Words and expressions used in the Rules but not defined in the Rules would have the same meaning as assigned in the Companies Act, 2013.

Key Carve Outs in Ind AS

India has chosen the path of IFRS convergence and not adoption. Accordingly, certain differences have remained between the IFRS as issued by the IASB and our Ind AS - carve outs. Some of these carve outs diminish comparability of Ind AS with the globally accepted IFRS. However, to overcome this, companies must carefully evaluate the Ind AS transition provisions and accounting policy elections so that their Ind AS financial statements can be brought closer to the IFRS, if not made the same. In this regard, some significant carve outs to be considered are:

Particulars	**Ind As**	**IFRS**
The Effects of Changes in Foreign Exchange Rates	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.
Accounting policies of joint ventures and associates	Option not to align the accounting policy of associates and joint ventures with that of the parent, if impracticable.	Requires alignment of accounting policies.
Foreign currency convertible bonds (FCCB): treatment of conversion option	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.
Business Combinations	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.	IFRS 3 requires bargain purchase gain arising on business combination to be recognized in profit or loss.
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.
. Classification of loan with covenant breaches	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.

Employee benefits – discount rate	Mandatory use of government securities yields for determining actuarial liabilities (except for foreign components)	Requires use of corporate bond rates as default

First time Adoption of Ind AS

As in IFRS, Ind AS also has a specific standard to facilitate smooth transition–Ind AS 101, *First Time Adoption of Indian Accounting Standards*. This is applied during the preparation of a company's first Ind-AS compliant financial statements. Generally, Ind AS policies would have been required to be applied retrospectively, which would have resulted in significant cost and efforts outweighing the benefits. Accordingly, Ind AS 101 provides relief by way of certain optional exemptions and mandatory exceptions from applying Ind AS retrospectively.

Ind AS 101 requires companies to do the following:

- Consider existing notified Indian accounting standards as previous GAAP when they transition to Ind AS. Accordingly, Indian GAAP will be considered previous GAAP and the starting point for the transition to Ind AS.
- Identify the first Ind AS financial statements.
- Prepare an opening balance sheet at the date of transition to Ind AS, which is the earliest comparative period presented in the first Ind AS financial statements.
- Select accounting policies that comply with Ind AS and apply those retrospectively to all of the periods presented in the first Ind AS financial statements.
- Consider whether to apply any of the optional exemptions from the retrospective application of Ind AS.
- Apply the mandatory exceptions from retrospective application; and
- Make extensive disclosures to explain the transition to Ind AS. The company will have to provide the reconciliation of equity and income.

Mandatory exceptions

Ind AS 101 prohibits retrospective application of Ind AS 101 in some areas, particularly where this would require judgements by management about past conditions after the outcome of a particular transaction is already known. The mandatory exception in the standard covers the following situation:

- **Estimates:** The estimates made under previous GAAP (Indian GAAP) should not be changed by using subsequent information at the Ind AS transition date, i.e. not to use any hindsight. These estimates should be changed only if there is an error, or the estimates were not required under Indian GAAP but are now required under Ind AS.
- **Hedge accounting:** With respect to hedge accounting, companies will need to consider whether an existing hedging relationship under Indian GAAP will also qualify as a hedging relationship under Ind AS 109. If it does not, then any existing hedge accounting under Indian GAAP will need to be discontinued upon transition to Ind AS. Also, the use of hindsight to retrospectively designate derivatives and qualifying instruments as hedges is not permitted.

- **Derecognition of financial instruments:** The non-derivative financial assets and liabilities that were previously derecognised under Indian GAAP before the date of transition will continue to remain derecognised. Derecognition provisions will apply prospectively.
- **Classification and measurement of financial assets:** The classification and measurement of financial assets will be made considering whether the conditions of Ind AS 109 are met based on facts and circumstances existing at the date of Ind AS transition.
- **Government loans**: Requirement of Ind AS 20, *Accounting for Government Grants and Disclosure of Government Assistance* and Ind AS 109 are applied prospectively. May be applied retrospectively, if information was obtained at the time of initial recognition.
- **Impairment of financial assets**: Finally, impairment requirements of Ind AS 109 will be required to be applied retrospectively.

Optional exemptions

In addition to mandatory exceptions, Ind AS 101 grants limited voluntary exemptions from the general requirement of full retrospective application of the standards in force at the end of an entity's first Ind AS reporting period. Some these exemptions are:

- **Business combination:** This allows companies not to restate business combinations which occurred prior to the transition date or before an earlier selected date. Accordingly, a company may continue with its current business combination accounting under Indian GAAP (with some adjustments to goodwill or capital reserve).
- **Property, plant and equipment, investment properties and intangible assets:** Ind AS 101 provides an option to use Indian GAAP carrying values at the date of transition for all its property, plant and equipment, investment properties and intangible assets. The carrying amount for these assets on the date of transition becomes their deemed cost. The fact and accounting policy shall be disclosed by the entity until such time that those items of property, plant and equipment, investment properties or intangible assets, as the case may be, are significantly depreciated, impaired or derecognised from the entity's balance sheet. Companies may also decide to fair value these assets at the transition date.
- **Long-term foreign currency monetary items:** Under IFRS, exchange differences arising on the settlement or on the translation of monetary items shall be recognised in profit or loss in the period in which they arise. Ind AS 101 provides an option to continue the policy adopted for accounting for exchange differences arising from the translation of long-term foreign currency monetary items recognised 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.
- **Service concession arrangement: Toll roads:** Ind AS 101 provides optional relief from retrospective application for the policy adopted for the amortisation of intangible assets arising from service concession arrangements related to toll roads recognised 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.
- **Non-current assets held for sale and discontinued operations:** While applying Ind AS 105 Non-Current Assets Held for Sale and Discontinued Operations, a first-time adopter can measure such assets or operations at the lower of carrying value and fair value less cost to sell at the date of transition and recognise the difference directly in retained earnings.

Ind AS Conversion Process:

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.

Any Ind-AS conversion project should commence with some form of impact assessment, diagnostic activity or scoping exercise. This will allow the management and the board of directors to visualize the extent and complexity of the conversion and allow them to make better decisions about how to plan, structure and resource the project and determine the next steps. The major outcomes that management should expect from this phase include:

- The determination, at a high level, of the accounting policy and financial reporting differences between Ind-AS and the company's current accounting policies, including any industry specific issues
- The identification of the main business effects expected from the adoption of Ind-AS
- An assessment, at a high level, of the likely impact on IT systems and identification of the modifications necessary to facilitate the collection of the information required to satisfy all Ind-AS disclosure requirements
- The identification of the nature of potential tax-related effects of conversion
- The identification of any hurdles to conversion presented by the existing finance organizational structure • A high-level road map for future phases of the conversion
- The identification of the potential interdependence between the Ind-AS conversion project and the current or planned organization-wide initiatives (for e.g., new accounting system implementations such as ERP and finance transformation)
- An assessment of whether the company has adequate resources to complete a conversion.

Call for Action

An Ind AS conversion project cannot be a distraction from the primary activities of your business. It must be integrated, coordinated, and aligned. It should start soon with some preliminary questions and a carefully drawn roadmap.

The challenge of Ind AS conversion projects will usually be very significant, as the differences between Indian GAAP and Ind AS are many. With many stakeholders involved, and given the combination of marketing, financial reporting, human resources, IT, process, controls, tax and risk management issues, change needs to be managed.

Although converting to Ind AS will present challenges, we believe it will be worth the effort. Capital markets do not function effectively without a solid foundation of trust and confidence. Comparable, transparent, and reliable financial reporting provides a fundamental pillar of trust that enables global markets to function more effectively, and facilitating international investments.

Successful Ind AS implementation will require a thorough strategic assessment, a robust step-by-step plan, alignment of resources and training, effective project management as well as smooth integration of the various changes into normal business operations. The Ind AS implementation exercise needs to establish sustainable processes so as to continue to produce meaningful information long after the exercise is completed.

At the end, it is important that all changes brought by Ind AS adoption are embedded into the company's processes and systems. The goal should be to embrace the transformation and achieve a stage of 'Business as Usual' for the company.