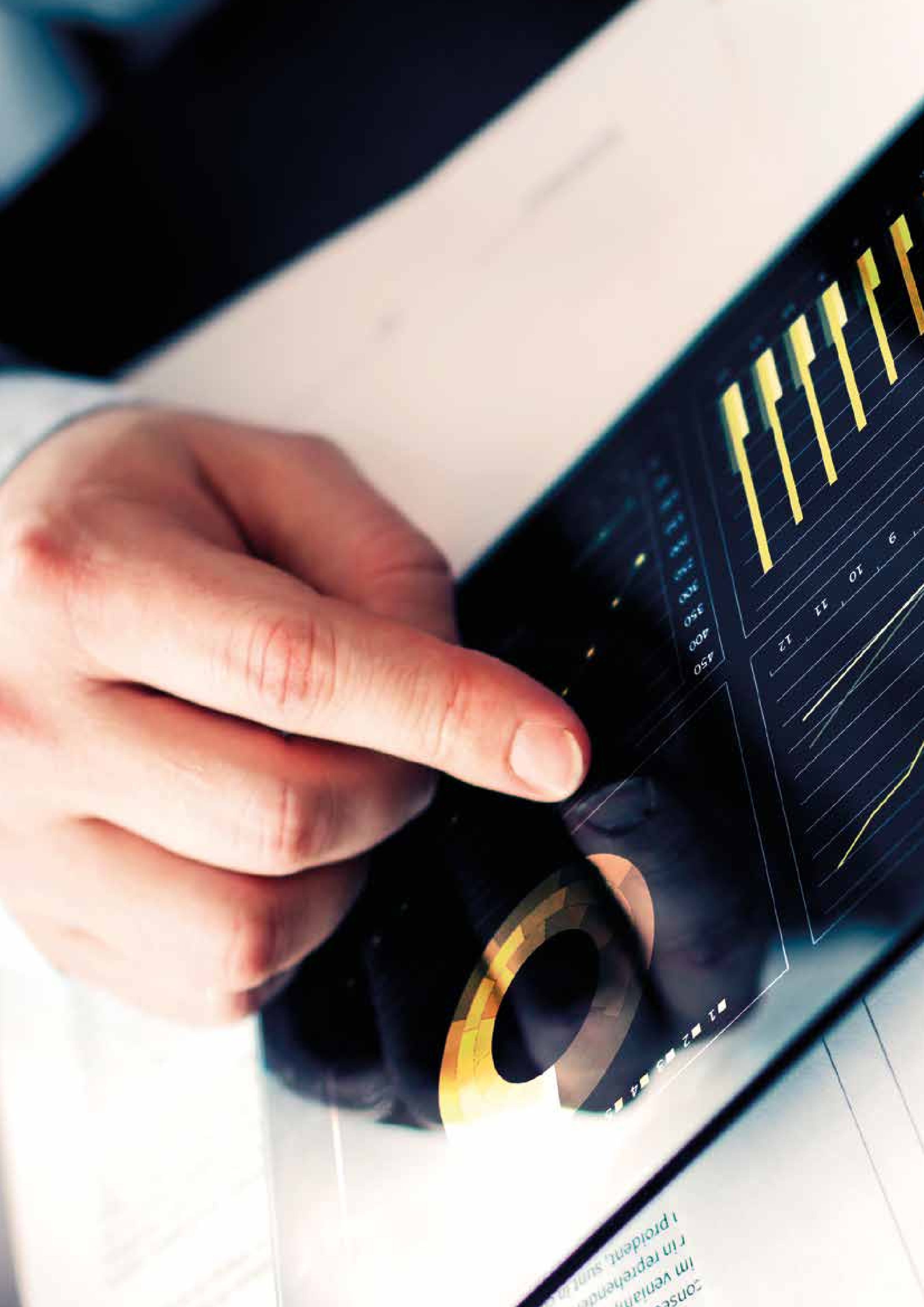
IND AS SURVEY

Issues and challenges in implementation

October 2016

ASSOCHAM INDIA

MAZARS



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FOREWORD

Bharat Dhawan
Partner
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With the process of globalisation, it was imperative to harmonise the accounting practices with those practiced globally, leading to the convergence with International Financial Reporting Standard (IFRS) in India as well.

Though the process of issuing new generation of accounting principles i.e. Indian Accounting Standards (Ind AS), as converged with IFRS was kick started way back in the year 2011 by the Ministry of Corporate Affairs (MCA); however, due to various constraints, these standards could not be implemented.

MCA finally in February 2015 had notified the much awaited road map on Ind AS with easier phases to be complied by the specified class of companies, except for Banks, All India Term Lending Refinancing Institutions (AIFIs), Non-Banking Financial Companies (NBFCs) and Insurance Companies. Gradually, the roadmaps for Banks, AIFIs, NBFCs and Insurance Companies are also issued by the respective regulators.

Though the implementation of Ind AS is sure to have some challenges; however, in the long run, this would pave the path not only for a similar financial reporting structure globally but would also bring more acceptability amid stakeholders worldwide.

Ind AS are relatively more prescriptive and elaborate with respect to numerous areas in comparison with the existing Indian accounting practices; therefore, the adoption of Ind AS has so far and would likely to further have a momentous bearing on the financial statements (FS) of Indian companies. On the obvious note, the quantum of impact varies and would continue to vary across various industries and not only encompasses the impact on financial reporting but also on the organisational structure and operations of a company.

This report gathers and summarises the survey results and intends to analyze the key implications of Ind AS implementation. While phase I companies are already in the process of Ind AS implementation, this report would specifically help Phase II companies and other companies which are yet to implement Ind AS (e.g. banking companies).

We really want to thank all our participants who took time to complete this survey.

We further believe that this publication would help you gauge the pulse of the industry with respect to Ind AS implementation and guide you wherever needed.

D S Rawat
Secretary General
ASSOCHAM

Indian economy has evolved through several phases - from the initial industrialisation and the license raj to liberalisation and the current phase of global competitiveness. The rapid growth of international trade of Indian companies and Internationalisation of Indian firms has created the need of global harmonisation of accounting standards.

In reorganisation of the facts, MCA, Government of India has notified the roadmap for Ind AS to be implemented by the companies. Ind AS principles are closely based on the international accounting system which will increase comparability of Indian companies with their international counterpart.

The new standards aim to increase transparency and provide a clearer picture of companies' activities. Ind AS recognises substance over legal form and importance of fair value in the preparation of FS. This implies that economic substance of transactions and events must be recorded in the FS rather than just their legal form in order to present a true & fair view of affairs of the entity. The new principles would also lead to more transactions flushed through P&L rather than capitalising.

Implementation of Ind AS have a wide- ranging impact on the company's possesses, system, control, income taxes and contractual agreement. To provide a holistic view of new Ind AS, **ASSOCHAM** has come out with a knowledge paper jointly with **Mazars-India** on **Ind AS.**

I wish to acknowledge the contribution made by the expert research team of Mazars-India for their untiring efforts in preparing an extensive in- depth comprehensive report.

I am sure this report will provide a rich insight and adequate knowledge to all the stakeholders.

1. CONVERGENCE WITH IFRS IN INDIA

Harmonisation of accounting practices globally has become a need now, leading to convergence with IFRS, as issued by the International Accounting Standards Board (IASB).India has chosen to move towards 'convergence' with IFRS rather than 'adoption' of IFRS as such.

Literally, the term "convergence" means attaining consistency between two objects. In the context of "convergence with IFRS", the concept means harmonisation of Indian standards with IFRS and bringing down the differences between the two sets of standards to the minimum possible extent. This process is governed and affected by several factors, including the economic environment of the country adopting this practice. Adoption is not possible in India due to various reasons in the current Indian scenario. However, India is prepared for the convergence and the strategy for the same has already been laid down. Ind AS adoption will bring India quite at par with other countries.

At present, there are numerous concepts and theories under Indian Generally Accepted Accounting Principles (GAAP) which differ from that of IFRS. Convergence with IFRS (i.e. adoption of Ind AS) will significantly bring down these disparities.

The strategy of convergence with IFRS in India was laid down way back in the year 2011 by the MCA, however, could not be implemented as decided. The roadmap was finally issued in February 2015 for corporates, barring Banks, AIFIs, NBFCs and Insurance companies.

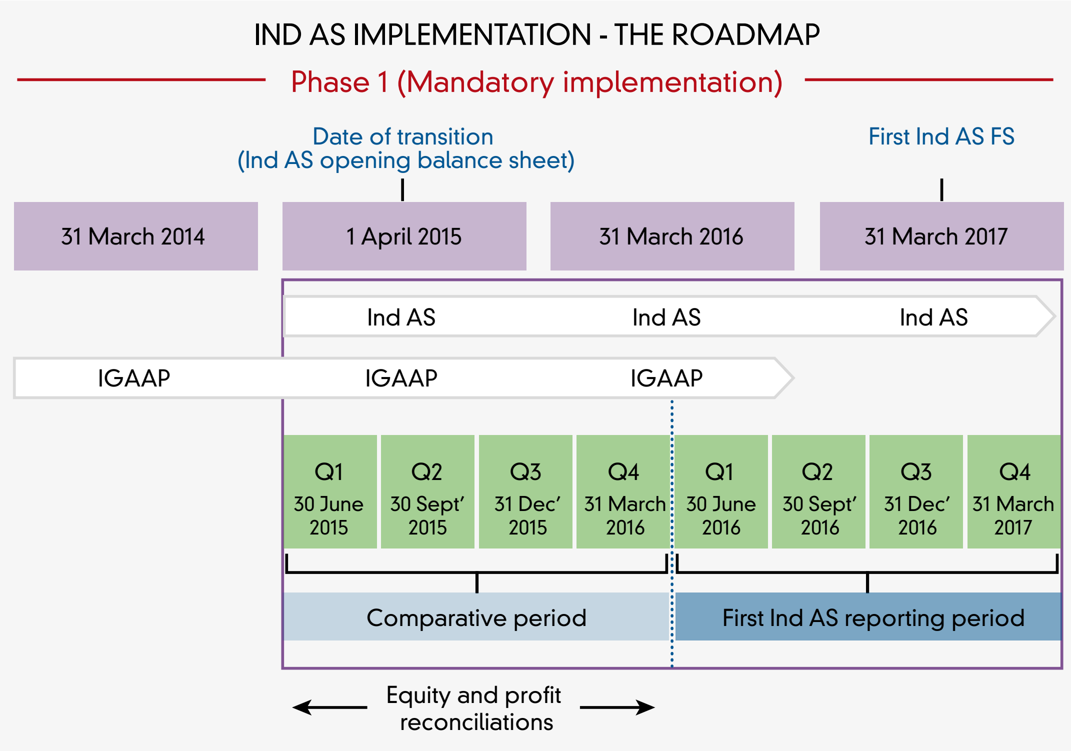
IND AS ROADMAPS

Roadmap for Corporates issued by MCA

MCA vide its notification dated 16 February 2015 had notified the much simplified roadmap on Ind AS in an easier phased manner to be complied by the specified class of companies.

Applicability thresholds

Types of companies	Net worth Rs. 500 crores or more	Net worth less than Rs. 500 crores
Companies whose equity or debt securities are listed or are in the process of being listed in India or outside India (including holding, subsidiary, joint venture (JV) or associate companies of such companies).	**First reporting period** Accounting periods beginning on or after 1 April 2016.	**First reporting period** Accounting periods beginning on or after 1 April 2017.
	Comparative information Opening balance sheet as on or after 1 April 2015 and Financial Year (FY) ending on or after 31 March 2016.	**Comparative information** Opening balance sheet as on or after 1 April 2016 and FY ending on or after 31 March 2017.
Companies whose equity or debt securities are not listed on any stock exchange in India or outside India (including holding, subsidiary, JV or associate companies of such companies).	**First reporting period** Accounting periods beginning on or after 1 April 2016.	**First reporting period** Accounting periods beginning on or after 1 April 2017. (In this case the net worth has to be Rs 250 crores or more)
	Comparative information Opening balance sheet as on or after 1 April 2015 and FY ending on or after 31 March 2016.	**Comparative information** Opening balance sheet as on or after 1 April 2016 and FY ending on or after 31 March 2017.



Other aspects w.r.t. applicability of Ind AS

- Ind AS shall apply to both stand-alone financial statements (SFS) and consolidated financial statements (CFS), in case these are applicable to a company.
- The companies falling within the specified criteria of applicability for the first time at the end of an accounting year shall apply Ind AS from the immediate next accounting year.
- The companies falling within the specified criteria of applicability shall prepare their first set of FS as per Ind AS effective at the end of its first Ind AS reporting period.
- Once the Ind AS are applied either voluntarily or mandatorily, it shall be irrevocable (even if any of the criteria specified above does not subsequently apply to it).
- The companies required to prepare the FS as per Ind AS shall not be required to prepare another set of FS in accordance with the existing Accounting Standards (AS) under the Companies (Accounting Standards) Rules, 2006 (AS Rules, 2006).

Meaning of net-worth

- The term "net worth" shall have the meaning as defined under the Companies Act, 2013.
- It shall be calculated in accordance with the SFS of the company as on 31 March 2014.
- For companies, not existing on 31 March 2014 or existing; however, falling under the specified thresholds after 31 March 2014, the net worth shall be calculated on the basis of the first audited FS ending after that date.

Now separate roadmaps have also been issued for Banks, AIFI's, NBFCs, Insurance companies by their respective regulators which are as follows:

Roadmap for Schedule Commercial Banks (SCB) issued by Reserve Bank of India (RBI)

Effective date of implementation: 1 April 2018 with comparatives for F.Y.2017-18.

Criteria for affiliates: Notwithstanding the MCA roadmap, the affiliates of SCB (excluding Regional Rural Banks) would prepare Ind AS FS for accounting periods beginning from 1 April 2018 onwards.

Early adoption: Early adoption is not permitted.

Applicability to SFS & CFS: Ind AS will become applicable to both SFS and CFS.

Roadmap for AIFIs issued by RBI

Effective date of implementation: 1 April 2018 with comparatives for F.Y.2017-18.

Criteria for affiliates: No specific criteria is mentioned.

Early adoption: Early adoption is not permitted.

Applicability to SFS and CFS: Ind AS will become applicable to both SFS and CFS.

Roadmap for NBFCs issued by RBI

Effective date of implementation

2018-19 (comparatives for 2017-18)	Listed (Net worth 500 crores or more)	Unlisted (Net worth 500 crores or more)
2019-20 (comparatives for 2018-19)	Listed (Net worth less than 500 crores)	Unlisted (Net worth 250 crores or more but less than 500 crores)

Criteria for affiliates: When an NBFC gets covered under NBFC roadmap, its affiliates, other than those companies already covered under the MCA roadmap would also prepare Ind AS FS from that year.

Early adoption: Early adoption is not permitted. However, NBFCs are allowed to provide Ind AS compliant FS data for preparation of CFS by its parent/investor.

Applicability to SFS and CFS: Ind AS will become applicable to both SFS and CFS with two specific conditions in case of CFS i.e.:

1. Where an NBFC is a parent (preparing CFS as per AS Rules, 2006) and its affiliates are covered under MCA roadmap- the affiliates have to provide non-Ind AS FS data for CFS until the NBFC is covered under RBI roadmap;
2. Where parent is covered under MCA roadmap and has NBFC affiliates- the affiliates have to provide Ind AS FS data for CFS until the NBFC affiliates are covered under RBI roadmap.

Roadmap for insurance companies issued by Insurance Regulatory and Development Authority of India (IRDAI)

Effective date of implementation: 1 April 2018 with comparatives for F.Y.2017-18.

Criteria for affiliates: No specific criteria is mentioned.

Early adoption: Early adoption is not permitted. However, Insurance companies are allowed to provide Ind AS compliant FS data for preparation of CFS by its parent/ investor.

Applicability to SFS and CFS: Ind AS will become applicable to both SFS and CFS.

2. ABOUT THE SURVEY

THE SURVEY WAS CONDUCTED OVER A PERIOD OF FOUR WEEKS AND OUR SURVEY ASSEMBLED RESPONSES FROM THE RESPONDENTS ACROSS INDUSTRY SECTORS AND DIFFERENT SIZES OF COMPANIES.

In the midst of this acute transformation process, while the companies falling within the phase I of the roadmap are already in the process of implementing the Ind AS, to gauge the pulse of these companies as well the companies which are yet to implement Ind AS about their views on the implementation, readiness to implement Ind AS, key paybacks, constraints, Mazars India in association with ASSOCHAM conducted an "**Ind AS Survey**".

The survey was conducted over a period of four weeks and our survey assembled responses from respondents across industry sectors and different sizes of companies.

This report summarises these responses in a meaningful manner along with our view on these.

3. EXECUTIVE SUMMARY OF THE SURVEY

86% CONFIRMED THAT PHASE-WISE IMPLEMENTATION OF IND AS PROVIDED ENOUGH TIME TO COMPANIES FOR SMOOTH TRANSITION

We received overwhelming responses to the survey. While the succeeding paragraphs would provide detailed analysis of the responses received on each of the questions; from a macro angle, the survey revealed the following:

- A massive 86% of the respondents confirmed that the phase-wise implementation of Ind AS has provided enough time to companies for a smooth transition.
- A majority (51%) believes that MCA would be able to pace up with further amendments to IFRS from time to time in the future.
- 46% out of the total population trust that adequate carve-outs are provided under Ind AS to suit the Indian environment.
- A whopping 74% of the respondents feel that different roadmaps for corporate, banks and NBFCs etc with different timelines is a fair strategy of MCA.
- More than 50% of the respondents strongly believe that they are getting adequate support and there is coordination among all the departments of their company for an effective implementation of Ind AS.
- A fairly large no. of respondents (48%) are indecisive whether phase II companies would be ready for Ind AS transition.
- Among the respondents with a definitive opinion, around 35% of the respondents believe that they would be able to explain the impact of Ind AS convergence to their stakeholders.
- A staggering 77% of the respondents agree that the move to Ind AS may significantly enhance the quality of and transparency in financial reporting by Indian companies.
- As per 44% of the respondents, revenue will be the area where the corporates would see potential impact on the adoption of Ind AS. The next majority of 26% feel net worth is the key impact area, while 19% respondents have voted for net profit and balance 11% for taxes.
- Almost 50% of the respondents agreed that financial instruments would get affected the most due to Ind AS convergence process.

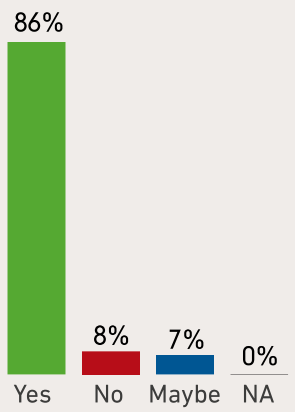
4. CONCLUDING REMARKS

Overall, the survey results show that the company's readiness for Ind AS implementation is no less than intended. While Ind AS adoption is a 'mandate', still there is an enthusiasm amongst the corporates for choosing the new accounting norm as they have accepted the reality now.

They seem to be clear as to what are the opportunities and threats with respect to speaking a common accounting language. We also welcome a common initiative of MCA, Institute of Chartered Accountants of India (ICAI) and other regulators and endeavor to assist the companies in their common mission of smooth Ind AS implementation.

5. SURVEY RESULTS

QUESTION 1



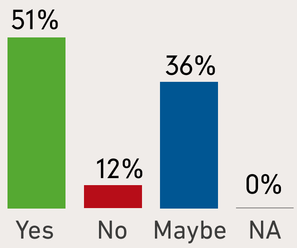
Do you believe that the phase-wise implementation of Ind AS has provided enough time to companies for a smooth transition?

We began the survey by asking the respondents whether they feel the phase-wise implementation of Ind AS has provided enough time to companies for smooth transition. A massive 86% of the respondents confirmed the same. Rest of the respondents were almost equally divided in their views. While 8% of the respondents believed that more time is required by companies for implementation of Ind AS; 7% were unsure.

Mazars' view:

The concept of Ind AS doesn't remain new now, as the idea of convergence with IFRS in India had emerged way back. Talks around the same are on even for more than a decade now. In the year 2007, the ICAI had issued a detailed concept paper on convergence with IFRS in India, stating its need and strategy. MCA had also laid down the strategies/ revised strategies for phase-wise implementation of Ind AS in India from time to time. Therefore, we truly believe that enough time has been provided to companies for preparing themselves for a smooth transition.

QUESTION 2



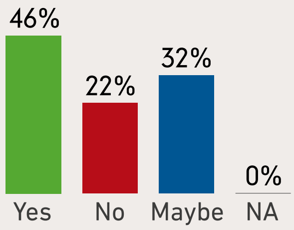
According to you, would MCA be able to pace up with further amendments to IFRS from time to time in future?

Amongst the respondents with experience in this regard, a majority (51%) believes that MCA would be able to pace up with further amendments to IFRS from time to time in future. The second largest majority (36%) could not confirm their positive views. A very few respondents (12%) believe that MCA would not be able to pace up with the same and there would be time lag between the amendments issued by IASB and MCA.

Mazars' view:

As we all know, India has chosen the path of convergence rather than adoption. Hence, it would be imperative for MCA to pace up with amendments to IFRS from time to time in the future. As we continue to witness, the Accounting Standards Board (ASB) of the ICAI issues/amends AS and MCA incorporates them for companies suitably on a timely basis. Similarly, we may safely presume that MCA would be able to do the same with IASB also and pace up with further amendments to IFRS in a timely manner.

QUESTION 3



Do you believe that adequate carve-outs are provided under Ind AS to suit the Indian environment?

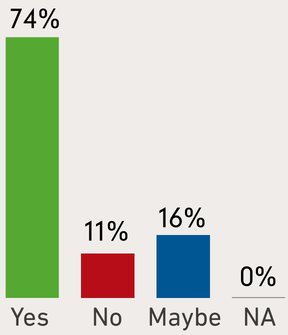
Out of the total population, 46% of the respondents trust that adequate carve-outs are provided under Ind AS to suit Indian environment. Although 32% are unsure and 22% of the respondents feel that carve outs may not be adequate enough for implementation of the new standards.

Mazars' view:

We believe carve-outs are essential and are designed to suit country specific requirements to make the standards suitable to the legal, regulatory and economic environment of that country. Having said so, too many carve-outs might defeat the very basic purpose of convergence with IFRS.

Although Ind AS has come a long way and is quite close to IFRS; however, there are certain differences which still remain. In our views, the present carve-outs are adequate enough and do not entail a need to add more to the list.

QUESTION 4



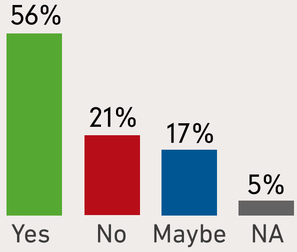
Do you believe that issuing different roadmaps for corporates, banks and NBFCs etc. with different timelines is a fair strategy of MCA?

In this completely one sided result in the survey, a whopping 74% of the respondents feel that different roadmaps for corporate, banks and NBFCs etc. with different timelines is a fair strategy of MCA. 11% of the respondents feel that it would have been better if standardized roadmaps with same timelines were issued. 16% of the respondents are unsure whether the same is a fair strategy or not.

Mazars' view:

As per our view, it is definitely a fair strategy of MCA and other regulators to issue different roadmaps for corporates, banks, NBFCs, insurance companies and AIFIs with different timelines. This is so because we believe that it would be comparatively easy to follow step-wise approach to adopt new accounting norms by the corporates especially by those which are bound by more than one regulations. This would also provide them enough time to watch the predecessor before the transition and enable them ensuring compatibility with the applicable regulations as well.

QUESTION 5



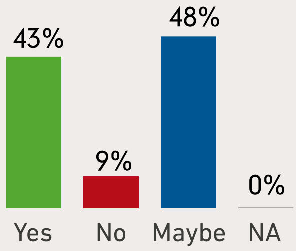
As per your view, is your company getting adequate support from all the departments during the transition period?

When we asked the respondents whether they are getting adequate support and if there is coordination among all the departments of their company for an effective implementation of Ind AS, more than 50% of the respondents were affirmative. However, 21% believed that all the departments of their company are not in sync, a few 17% expressed their inability to opine with conformity on the same.

Mazars' view:

Ind AS adoption not only affects accounting framework but also has impact on company's budgeting, internal control system, Information Technology (IT) systems, reporting process, incentive plans, remuneration etc. The experience from global peers proves that for any company, Ind AS transition is a success only when a company carefully plans their transition strategy, involving all the departments at each stage of the implementation. Therefore, it is essential to have synchronization and coordination among all the departments of a company, failing which there would be inconsistent and ineffective conversion.

QUESTION 6

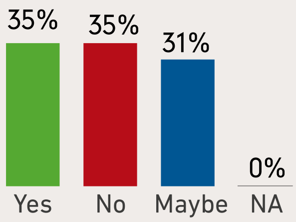


As per your view, would phase II companies be ready for Ind AS transition on time?

A fairly large no. of respondents (48%) are indecisive whether phase II companies would be ready for Ind AS transition. 9% believe that phase II companies need more time for the Ind AS transition. However, 43% of the respondents were positive on the question.

Mazars' view:

With all the back and forth movements, MCA had finally notified the phase-wise implementation of Ind AS in February 2015. The strategy and standards had been issued well in advance giving sufficient time for transition. Implementation by Phase I companies is already going on. Though there were initial hiccups; however, phase I companies are on track now and have accepted the implementation. With this experience, we believe that just like phase I companies, phase II companies would be able to pace up with the implementation timelines.



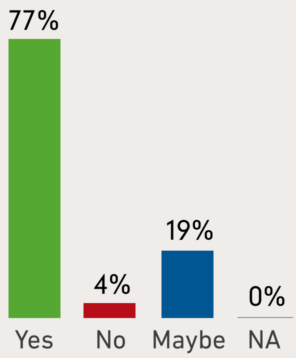
QUESTION 7

Do you think that it is easy to explain the stakeholders about the impacts of Ind AS convergence on the key financial measures?

The respondents were asked if they find it difficult to explain the impact of Ind AS convergence to its stakeholders. Among the respondents with a definitive opinion, the survey results show the number of respondents are almost equally divided with 35% each out of the total. 31% of the respondents replied without a definitive opinion.

Mazars' view:

Adopting Ind AS will bring along several changes and it is important to address the stakeholders about the same to help them better understand the FS. In our opinion, it would not be that easy for the companies to explain the impact of adopting Ind AS on key financial measures to its stakeholders. This is so because we have been accustomed in judging the traditional parameters to estimate the results. Ind AS will bring significant changes to these parameters. Though, the acceptance of these might take some time but we strongly believe that the movement towards the convergence has been in their best interest.



QUESTION 8

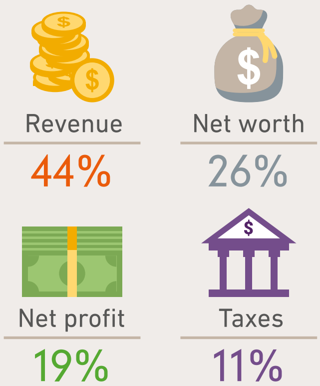
Do you believe Ind AS reporting would improve quality of financial reporting?

The move to Ind AS may significantly enhance the quality of and transparency in financial reporting by Indian companies that is what is believed by a staggering 77% of the respondents. 19% of the respondents also express some hope in this direction. A negligent (4%) population answered in negative.

Mazars' view:

The adoption of Ind AS offers various perceived benefits. We believe that Ind AS would obviously improve quality of financial reporting. The adoption of Ind AS puts India at the centre stage of high quality and transparent financial reporting. It will also enhance the international comparability of FS of Indian companies and make the Indian markets more attractive. It will definitely take India to the next level of acceptability and recognition.

QUESTION 9



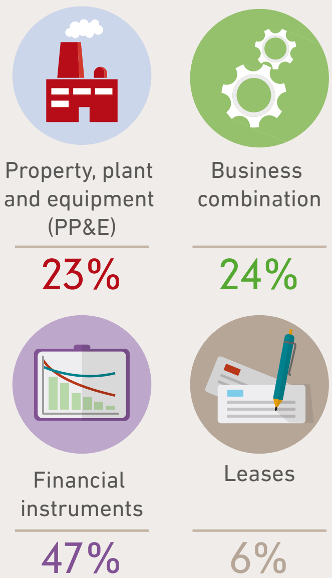
Which of the following is the key impact area for your company or companies at large?

We inquired about the respondents' thoughts on the areas which would be affected the most. As per 44% of the respondents, revenue will be the area where the corporates would see the maximum impact of Ind AS adoption. The next majority of 26% feel net worth is the key impact area, while 19% respondents have voted for net profit and balance 11% for taxes.

Mazars' view:

Ind AS adoption would largely influence almost all the tangents of a company, including these areas. However, which area can be termed as 'key impact area' for a company is dependent on certain factors. An area which is a key impact area for automotive sector might not be a key area for hospitality or retail or the manufacturing sector.

QUESTION 10



In your view, which of the following items would get affected most due to Ind AS convergence?

Lastly, after gathering the views of the respondents on the key areas, we wanted to know which particular line item, according to them, would be affected the most. Almost 50% of the respondents agreed that financial instruments would get affected the most due to Ind AS convergence process. Out of rest of the respondents, an almost equal split of views was observed on two items, PP&E and Business combination, aggregating around 24% each. A minority (5%) believed that leases would get affected the most.

Mazars' view:

Due to Ind AS convergence process, we believe no line item of the FS would remain unaffected; however, this impact would vary from company to company, depending upon the sector, nature of business and size of the operations. The choice of adopting available voluntary Ind AS exemptions to the companies would also add to these differences.

6. ANNEXURES

IND AS CONVERSION PROCESS

Under Ind AS conversion process, an entity is required to modify its financial reporting system from its current GAAP to Ind AS. On an obvious note, the differences between the two sets of principles may vary from one entity to another, basis nature, size and the current accounting policies chosen. Indian entities now falling within the transition can learn from the experiences of Indian companies or overseas entities who adopted IFRS in the past. The degree of the conversion project will not only depend upon the GAAP differences, but also, other important factors, including the quality and elasticity of the existing financial reporting systems, related to infrastructure, people, size and complexity of the organization.

Given the fact that phase I companies would be required to present comparatives for the year 2015-16, it is pertinent to note that certain European companies had consumed somewhere between 18 months to two years' time for conversion to IFRS from their local GAAP. Therefore, learning from their experiences, it is high time for these Indian entities to start building up the right set of processes for timely and efficient conversion. A correct start will help them to retain and hire the right set of people, reduce the burden on resources on the implementation date and increase trust of the stakeholders with correct and timely reporting.

Following are some of the broad steps required for a basic conversion process for an entity:

- Diagnostic review

The first and the most critical assessment is the identification of accounting and reporting differences and the related impact on the company's operations, technology systems and processes. It also requires drawing a detailed map for future gradual phases of the conversion.

A CORRECT START WILL HELP COMPANIES TO RETAIN AND HIRE THE RIGHT SET OF PEOPLE, REDUCE THE BURDEN ON RESOURCES ON THE IMPLEMENTATION DATE AND INCREASE TRUST OF THE STAKEHOLDERS WITH CORRECT AND TIMELY REPORTING.

- Preliminary evaluation

Basis the detailed exercise conducted by the management, this phase will provide the delta between the current process vis–à–vis future expectations and the current resources vis–à–vis the required ones.

- Design and action plan

This phase involves sketching up the entire conversion strategy into detailed process maps, setting up project infrastructure, project management function, and consequent strategic modifications. It also involves identification of various issues with respect to accounting and reporting, tax implications, system up-gradation, including re-designing needs for these matters. This entire process will build up the Ind AS core team, provide time-tables for detailed future actions and resolutions to expected problems and ways to counter them.

Implementation

Implementation involves rolling out detailed process maps for the company to have a trial run of the designed system to ensure their functionality well before the actual implementation schedule. This will help to ensure a smooth transition.

Review Assessment

The review phase evaluates the report card as to how various developed systems have actually resulted into the desired results and if there are any issues within the functional model. This not only involves thorough evaluation of the end results but also needs provision of on-going training to the company's personnel regarding the latest Ind AS developments so as to ensure correct and updated financial reporting.

FOCUS AREAS

Following are some of the key factors that one needs to consider, while planning activities around the conversion process.

Financial reporting factors

Accounting Practices

Needless to say, accounting practice is the most affected area due to this conversion process. Therefore, it is imperative that the differences resulting from these changes are identified timely and corresponding new accounting policies and practices are developed.

Tax implications

There would be significant tax implications on adoption of Ind AS, given the current tax structure in India.

Group policies

Due to the geography of the group and its members, it is obvious to have differences in accounting policies. Therefore, to ensure bridging the gap between the inconsistencies to make the group fully compliant with Ind AS would be a significant matter.

Industry peers

The accounting practices adopted by the industry peers will have a significant bearing on any company, while choosing its own set of accounting policies.

Management strategies

The conversion would momentously impact the way management strategies are being formed and how the decision making and financial communication model works. All level of management personnel, including Board of Directors, Audit Committee and other Key Managerial Personnel would need to significantly change their thought process around the same.

Non-financial reporting factors

Company personnel

Due to the conversion process, the company needs to create a project team and work streams, set timescales and accountabilities to meet the desired implementation deadline.

Training needs

The company needs to develop and execute training programmes for employees, including key financial personnel across functions and locations to meet their conversion needs.

IT system

IT systems will need to be suitably modified to meet the revised needs to transition from the current financial reporting systems and the desired reports. The company needs to evaluate if the systems are to be modified internally or to take external help.

Human resources system

This conversion process will impact other systems like human resources system. Therefore, suitable modifications are required to be carried out to these accordingly.

Treasury and finance function

With revised ratios and other statistics arising from a revised financial reporting system, the treasury or finance department is most likely to be impacted, having the responsibility for managing sources of financing of the entity. Therefore, pursuant to these changes, existing contracts may be subject to reconsideration and discussions with financial lenders.

Stakeholder expectations

With the introduction of a new reporting system, it is of utmost importance for the company to ensure stakeholders' expectations are managed in a satisfactory and timely manner.

Concluding remarks

Though the conversion process and its effective implementation is a tough and ongoing job, yet it could turn into a worthwhile effort and provide results. Comparable and reliable financial information provides a strong path enabling global markets to operate effectively and pave the way for international investments and business.

So, considering this goal at the macro level, it will give a boost to everyone to gear up to the pace of the globally changing and challenging environment. It is not yet too late, so start today to plan for the holistic move and implementation within the available short timeframe.

KEY FINANCIAL IMPACT AREAS

Following are the areas which will have a significant impact on the FS:

Revenue

As against AS 9 "Revenue Recognition" under existing practices, Ind AS 18 "Revenue" and Ind AS 11 "Construction Contracts" provide detailed guidance on revenue recognition by which most of the entities will be affected.

Some of the key impact areas are as follows:

- Gross vs net presentation (eg. excise duty);
- Service concession arrangements;
- Recognition of revenue (nominal amount vs fair value);
- Multiple element arrangement and linked transactions;
- Extended warranties on certain items;
- Customer loyalty programmes.

Operating segments

UNDER IND AS, ENTITIES ARE REQUIRED TO DISCLOSE INFORMATION TO ENABLE EVALUATION FOR USERS OF THE FS.

Under Ind AS 108, "Operating Segments", there is a wider disclosure requirements as compared to the existing AS 17, "Segment Reporting". Under Ind AS, the entities are required to disclose the information that will enable the users of the FS to evaluate the nature and financial effects of the business activities and the economic environment through the eyes of management. However, on the other hand under existing practices, there is a requirement to disclose the segmental information only on the basis of business and geography as primary and secondary segment.

Tax

UNDER EXISTING PRACTICES, A COMPANY COULD USE INTRINSIC VALUE METHOD OR THE FAIR VALUE METHOD

Unlike the current practice (income approach under AS 22, "Accounting for taxes on Income"), Ind AS 12, "Income Taxes" uses balance sheet approach i.e. the use of the asset and liability method to measure the deferred tax liability or asset as per which assets will be realised and liabilities will be settled at their carrying amounts. Under this approach if the carrying amount of the assets and liabilities is different from their tax bases, then in that case deferred taxes will be recorded on the basis of temporary differences as against the timing differences under existing practices. This approach might result in creation of deferred taxes on a few more items. Further on some of the items, additional deferred tax might also get created.

Further, with the adoption of Ind AS 12, deferred tax asset can be recognised with respect to carry forward of unused tax losses to the extent that it is probable that there will be future taxable profit against which the unused tax losses can be utilised. This seems to be a lower threshold as compared to the virtual certainty supported by convincing evidence presently required to recognise deferred tax assets under existing practices. Once a company starts following Ind AS, this could also lead to reporting of higher deferred tax assets.

Furthermore, as per existing practices, there is a line-by-line consolidation of the tax expense of the parent and its subsidiaries. Hence, tax adjustment on consolidation is not allowed. However, Ind AS 12 requires recording deferred taxes on elimination of unrealised intercompany profits. This would have significant impact on deferred tax reporting.

Leases (embedded leases)

Ind AS 17, "Leases" provides two criteria, which if met, will indicate the existence of lease:

- The arrangement is dependent on the use of specific asset or assets;
- The arrangement conveys the right to use the asset.

IND AS HAS LED MORE EMPHASIS ON SUBSTANCE RATHER THAN LEGAL FORM.

This Ind AS has led more emphasis on substance rather than legal form i.e. those arrangements which may not be legally termed as leases but in substance there is a right to use the underlying assets will be accounted as leases.

Such accounting may have significant business impact for both, lessor and lessee and requires significant judgment, time and efforts.

Share based Payments

THIS STANDARD ALSO REQUIRES EXTENSIVE DISCLOSURES.

Ind AS 102, Share based Payments is likely to have a major impact on many organisations. There is no equivalent standard under existing practices. ICAI had issued a guidance note which dealt with employee share based payments only. Ind AS 102 provides comprehensive guidance for accounting for all types of share-based arrangements to employees and others. Under existing practices, a company could use intrinsic value method or the fair value method. However, as per Ind AS only fair value method can be used. Accounting and valuation for share based awards at fair value can at times become difficult due to the use of complex models for calculating the fair value of the underlying awards. Moreover, this standard also requires extensive disclosures.

Accounting for share-based arrangements can become challenging for complex plans, especially in case of modification or cancellation of existing arrangements. This also requires the need to closely evaluate the provisions of group share-based arrangements by the preparers as per the new accounting norms.

Business combination

UNDER IND AS 103, ALL ASSETS AND LIABILITIES WOULD BE RECOGNIZED AT FAIR VALUES.

Under existing practice, there is no comprehensive standard for business combinations. There are different standards to deal with it i.e. AS 14 for amalgamation, AS 21, 23 and 27 for consolidation and AS-10 for asset acquisition. Depending on the legal form or structure of the acquisition, accounting results could vary significantly.

To do away with the diversity in practice under existing practices, now Ind AS 103 will become applicable to all the business combinations.

Going forward, it will not matter whether the acquisition is of a legal entity or a group of net assets. As long as what the investor entity is acquiring meets the definition of a business, the acquisition method will be used consistently. Also, the ‘pooling of interest’ method will not be permitted under Ind AS (except in limited circumstances of common control transactions).

Under Ind AS 103, all assets and liabilities, including contingent liabilities and intangible assets, would be recognised at fair values.

The difference between the fair value of purchase consideration and fair value of net assets acquired will be recognised as goodwill or capital reserve, as applicable.

Because of fair valuation, goodwill is expected to be generally lower under Ind AS as compared to existing practices largely on account of recognition of intangible assets. Ind AS 103 prohibits amortisation of goodwill and requires it to be tested for impairment annually.

Under Ind AS, transaction costs related to business acquisitions will be charged to profit or loss, whereas under existing practices, these are generally capitalised as part of investment, resulting in higher goodwill or lower capital reserve. Ind AS 103 would affect all the stages of the acquisition process, from planning to the presentation of the results.

Consolidation

THE BASIC PRINCIPLE IS THAT A CONSOLIDATED ENTITY PRESENTS A PARENT AND ITS SUBSIDIARIES AS IF THEY ARE A SINGLE ECONOMIC ENTITY.

Ind AS 110, “CFS” has introduced a new definition of control and the requirements which defines the circumstances in which the entity is required to prepare CFS as per which control exists and consolidation is required only if the investor possesses power over the investee, has exposure to variable returns from its involvement with the investee, and has the ability to use its power over the investee to affect its returns. The concept of control is now much wider now as compared to existing practices.

The basic principle is that a consolidated entity presents a parent and its subsidiaries as if they are a single economic entity.

The impact of consolidation would vary from entity to entity. It might result in consolidation of those entities which were not previously consolidated as per existing practices and also result in deconsolidation of some. The basic agenda is to make the practices uniform. The implementation of standard requires management to exercise significant judgment to determine which entities are controlled and need to be consolidated.

Joint arrangements

THE CLASSIFICATION BETWEEN JOINT ARRANGEMENT AND JVS DEPENDS UPON THE RIGHTS AND OBLIGATIONS OF THE PARTIES INVOLVED.

Under Ind AS 111, "Joint Arrangements" a joint arrangement is an arrangement of two or more parties having joint control i.e. the contractual agreement of sharing of controls over the activities of the arrangement which exists only when unanimous consent of parties sharing control is made while taking decisions about relevant activities.

Joint arrangements can be joint operations or JVs. The classification depends upon the rights and obligations of the parties involved. A joint operation is a joint arrangement whereby the parties have rights to the assets, and obligations for the liabilities, relating to the arrangement. On the other hand, a JV is a joint arrangement whereby the parties have exposure to arrangement which extends to the net assets of the arrangement.

Under Ind AS, the application of the equity method to associates/JVs is mandatory with certain exceptions, even if an entity does not have any subsidiary whereas existing practices requires proportionate consolidation to account for associates/JVs. This move from proportionate consolidation to the equity method of accounting could impact many companies. This will effectively change the gross totals of reported assets and liabilities, revenue and expenses, including other performance measures, though it may not change the reported net assets and net results.

Financial instruments

WITH THE ADOPTION OF IND AS, THE ACCOUNTING FOR FINANCIAL INSTRUMENTS WILL UNDERGO A COMPREHENSIVE CHANGE.

Currently, there is no comprehensive guidance on accounting for financial instruments. Ind AS contains comprehensive standards that deal with financial instruments and has introduced concepts that are relatively new in India. Three standards deal with financial instruments under Ind AS where Ind AS 32 and 109 deals with classification, recognition and measurement aspects and Ind AS 107 deals with disclosure requirement. The basic purpose of these standards is to establish the requirements to cover all the aspects of accounting for financial instruments. IFRS 9 (corresponding to Ind AS 109) will be globally effective in 2018 but India has decided to be the first to adopt Ind AS 109.

With the adoption of Ind AS, the accounting for financial instruments will undergo a comprehensive change. These changes can impact organisations in the area of key performance indicators, risk management, budgeting and planning, product portfolio and reporting and regulatory compliance.

7. GLOSSARY

AIFIs	All India term lending refinancing Institutions
AS	Accounting Standard
ASB	Accounting Standards Board
AS Rules, 2006	The Companies (Accounting Standards) Rules, 2006
CFS	Consolidated Financial Statements
FS	Financial Statements
FY	Financial Year
GAAP	Generally Accepted Accounting Principles
IASB	International Accounting Standards Board
ICAI	Institute of Chartered Accountants of India
IFRS	International Financial Reporting Standard
Ind AS	Indian Accounting Standards
IRDAI	Insurance Regulatory and Development Authority of India
IT	Information Technology
JV	Joint Ventures
MCA	Ministry of Corporate Affairs
NBFCs	Non-Banking Financial Companies
PP&E	Property, Plant and Equipment
RBI	Reserve Bank of India
SCB	Scheduled Commercial Banks
SFS	Stand-alone Financial Statements

ABOUT MAZARS

Mazars is an international, integrated and independent organisation specializing in audit, consulting, accounting and tax services. Directly present in 77 countries, Mazars unites the skills of 17,000 professionals. Through correspondent and the offices of representation agreements, Mazars also serves clients in 21 additional countries, with teams of professionals who are at the forefront of technical and ethical standards.

In India, Mazars has an ambitious growth plan. We have a national presence with offices located in Bengaluru, Gurgaon, Mumbai, New Delhi and Pune, as well as arrangements to serve our clients in all major cities in India. We serve an impressive portfolio of clients in various sectors like automotive, BFSI, energy, manufacturing, real estate, retail, technology and telecom. Mazars in India, with over 700 highly skilled professionals, ensures quality for its clients in each engagement. Working in close-cooperation as a globally integrated and flexible team, our global partnership allows our clients to receive and maintain continuing support and benefit from our connection with our offices around the world. Our approach consists of using international best practices whilst taking into consideration the applicable national standards and operational realities, as well as the requirements described by the client.

ABOUT ASSOCHAM

THE KNOWLEDGE ARCHITECT OF CORPORATE INDIA

The Associated Chambers of Commerce and Industry of India (ASSOCHAM), India's premier apex chamber covers a membership of over 4 lakh companies and professionals across the country. ASSOCHAM is one of the oldest Chambers of Commerce which started in 1920. ASSOCHAM is known as the "knowledge chamber" for its ability to gather and disseminate knowledge. Its vision is to empower industry with knowledge so that they become strong and powerful global competitors with world class management, technology and quality standards.

ASSOCHAM is also a "pillar of democracy" as it reflects diverse views and sometimes opposing ideas in industry group. This important facet puts us ahead of countries like China and will strengthen our foundations of a democratic debate and better solution for the future. ASSOCHAM is also the "voice of industry" – it reflects the "pain" of industry as well as its "success" to the government. The chamber is a "change agent" that helps to create the environment for positive and constructive policy changes and solutions by the government for the progress of India.

As an apex industry body, ASSOCHAM represents the interests of industry and trade, interfaces with Government on policy issues and interacts with counterpart international organizations to promote bilateral economic issues. ASSOCHAM is represented on all national and local bodies and is, thus, able to pro-actively convey industry viewpoints, as also communicate and debate issues relating to public-private partnerships for economic development.

The road is long. It has many hills and valleys – yet the vision before us of a new resurgent India is strong and powerful. The light of knowledge and banishment of ignorance and poverty beckons us calling each member of the chamber to serve the nation and make a difference.

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