

Implementation of Accounting Standards & IND AS –

“Subjectivity overtaking Objectivity”



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Introduction

- Accounting and financial reporting do not have the precision and accuracy of scientific analysis
- “True and correct view” –based on accuracy of facts; no divergence as there can only be one correct view
- “True and fair view” – judgment and experience based; possibility of forming different opinions considering all facts and circumstances

Financial statements expected to give a faithful account of the economic performance and well-being of a firm

Journey of 'True and Fair' view



"TRUE & CORRECT VIEW"
requirement-
Joint Stock
Companies
Act, 1856



Shift to
"TRUE & FAIR VIEW"
Companies
Act 1948

Seeds of
subjectivity sown
with the
requirement of
True & Fair view



"TRUE & CORRECT VIEW"
requirement in
Companies Act
1913

Shift to **"TRUE & FAIR VIEW"**
Companies Act
1956

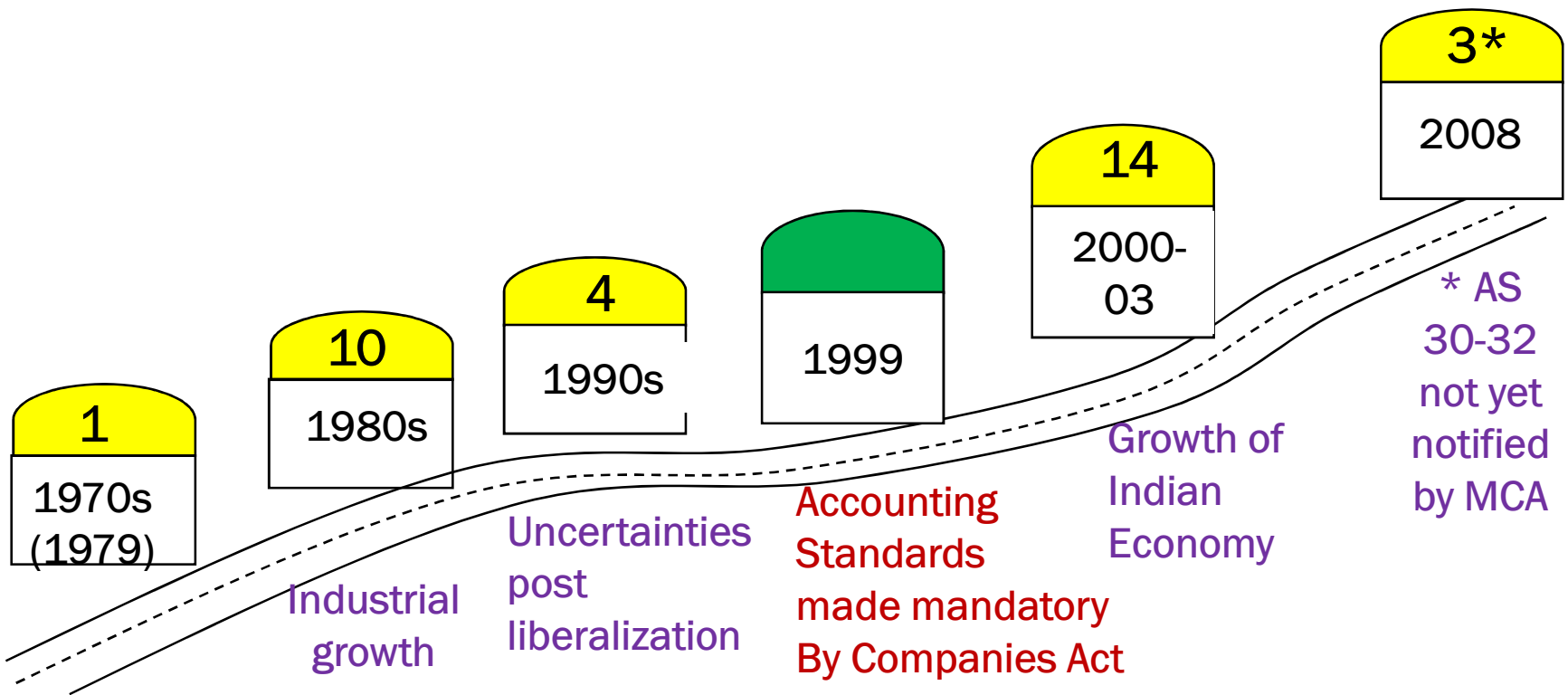
India - pre globalization (pre 1991 era)

- Tightly regulated business environments
- Traditional business models
- Transactions predominantly in Indian currency
- Simpler reporting requirements
- Moderate liberalization in 1980s

India - effect of globalization (post 1991 era)

- Significant international mobility of technologies, people, businesses & funds
- Significant growth in services sector (IT, Banking, Insurance, Construction, etc) & international trade
- Increased exposure to foreign exchange volatility
- Complex financial products like derivatives, FCCBs, etc
- Complex structured transactions like bundled contracts, business combinations, leases, embedded lease elements
- International practices like employee compensation through ESOPs

Journey of Accounting Standards in India



Significant estimates and judgments

Revenue recognition

- Estimate of returns, POC method

Employee benefits

- Estimates of bonus, assumptions for retirement benefit plans, etc

Depreciation/Amortization

- Useful lives estimate of tangible & intangible assets

Provision for doubtful debts

- Estimates of recovery

Impairment of assets

- Estimates of risk adjusted cash flow & discount rates

Significant estimates and judgments (contd.)

Provisions and contingent liabilities

- Probability and estimate of outflow

Leases

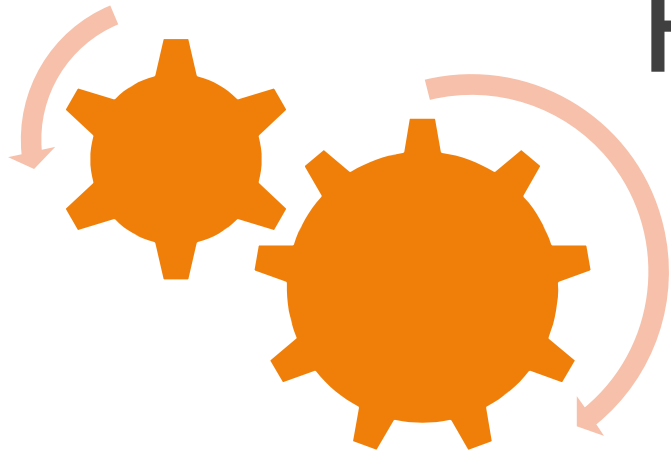
- Classification of lease, ultimate lease tenor

Government grant

- Reasonable assurance that the enterprise will comply with the conditions attached to them

Deferred tax

- Reversal of temporary difference and virtual certainty (DTA)



Harmonization with IFRS – ‘Ind-AS regime’

Additional items under Ind-AS

Revenue recognition

- Combining of contracts, separation of multiple elements

Property, plant and equipment

- Componentization

Additional items of Fair value measurements / disclosures

- Unquoted investments classified as Available-For-Sale
- Embedded derivatives – separation and measurement
- Fair Value disclosures for Investment Property and Financial Instruments

Discounting

- Rates used for discounting of assets/liabilities (eg., extended credit terms, lower or zero interest rate instruments)

Leases

- Separating lease element from arrangements not in the legal form of lease (eg., take or pay arrangements)

Additional items under Ind-AS (contd.)

Business Combinations

- Assessment as 'business' or 'asset' acquisition
- Recognition and measurement of all identifiable assets & liabilities acquired including intangible assets and contingent liabilities
- Measurement of contingent consideration at fair value

Consolidation

- Ambiguity in application of definitions like 'de-facto control', 'joint control', 'significant influence'

Segment reporting

- Management approach in segment information

Dilemma of Subjectivity

Growth projections & unobservable inputs

Validity of past
experience



Management
intentions

Interpretation &
Classification issues

Market Volatility

Resolving the subjectivity dilemma

- Assumptions based on professional judgments & adequate backup for assumptions/estimates
- Use of analysis, comparisons and reconciliations
- Adequate disclosure of key assumptions & effect of sensitivity to changes



Thank you

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