IND-AS : Departure from AS (IGAAP)

Program for Young Members

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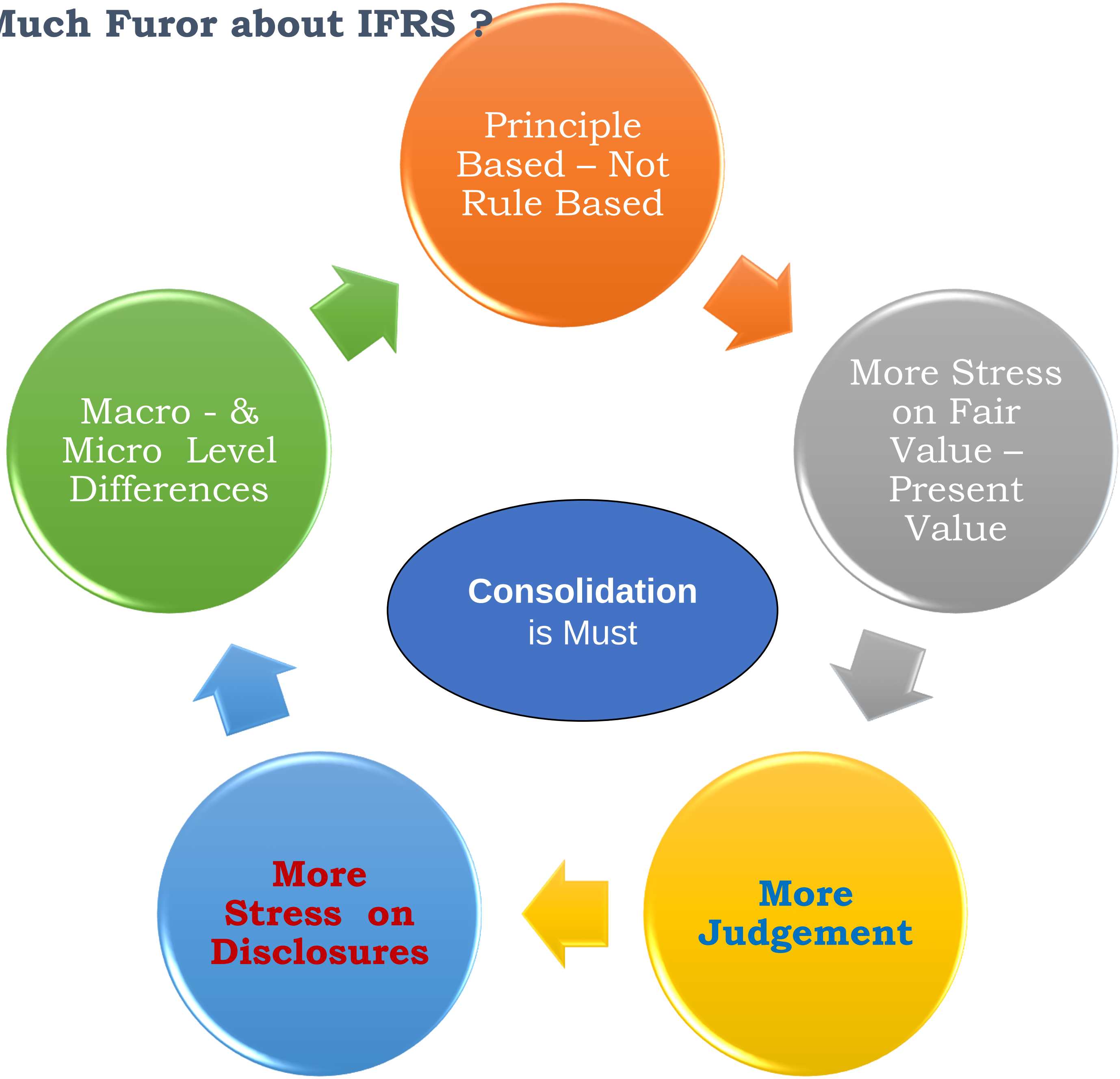
IFRS

- IFRS Stands for : International Financial Reporting Standards.
- Indian version of IFRS, i.e., Indian Accounting Standards, are known as Ind-AS.
- At present IFRS are Issued by International Accounting Standard Board, popularly known as IASB.
- Previously IFRS were issued by International Accounting Standard Committee, popularly known as IASC.
- IASB is monitored by IASC Foundation, based in London.

Why So Much Furor about IFRS ?



Differences

- IFRS is Principal Based whereas Indian AS are Rule Based.
- More Focus is on Fair Value.
- Consolidation is a Must under IFRS.
- IFRS are based more on Judgments, Estimates & perception of the Management.
- Stress is more on Valuations – Fair Value – Revaluation.

Other Differences

- Historical cost is not relevant : It is no more relevant for measurement of Assets and Liabilities.
- Time Value of Money : Cash Flows to be discounted.
- Substance over Form : Contractual Substance is seen over Legal Form
- Focus is on the Balance Sheet rather than P & L A/c.

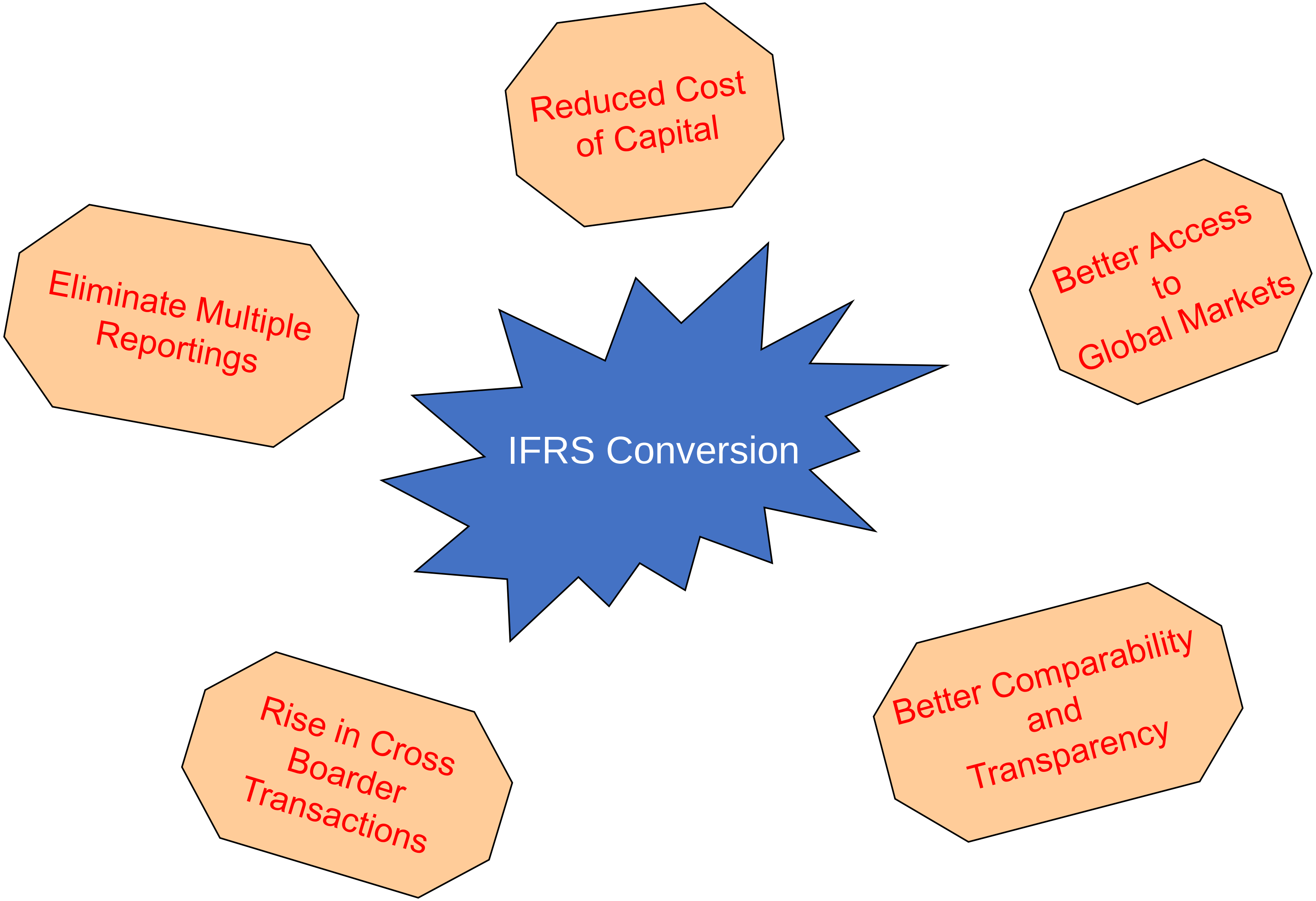
Is Ind AS good?

- ‘*I strongly believe that the introduction of Ind AS is a momentous step for India*’

- - Hans Hoogervorst, Chairman of International Accounting Standard Board (IASB).

- Grossly speaking IFRS – Carve Outs = Ind-AS

Why IFRS /Ind AS?



IFRS in India

- ICAI had issued concept paper with Approach and Roadmap for convergence with IFRS.
- ASB had recommended application of IFRS phase wise over 3 - 5 years starting from 1-4-16.
- Separate standards for SME have been formulated by IASB.
- MCA issued notification dated 16/02/2015.

Roadmap : Ind AS Adoption

Phase	Types of Companies	Net Worth	Applicable to Financial Year beginning on or after	Comparative for the period ending on or after
I	All Companies (whether listed or not)	Rs. 500 crore or more	1st April 2016	31st March , 2016
II	Other companies listed or in the process of listing on stock exchange in India or outside India	-	1st April 2017	31st March , 2017
II	Unlisted company	Rs. 250 crore or more	1st April 2017	31st March , 2017

Note : Also applicable to Holding, Subsidiary, Joint venture or Associate companies of companies covered above.

- A company may voluntarily apply Ind AS for accounting period beginning on or after 1st April 2015 with comparative for the period ending on 31st March 2015 or thereafter.

First-time Adoption of Ind AS :
Recognition and Measurement - Key Dates

1 Apr 2015	1 Apr 2016	31 Mar 2017
Opening Statement of Financial Position	**Date of Adoption**	**First IFRS reporting date**

Date of Adoption

- **Phase - I**
- Recognise and measure all items using IFRS

First IFRS reporting date

- Select policies
- Use standards in force at this date
- First IFRS financial statements

Use the same accounting policies for all periods presented in first IFRS FS (except where specific relief given)

Survey by Grant Thornton India LLP in 2016 : Readiness by Industries

Sr. No.	Question	Yes (%)	No (%)
1.	Does the company want to voluntarily adopt Ind AS?	36	64
2	Whether the company believes Ind AS will provide better access to capital market and investor community?	65	35
3	Do you believe the Ind AS will provide fairer view of financial position of the company?	59	41
4	Whether the company has made operational plan for transition to Ind AS?	22	78
5	Does the company has initiated impact assessment process?	15	85

Survey by Grant Thornton India LLP in 2016 : *Continued…..*

Sr. No.	Question	Ans- wer (%)
6	Which are the implementation challenges perceived by the companies :	
a.	Ind AS Implementation will take 6 – 12 months	61
b.	Cost of transition and compliance considered to be more than significant	84
c.	Not budgeted cost for Ind AS implementation in their annual budgets	86
d.	Level of staff knowledge is the biggest challenge in transition to Ind AS	52

Key accounting changes likely to have impact on Corporates:

Sr. No.	Key accounting changes	% believe
1.	Revenue – Multiple elements	48%
2.	Debt v equity	52%
3.	Fixed Assets – componentisation	58%
4.	Deferred taxes	57%
5.	Fair value disclosures	68%
6.	Consolidation	40%
7.	Financial Instruments at Fair value	60%
8.	Business Combination	49%

* Survey done by Grant Thorton India LLP in 2016

IFRS v Ind-AS

IFRS	Name of the Standard	Ind-AS
1	First time of adoption of IFRS	101
2	Share based payment	102
3	Business Combination	103
4	Insurance Contracts	104
5	Non-current assets held for sale and Discontinued Operations	105
6	Exploration and Evaluation of Mineral Resources	106
7	Financial Instruments : Disclosure	107
8	Operating Segments	108

IFRS v Ind-AS : *Continued….*

IFRS	Name of the Standard	Ind-AS
9	Financial Instruments	109
10	Consolidated Financial Statements	110
11	Joint Arrangements	111
12	Disclosure of Interest in other entities	112
13	Fair Value Measurement	113
14	Regulatory Deferral Accounts	114
15	Revenue from contracts with Customers	115

IAS v Ind-AS

IAS	Name of the Standard	Ind-AS
1	Presentation of Financial Statements	1
2	Inventories	2
8	Accounting Policies, Changes in Accounting Estimates and Errors	8
10	Events after the Reporting Period	10
12	Income Taxes	12
16	Property, Plant and Equipments	16
17	Leases	17
19	Employee Benefits	19
20	Accounting for Government Grants and Disclosure of Government Assistants	20

IAS v Ind-AS : *Continued ….*

IAS	Name of the Standard	Ind-AS
21	The Effects of Changes in Foreign Exchange Rates	21
23	Borrowing Costs	23
24	Related Party Disclosures	24
26	Accounting and Reporting of Retirement Benefit Plans	26
27	Consolidated and Separate Financial Statements	27
28	Investment in Associates and Joint Ventures	28
29	Financial Reporting in Hyper Inflationary Economy	29
32	Financial Instruments : Presentation	32
33	Earning per Shares	33

IAS v Ind-AS : *Continued ....*

IAS	Name of the Standard	Ind-AS
34	Interim Financial Reporting	34
36	Impairment of Assets	36
37	Provisions, Contingent Liabilities and Contingent Assets	37
38	Intangible Assets	38
40	Investment Property	40
41	Agriculture	41

Five Elements of FS

- **Assets**
- **Liabilities**
- **Equity**
- **Income and**
- **Expenses.**

Qualitative Characteristics

Fundamental qualitative characteristics of Fin.
Info. :

- Relevance, and
- Faithful Representation

It has replaced age old four characteristics :
Reliability, Relevance, Understandability and
Comparability.

Five Components of FS

1. **Balance Sheet**
2. **Profit or Loss**
3. **Changes in Equity**
4. **Notes to the Accounts and**
5. **Cash Flow.**

Four Cardinal Principles of Accounts

1. **Recognitions**
2. **Measurement**
3. **Presentation, and**
4. **Disclosure**

Above 1 & 2 are relevant for B/S and P/L.

2 & 3 relevant for Notes to Accounts.

Recognition

It is the process of incorporating items in the SOFP or Income Statement. The item is Recognized if :

a. **it is probable that any future economic benefit associated with the item will flow to or from the entity; and**

b. **the item has a cost or value that can be measured with reliability.**

Measurement

It is the process of determining the monetary amounts at which the items of the financial statements are to be recognized.

Presentation

- **Items presented in Balance Sheet, Profit or Loss and Cash Flows**.

Disclosure

- **Presentation of information other than in Balance Sheet, Profit or Loss and Cash Flows is called Disclosure.**
- **For examples Notes to the accounts.**

A complete set of Financial Statements comprise of :

1. A Statement of Financial Position as at the end of the year;
2. A Statement of Comprehensive Income for the period;
3. A Statement of Changes in Equity for the period;
4. A Statement of Cash Flows for the period;

Continued….

A complete set of FS comprise of : *Continued..*

5. Notes comprising of a summary of significant Accounting policies and other explanatory information;

6. A statement of financial position as at the beginning of the earliest comparative period has to be prepared when :

-- an entity applies an accounting policy retrospectively, OR

-- makes a retrospective re-statement of items in its financial statements, OR

-- when it re-classifies items in its financial statements.

Components of OCI

There are 6 components of OCI.

1. **Treatment for Revaluation surplus under IAS 16 or IAS 38.**

2. **Gains or losses arising on translation of the financial statement of a foreign operation under IAS 21;**

3 **Gains or losses on fair value re-measurement available for sale financial assets under IAS 39;**

Continued….

Components of OCI *Continued..*

4. Actuarial gain or loss on defined benefit pension plans under IAS 19 Employee Benefits;

5. The effective portion of gains and losses on hedging instruments in a cash flow hedge under IAS 39.

6. For particular liabilities designated as fair value through profit or loss, the amount of the change in fair value that is attributable to changes in the liability's credit risk (see paragraph 5.7.7 of IFRS 9).

Items of OCI – Net of Tax

- **An entity has to present items of other comprehensive income net of tax, either individually, or**

  collectively.

Rate of Depreciation

In place of ‘Rate of depreciation’, IFRS follows the concept of

‘Useful Life’
or
‘Depreciable Value’.

IFRS Framework

The IASB used to have a ‘Framework for the Preparation and Presentation of Financial Statements’.

Now it is re-named as “Conceptual Framework for Financial Reporting”.

Who is Boss?

- Since the Framework is not an IFRS, Standards supersede framework.
- In a limited number of cases there may be a conflict between the Framework and a requirement within a standard or an Interpretation.

In those cases, the requirements of the standard or Interpretation will prevail.

Fundamental Accounting Assumption

The Framework refers only one Fundamental Accounting Assumption and that is ‘Going Concern’.

According to AS of India : Going Concern, Accrual and Consistency.

How many IFRS?

- **As per IAS – 1, para 11, IFRS comprises of IFRS, IAS, IFRIC and SIC. It indicates that there are 71 Standards as of now for Large Entities which are :**

- **IFRS … (IASB)……………… 15**
- **IAS … (IASC)……………… 29**
- **IFRIC …(IASB)……………… 16**
- **SIC ……(IASC)…………… 10**

Total ………… 71

Meaning of standards

By re-arranging the names of few standards, we can have the better meaning of that standard.
For example :

- **Business Combinations = Combination of Businesses**
- **Investment Properties = Properties held as Investment**
- **Share based Payments = Shares used as a payment**
- **Agriculture????**

Classified Presentation

- **IAS 1 prescribes a classified Statement of Financial Position, i.e., classified presentation of assets and liabilities.**
- **Assets and liabilities are classified into current and non-current categories.**
- **As an exception it allows presentation of assets and liabilities in order of liquidity if that alternative makes a more reliable and relevant presentation.**

Functional Disclosure in P/L

- **Functional disclosure of items of expenses is permitted.**
- **IAS 1 provides two alternative illustrative structures of Income Statements. The first method is based on classification of expense by function and the second method is based on classification of expenses by nature.**
- **Classification of Expenses by Function (Revenue, Cost of Sales, Gross Profit, Other Income, Distribution Cost, Administrative Exps., Other Exps., Profit Before Tax).**
- **Classification of Expenses by Nature (Revenue, Other Income, Changes in Inventories, RM Consumption, Employee Benefits, Expenses, Depreciation, Other Expenses, Profit Before Tax).**

Substance Over Form

Everything in IFRS revolves around 'Substance over Form', and that is why it is called Principle based standard rather than Rule based. The concept of 'Substance over Form' is very well used in :

- **IFRIC – 12 : Service Concession Arrangements**
- **IFRIC – 13 – Customer Loyalty Program**
- **SIC – 12 : Special Purpose Entity (SPE)**
- **Convertible Instrument / Debt.**

Conceptual Differences

1. **Time value of Money, that is, discounting has been emphasized. For Example Amortized cost method using Effective Interest Rate (EIR).**

2. **Redeemable Preference Capital is not treated as Capital but as the liability.**

Conceptual Differences

3. **Future Economic Benefit (FEB) and Fair Value are the important concepts. IFRS 13 deals with ‘Fair Value Measurement’.**

4. **There are two components of ‘Statement of Total Comprehensive Income’ : Comprehensive Income, and**

   Other Comprehensive Income (OCI).

Conceptual Differences

5. Restatement is required

Prior period items (errors & omission in earlier years) must be restated.

Conceptual Differences

6. **Control –Legal control is ignored. What is seen is Substance Control, De-facto Control, e.g., Special Purpose Entities (SPEs).**
7. **Uniform Accounting Policies.**

   Parent and subsidiaries must have identical policies without an exception.

Conceptual Differences

8. **Constructive Obligation also needs to be examined.**

9. **Major Overhaul/Inspection Expenses have to be capitalized as component of PPE.**

10. Even Provisions are to be discounted.

Conceptual Differences

11. Business Combination (IFRS-3) : Only Purchase Method is permissible under IFRS. Pooling of Interest Method is abolished.

IFRS-3 is the only Standard which talks of CFS only. It deals with Fair Valuation in Business acquisition and Consolidation of Accounts.

Conceptual Differences

12. Extra ordinary item has no place in IFRS.

13. Compliance has to be made of all applicable standards. Explicit and Unreserved Compliance of all the standards is the mandate in IFRS.

Conceptual Differences

14. Concept of functional currency has been introduced.

15. Proposed dividend not to be treated as provision but as contingent liability.

16. Impairment is nothing but the commencement of Fair Value.

Conceptual Differences

17. **What is the difference between Separate FS (SFS), Individual FS (IFS), Consolidated FS (CFS) and Economic Entity FS (EEFS)?**

- **FS prepared by the Holding Co. is known as SFS.**
- **FS prepared by the Subsidiary Co. is known as IFS.**
- **Combination of SFS and IFS is known as CFS.**
- **Economic Entity FS (EEFS) is FS prepared by HO consolidating only Subsidiaries but not consolidating JVs and Associates.**

Notes to the Accounts

1. To be presented in a systematic manner.

2. Each item presented in FS should be cross referenced to Notes.

3. The recommended order of the Notes :

- **Statement of Compliance with IFRSs- E & U**
- **Significant Accounting Policies**
- **Supporting information**
- **Other Disclosures like Contingent Liabilities**
- **Non-financial disclosures like quantitative details**
- **Capacity Utilization, Risk Mgt. Policies, etc.**

Retrospective & Prospective

- **Change in Accounting policies : Retrospective application**
- **Correction of errors : Retrospective application**
- **Change in Accounting estimate : Prospective application, for eg.**

  Change in method of depreciation : Prospective Application

NEW IFRS

- **Till Dec, 2014 there were 13 IFRSs. 2 new IFRSs have been introduced. These are :**

- **IFRS 14 : Regulatory Deferral Accounts – Effective from 01/01/2016**
- **IFRS 15 : Revenue from Contracts with Customers – Effective from 01/01/2017**

Standards New to India

IFRS – 2 : Share Based Payments
IFRS – 3 : Business Combinations
IFRS – 4 : Insurance Contracts
IFRS – 6 : Exploration for and Evaluation of Mineral Resources
IFRS – 7 : Financial Instruments Disclosure
IAS – 19 : Employee Benefits
IAS – 32 : Financial Instruments – Presentation
IAS – 39 : Financial Instruments – Recognition
IAS – 40 : Investment Property
IAS – 41 : Agriculture

Three Separate Standards for One

It is worth noting that 'Financial Instruments' is the only standard which has three separate standards :

- **Disclosure (IFRS-7),**

- **Presentation (IAS-32), and**

- **Recognition (IAS-39).**

Micro Level Differences

1 Property Plant and Equipment

- **Principle based depreciation as against rule based - Concept of ‘Useful Life’ or ‘Depreciable Value’ is emphasized.**
- **Depreciating Significant Parts Separately – Componentization.**
- **Change in Useful life, residual amount.**
- **Change in Method of Depreciation is treated as Change in estimate and not as change in method of accounting.**
- **Revaluation Model as an option to Cost.**
- **De-commissioning Cost to be provided as part of Cost.**

Micro Level Differences

2 Business Combinations

- Only Acquisition Method/Purchase Method is permissible under IFRS as against Pooling of Interest Method.
- Acquisition in Stages.
- Gain from bargain Purchase – recognized in Income statement.
- Goodwill acquired in Business Combination not to be Amortized but to be tested for impairment.

Micro Level Differences

3 Presentation of FS

- Concept of Comprehensive Statements.
- Classification of Assets and Liabilities into – Current & Non Current.
- Statement of Changes in Equity.
- Reclassification Adjustments to be taken to Profit or Loss Account.
- Revenue – to be measured at Fair value.
- Split Accounting System for Identifiable Components.
- Interest to be recognized using Effective Interest Method.

Continued ….

Continued ….

- Financial Instruments – Initial Measurement to be at fair value.
- Financial Instruments – Subsequent Measurements depends on the Classification.
- Comprehensive Guidelines for Accounting for Hedge – Derivatives.
- Provisions are also to be Discounted.
- More Stress is on Consolidation.
- In case of Investment Property – Fair Value Model.
- Stress is upon ‘Future Economic Benefit’ (FEB) and ‘Fair Value’.

Two Sets of Accounts

- In the initial years the Companies will have to maintain two separate sets of Accounts :
  - One – in accordance with the existing Local GAAP for reporting standard and taxation purposes;
  - Second – as per prevailing standards of IFRS; and,
  - Reconciliation to local GAAP on a line-by-line basis for significant variances.

The Way Forward

It is generally expected that IFRS adoption worldwide will be beneficial to investors and other users of financial statements, by

- reducing the costs of comparing alternative investments, and
- increasing the quality of information.

Benefit to Companies

Companies are also expected to benefit :

a. Companies that have high levels of international activities

b. Companies that are involved in foreign activities

c. Investors will be more willing to provide financing

d. Due to the increased comparability of FS, funds will flow to it.

Conclusion

- New IFRSs are being constantly added by IASB.
- It leads to enhancing complexity of interpretation.
- The IASB has adopted ‘Annual Improvement projects’.
- One time study of IFRS is not enough, as IFRSs are constantly in evolution stages.
- IFRS requires professionals to prepare for accounting shift and prepare for global challenges.
- Vast field is open without competition and only few Indian professionals have so far equipped themselves to face the challenges.

We are on the verge of completion of 2020

We are facing 2021

There may be risks involved

We may face roadblocks

So stay alert

Share time with friends

Jump over obstacles

With care

And caution

Face challenges

Remember to laugh :-)))

Cooperate

Discover

Make new friends

Above all…be ready for adventure

Stick together

And you will be able to go far

Very far.....

Always take time to smell the flowers

Don't forget to relax and enjoy

And don’t forget those who likes u very much

WISH YOU ALL THE BEST

FOR THE YEAR 2021