Roadmap of Ind AS Implementation in India

In recent years, the use of International Financial Reporting Standards (IFRS) has gained tremendous acceptance with almost 140 countries as a common language for financial reporting. The Ministry of Corporate Affairs (MCA), Government of India, in consultation with the Institute of Chartered Accountants of India (ICAI), decided to implement the new set of accounting standards (Ind AS) from April 1, 2016. The new standards are comparable to IFRS with certain carve-outs.

This is a significant step which will make Indian corporate performance comparable internationally and bridge the gap in reporting standards that India follows currently. It will also permit international capital to flow more freely, enabling Indian companies to develop consistent global accounting practices.

The implementation of Ind AS will happen in phased manner starting first from April 1, 2016 with listed and unlisted companies with net-worth of over Rs. 500 crore along with their holding, subsidiary, associate and joint venture companies. Companies with net-worth of over Rs. 250 crore and up to Rs. 500 crore will be mandated to follow Ind AS from April 1, 2017 onwards. Net worth for implementation of Ind AS should be calculated based on the stand-alone financial statements of the company as on 31 March 2014.

However, there are few exemptions for implementation of Ind AS. For example, companies whose securities are listed or in the process of listing on the Small and Medium Enterprises (SME) exchanges will not be required to apply Ind AS and can continue to comply with the existing accounting standards. Similarly, for banks and other financial service companies, there are separate notifications and this timeline is not applicable.

There are about 1,000-odd companies, with net-worth of more than Rs. 500 crore and are required to adopt the IFRS compliant Ind AS from April 1, 2016. According to a recent PWC Ind AS Outlook Survey, more than half of corporate India is yet to plan or commence implementing changes at the organizational level and about one-third is yet to start or plan for the impact assessment of Ind AS adoption. In order to implement Ind AS successfully and smoothly it requires a thorough strategic assessment, a robust implementation plan, effective use of technology, alignment of resources and training. It will also require effective project management as well as smooth integration of various business processes and operations.

Again, PWC survey mentioned above suggests that Education and Training, changes to IT systems and Internal Control over financial reporting are the top three concerns with respect to Ind AS adoption.

Ind AS is a principles-based standard Higher importance to concept of 'Substance over Form', i.e., economic reality of a transaction. Also, there is maximum use of Fair Value Approach and measurements based on Time value of money. Ind AS requires higher degree of judgment, estimates and more disclosures of all the relevant information and assumptions used. Its adoption will have a significant impact on both, net worth and net income.

Revenue recognition, taxes and financial instruments are likely to be the most impacted areas under the new standards. Ind AS 115 on 'Revenue from Contracts with Customers' deals with many aspects including matters such as multiple element arrangement and linked transactions, gross versus net presentation, financing benefits, service concession arrangements for infra projects and extended warranties.

The impact of taxes can be substantial not only due to changes in the recognition rules for deferred taxes, but more importantly due to implications on Minimum Alternate Tax (MAT), which are based on accounting profits, and can be quite different under Ind AS. Recognition of unrealized gains on financial instruments, non-amortization of goodwill, recognition of actuarial losses on defined benefit obligations in other comprehensive income are some examples that might potentially increase the Ind AS reported accounting profits, and thereby the MAT liabilities.

Group structures of Indian companies are likely to include more entities, given the wider definition of control under Ind AS, making the evaluation of holding and subsidiary relationships more judgmental. There are many things like potential voting rights, terms of loans, guarantees given for financing business, control through agents, contractual arrangements etc. will determine whether a business will get consolidated.

Segment reporting is another important area of discussion. Ind AS 108 requires segmental information to be disclosed, based on how the chief operating decision-maker evaluates the financial information for the purposes of allocating resources, and assessing performance. This could require certain companies to change their segment disclosures, in line with their internal reporting.

To conclude, switch to reporting under Ind AS will result in high quality and transparent financial reporting and increased comparability of business results. However, it is expected to significantly impact the way companies negotiate terms and enter into contractual arrangements with different stakeholders like customers, vendors, strategic partners, lenders, investors etc.

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