Roadmap to Indian Accounting Standards

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Introduction

"There is an urgent need to converge current Indian Standards with International Accounting Standards," announced Finance Minister Arun Jaitley in the 2014 Budget speech acknowledging the immense underlying benefits. The International Financial Reporting Standards (IFRS) provides an unambiguous understanding of financial statements and offers a plethora of benefits to the economies. In order to keep pace with this global accounting revolution encompassing more than 140 countries, India too has largely converged with IFRS with only a few carve-outs, overcoming a range of challenges. The Indian Accounting Standards (Ind AS) converged with IFRS has put India at the Centre stage of high quality and transparent financial reporting whose benefits far outweigh the challenges.

The process of convergence in India has come a long way, with the Ministry of Corporate Affairs (MCA) announcing a firm roadmap for adoption of Ind AS converged with IFRS on 16th February 2015 and notifying 39 Ind AS. Later, on 30th March 2016, the MCA also issued the Companies (Indian Accounting Standards) (Amendment) Rules, 2016, replacing two Ind AS for the earlier notified Ind AS 115, Revenue from Contracts with Customers.

Scope and Coverage

The transition from Indian GAAP to Ind AS is a historic and a landmark change. In accordance with its commitment to G20, India is converging to IFRS in a phased manner starting from annual periods beginning on or after 1st April 2016. The IFRS converged standards will be known as Indian Accounting Standards and will contain numerous carve outs from IFRS. The change to Ind AS is a positive move that will bring the accounting in India substantially closer to the accounting followed globally under IFRS.

The application of Ind AS is more than a mere accounting or technical exercise. The consequences are far wider than financial reporting issues, and extends to various significant business and regulatory matters including debt covenants, dividend, training of employees, IT systems, internal control and taxation.

Ind AS conversion will not be easy. However, with appropriate planning and an early start, it may not be a hugely painful exercise. Experience tells us that major European companies took about 18 months to 2 years to convert from national GAAP to IFRS. It is recommended that companies that have not started the process of Ind AS conversion is to start immediately.

On 16th February 2015, the Ministry of Corporate Affairs (MCA) notified the Companies (Indian Accounting Standards) Rules, 2015 laying down the Roadmap for application of IFRS converged standards (Ind AS) to Indian companies other than banking companies, insurance companies and NBFC's.

The Government has also notified Ind AS Standards (known as Indian Accounting Standards) for application by these companies.

The roadmap, in its first phase, requires companies with a net worth of INR 500 crore or more (along with their holding, subsidiary, joint venture and associate companies) to mandatorily adopt Ind AS from or after 1st April 2016. All remaining listed companies, and unlisted companies with a net worth of INR 250 crore or more, will have to adopt Ind AS from 1st April 2017. Meanwhile, a series of announcements by MCA and then by RBI have set the ball rolling for the adoption of Ind AS as the reporting language for banks, NBFCs and insurance companies in the near future. The Banks are not only required to prepare their half-yearly Performa Ind AS Financial Statements as on 30th September 2016, but also to disclose the strategy for Ind AS implementation in their annual reports for FY 2016-17 and FY 2017-18.

Who are required to adopt Ind AS?

- **Voluntary Phase:** Early adoption of Ind AS is permitted for FY beginning on or after 1st April 2015
- **Mandatory Phase 1:** Application of Ind AS is mandatory from the FY beginning on or after 1st April 2016, for the following companies:
    - Listed or unlisted companies with net worth of INR 500 crores or more;
    - Holding, subsidiary, joint venture or associate companies of these companies
- **Mandatory Phase 2:** Application of Ind AS is mandatory from the FY beginning on or after 1st April 2017, for the following companies:
    - All listed companies not covered under the mandatory Phase 1
    - Unlisted companies with net worth of INR 250 crores or more and not covered in the mandatory phase 1
    - Holding, subsidiary, joint venture or associate companies of these companies

Further, companies not covered under the roadmap can either apply Ind AS voluntarily or continue applying existing standards, i.e. accounting standards notified under the Companies Accounting standards) Rules, 2006 (as amended). Any company opting to apply Ind AS will need to prepare its financial statements according to Ind AS consistently. Once, Ind AS are applied voluntarily, this option will be irrevocable and such companies will not be required to prepare another set of financial statements in accordance with current Indian GAAP.

Whether applicable on holding, subsidiary, joint venture and associate companies?

Whenever a company gets covered under the roadmap, Ind AS becomes mandatory, its holding, subsidiary, associate and joint venture companies will also have to adopt Ind AS, irrespective of their net worth. Ind AS will apply to both standalone financial statements (SFS) and consolidated financial statements (CFS) of companies covered under the roadmap.

All 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. For example, a company covered under mandatory phase 1, needs to apply Ind AS for financial year beginning on or after 1st April 2016. In addition, it also needs to give Ind AS comparatives for the year ended 31st March, 2016. Consequently, it needs to start applying Ind AS from 1st April 2015, which would technically be called the transition date.

How to calculate Net Worth?

Net worth for a company is to be calculated in accordance with its SFS as on 31st March 2014 or the first financial audited statements for accounting period which ends after that date. Accordingly, if a company has net worth more than INR 500 crores as of 31st March 2015, then it will be covered in the Phase 1 itself and apply Ind AS from financial year beginning on or after 1st April 2016.

For the purpose of computing the net worth, reference should be made to the definition under the Companies Act, 2013. In accordance with section 2(57) of the Companies Act, 2013, net worth means 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.

Whether applicable to foreign operations?

It is a relief that an overseas subsidiary, associate or joint venture of an Indian company is not required to prepare its stand-alone financial statements as per the Ind AS, and instead, may continue with its jurisdictional requirements but, they will need to prepare Ind AS adjusted financial information to enable consolidation by the Indian parent.

What are the general principles of Ind AS?

The entities' general purpose financial statements give information about performance, position and cash flow that is useful to a range of users in making financial decisions. These users include shareholders, creditors, employees and the general public.

A complete set of financial statements under Ind AS includes the following:

- Balance sheet at the end of the period
- Statement of profit and loss for the period
- Statement of changes in equity for the period
- Statement of cash flows for the period; notes, comprising a summary of significant accounting policies and other explanatory information

Whether applicable on comparatives?

- Comparative financial information in respect of the preceding period as specified
- Balance sheet as at the beginning of the preceding period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements having an impact on the balance sheet as at the beginning of the preceding period.

General differences between Ind AS and IFRS:

- The transitional provisions given in each of the standards under IFRS have not been given in Ind AS, since all transitional provisions related to Ind AS, wherever considered appropriate, have been included in Ind AS 101, First-Time Adoption of Indian Accounting Standards, corresponding to IFRS 1, First-Time Adoption of International Financial Reporting Standards.
- Different terminology is used in Ind AS when compared to IFRS, e.g. the term 'balance sheet' is used instead of 'statement of financial position' and 'statement of profit and loss' is used instead of 'statement of comprehensive income'.

Opening Balance Sheet

Key steps in preparation of Opening Balance Sheet includes:

- Selection of Appropriate Accounting Policies.
- Recognition and / or Derecognition of Assets and Liabilities as required by Ind AS.
- Re-measurement of Assets and Liabilities in accordance with the Ind AS.
- Re-classification of headings and captions in the Ind AS Financial Statements.

Conclusion

The adoption in accordance with the roadmap will bring accounting in India closer to the world at large that has adopted/converged with the IFRS. India has gone with the convergence approach instead of full adoption of IFRS as issued by the International Accounting Standards (IASB). Ind AS contains certain changes vis-à-vis IASB IFRS. Consequently, financial statements prepared in accordance with Ind AS may not be fully compliant with IASB IFRS.

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