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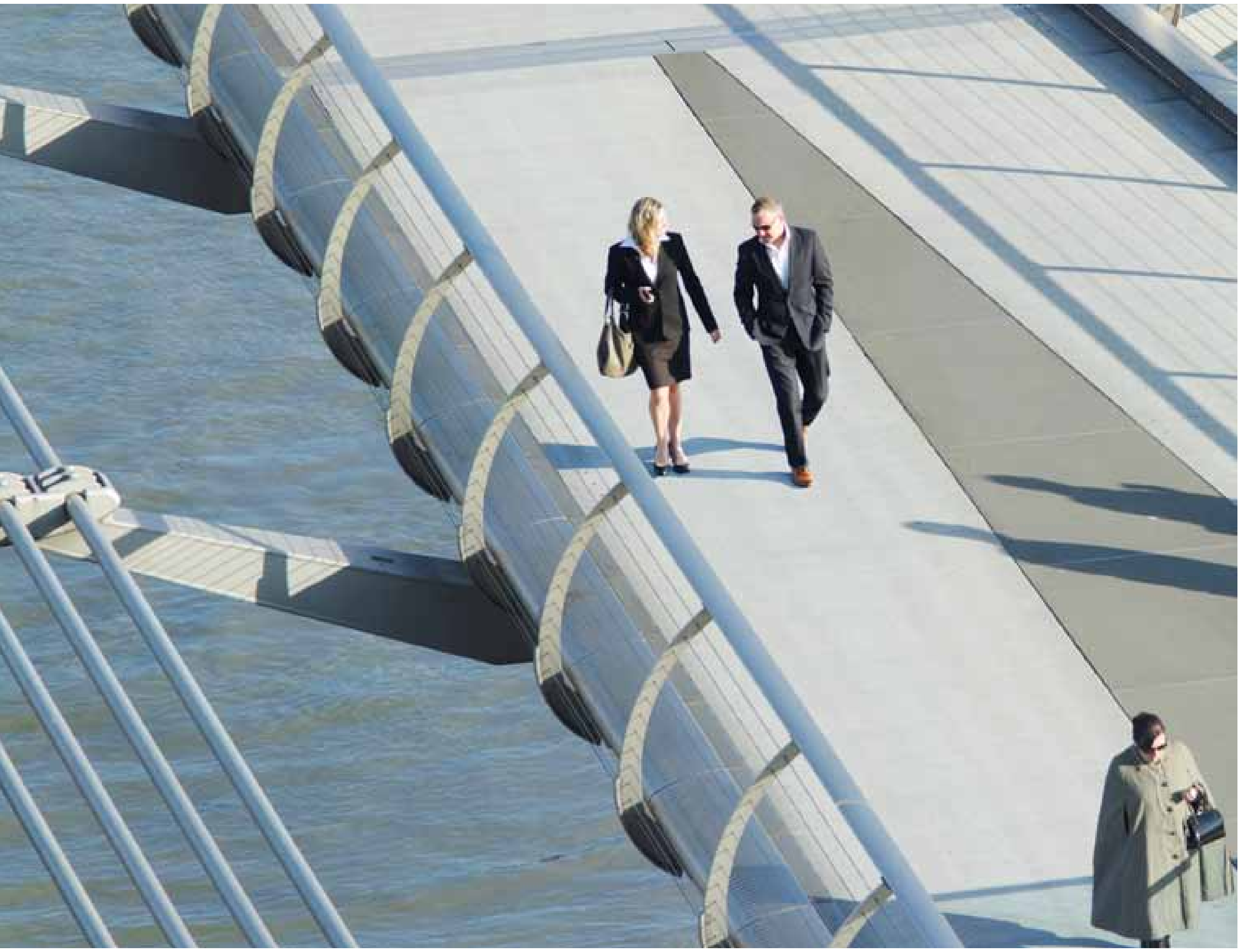
PwC ReportingPerspectives

Ind AS: India's accounting standards converged with IFRS are here!



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Editorial

Ind AS–Indian Accounting Standards converged with International Financial Reporting Standards (IFRS) has now become a reality. Soon after the revised roadmap for implementing Ind AS was announced in January this year, the Ministry of Corporate Affairs (MCA) moved swiftly and notified the Companies (Indian Accounting Standards) Rules, 2015, along with 39 Indian accounting standards last month.

Ind AS will be applied in a phased manner from 1 April 2016, beginning with companies whose net worth is equal to or exceeding 500 crore INR. Comparative Ind AS information for the year ending 31 March 2016 will also be required. Listed companies and others with a net worth equal to or exceeding 250 crore INR will follow suit starting 1 April 2017.

From 1 April 2015, companies covered in phase I of the roadmap will have to look closely into the details of the 39 newly-notified accounting standards. This leaves little time for these companies to put into action an implementation strategy to ensure a successful and smooth Ind AS transition.

In our special edition of PwC ReportingPerspectives, we have highlighted the salient features of the MCA notification, the roadmap for Ind AS adoption, including clarifications to the many open questions.

We have discussed the significant differences between Ind AS and the current Indian Generally Accepted Accounting Principles (GAAP) and introduced the term 'Famous Five'. We believe companies should be familiar with this term, as in our view, preparers will have to devote substantial amount of their time to these areas while adopting Ind AS.

We provide a snapshot of the transition provisions related to first-time adoption of Ind AS and the carve outs between Ind AS and IFRS as issued by the IASB.

The impact of implementing Ind AS goes beyond accounting and requires important business, organisational and operational changes. We share our thoughts and insights on this.

We hope you find this publication informative and help us remain connected with you in a meaningful way.

We look forward to your feedback at pwc.update@in.pwc.com

Ind AS: India's accounting standards converged with IFRS are here!

The Roadmap

Soon after the long-awaited roadmap for implementing the Indian Accounting Standards (Ind AS) was announced in January this year, the Ministry of Corporate Affairs (MCA), moved quickly and notified its phase-wise roadmap for the adoption of Ind AS–India's accounting standards, converged with the IFRS. The notification of Ind AS is a positive development and places India well at the centre of high-quality financial reporting. The MCA issued a notification on 16 February this year, announcing the Companies (Indian Accounting Standards) Rules, 2015, for the application of Ind AS.

The application of Ind AS is based on the listing status and net worth of a company. Ind AS will first apply to companies with a net worth equal to or exceeding 500 crore INR beginning 1 April 2016. This will also require comparative Ind AS information for the period of 1 April 2015 to 31 March 2016.

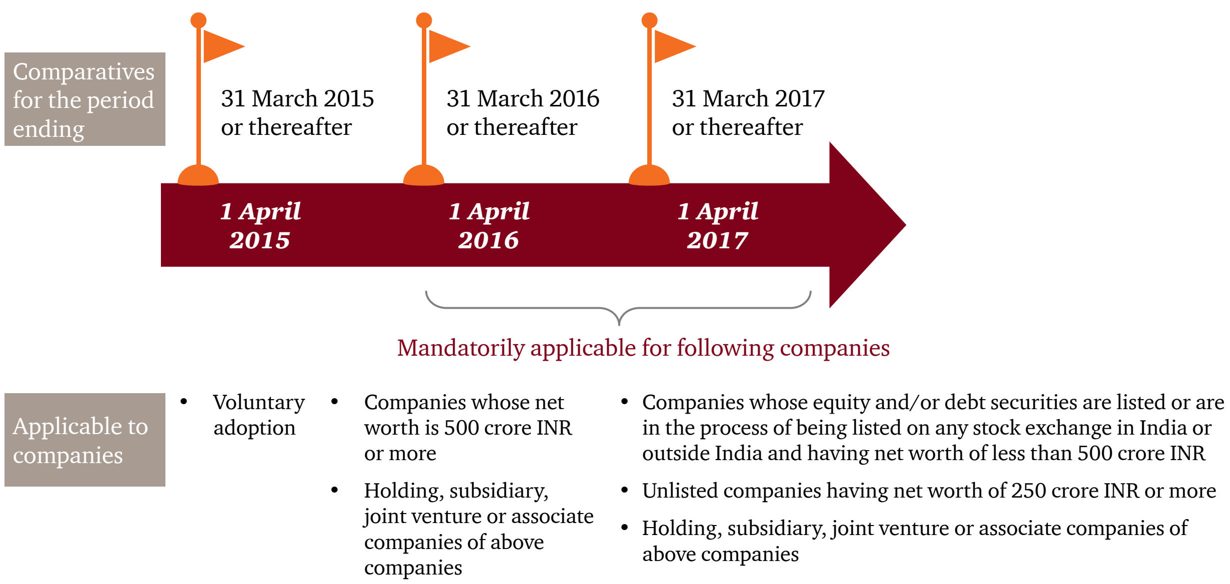
Listed companies as well as others with a net worth equal to or exceeding 250 crore INR will follow these new accounting norms from 1 April 2017 onwards. From April 2015, companies covered in the first phase will have to take a closer look at the details of the notified 39 new Indian accounting standards. It is important to note that Ind AS will also apply to subsidiaries, joint ventures, associates as well as holding companies of the entities covered in the roadmap.

Clarifications

The MCA's notification has clarified many open questions, some of which have been addressed below:

- The date and manner of calculating the company's net worth has been spelled out. It has been clarified that the net worth will be determined based on the standalone accounts of the company as on 31 March 2014 or the first audited period ending after that date.
- The net worth has been defined to have the same meaning as per section 2(57) of the Companies Act, 2013. It is 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.
- It is now clear that Ind AS will apply to both consolidated and standalone financial statements of a company covered by the roadmap. This is helpful as companies will not have to maintain dual accounting systems.
- It is a relief that an overseas subsidiary, associate or joint venture of an Indian company is not required to prepare its standalone financial statements as per the Ind AS, and instead, may continue with its jurisdictional requirements. However, these entities will still have to report their Ind AS adjusted numbers for their Indian parent company to prepare consolidated Ind AS accounts. Conglomerates having significant overseas operations will find solace from this clarification or else they will have to incur a lot more time and effort to comply.
- Entities not covered by the roadmap can voluntarily adopt the Ind AS. Once they choose this path, they cannot switch back.
- Insurance, banking and non-banking financial companies shall not be required to apply Ind AS either voluntarily or mandatorily. However, it appears (though not clarified), that if these entities are subsidiaries, joint venture or associates of a parent company covered by the roadmap, they will have to report Ind AS adjusted numbers for the parent company to prepare Ind AS compliant consolidated accounts. So indirectly some of these entities may get covered.

Roadmap to Ind AS adoption

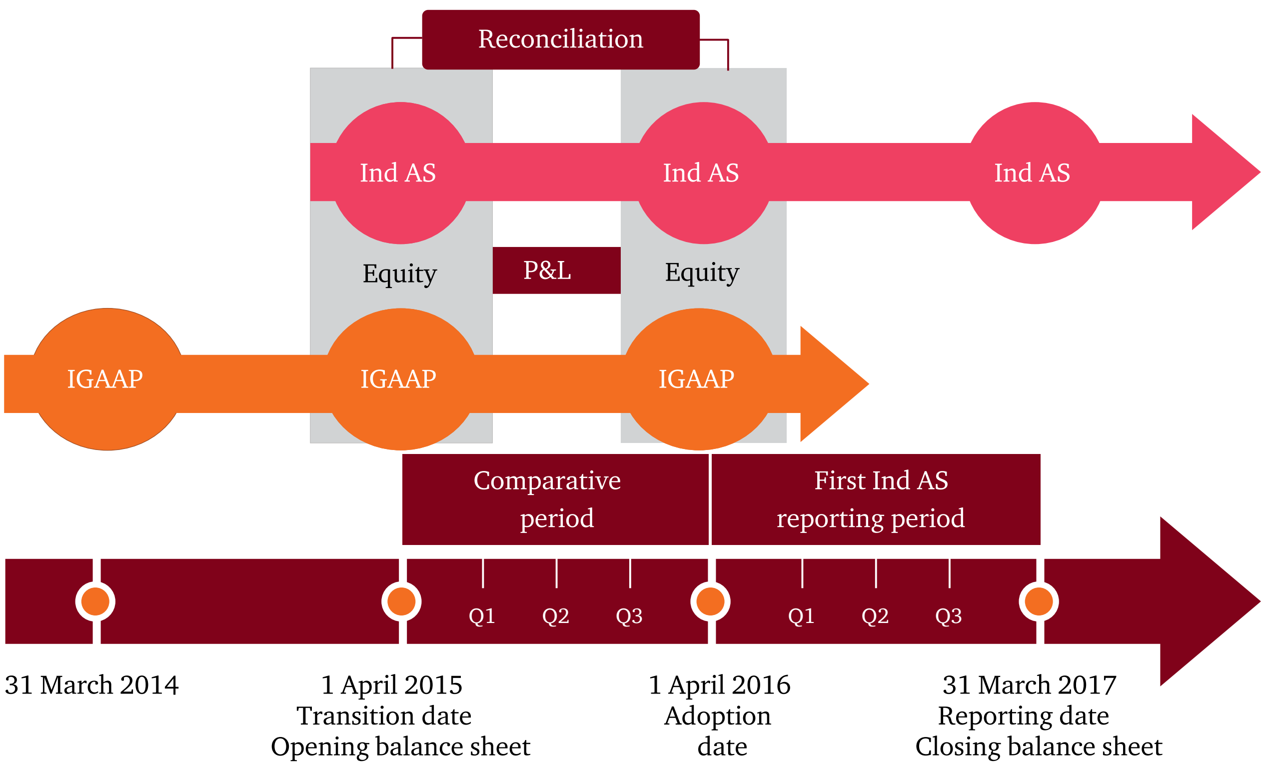


- The debate on two of the most significant standards, Revenue Recognition (Ind AS 115) and Financial Instruments (Ind AS 109) has now been settled with their notification. Interestingly, India will be one of the first countries to mandatorily adopt these standards from 1 April 2015 while the rest of the world will follow suit from 2017 and 2018. These two standards, on its own, will have a significant effect on entities, impacting not only their financial results but also catalysing numerous organisational and business changes.
- There was hope that companies will be given an option to prepare their financial statements as per IFRS issued by the IASB (the true IFRS). This was relevant for entities already preparing IFRS compliant accounts and those planning for overseas fund raising/listing. This has been now ruled out.
- The rules specify that in case of conflict between Ind AS and a law, the provisions of the law shall prevail and the financial statements shall be prepared in conformity with it. This is consistent with the current practice.

Companies will have to follow a step by step approach to make the transition to Ind AS a smooth process.

- They will first have to prepare an opening balance sheet as per Ind AS on 1 April 2015.
- They will have to continue reporting their financial statements for the year ending 31 March 2016 as per the existing Indian GAAP.
- However, they will also need to compile their financial statements as per Ind AS for the year ending 31 March 2016. This parallel system of accounts will be required for one year ending March 2016 so that comparative Ind AS information can be provided. So for the year FY 2015-16, companies will have to evaluate accounting implication of transactions both under existing accounting standards as well as Ind AS frameworks.
- As part of this Ind AS transition process, companies will also have to prepare 1) A reconciliation of equity between Ind AS and Indian GAAP on 1 April 2015 and 31 March 2016, and 2) a reconciliation of income for the year ending March 2016 between Ind AS and Indian GAAP. These reconciliations will be included in the first Ind AS financial statements so investors and users can ascertain the real impact of Ind AS adoption.
- Impact of Ind AS adoption cascades beyond accounting. For example, implementing Ind AS is likely to impact key performance metrics requiring thoughtful communication with the board of directors, shareholders and other stakeholders. Internally, Ind AS implementation can have a wide-ranging impact on a company's budgeting and reporting processes, IT systems, internal control systems, income taxes and contractual arrangements. Other areas to focus on include credit rating, compliance with debt covenants, dividend distribution, employee KPI and bonuses, managerial remuneration etc.

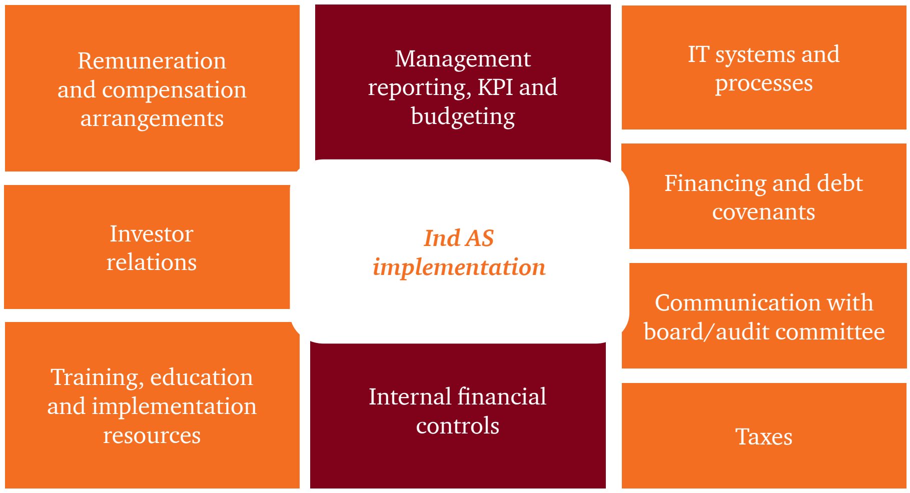
What this means for you



Successful Ind AS implementation will require a thorough strategic assessment, a robust step-by-step plan, alignment of resources and training, effective project management as well as smooth integration of the various changes into normal business operations.

Finally, the Ind AS implementation exercise needs to establish sustainable processes so as to continue to produce meaningful information long after the conversion exercise is completed. At the end, it is important that all changes brought by Ind AS adoption are embedded into the company's processes and systems. The goal should be to embrace the transformation and achieve a stage of 'Business as Usual' for the company.

Impact across the board



An in-depth analysis: Examining the implications

When businesses were simple and transactions were local, accounting standards were simple and a local GAAP was sufficient. Today, businesses have become complex and a globalised world needs comprehensive accounting standards that can be consistently applied globally and facilitate comparability. Introduction of Ind AS is not just 'good to have' but is the 'need of the hour' for India in a globalised world. Let's now delve deeper into the details.

Adoption of Ind AS will require the retroactive restatement of certain historical periods presented within a company's first set of Ind AS-based financial statements. These restated periods will show a variety of changes to a company's key metrics, including reported top line, bottom-line, financial position and net worth.

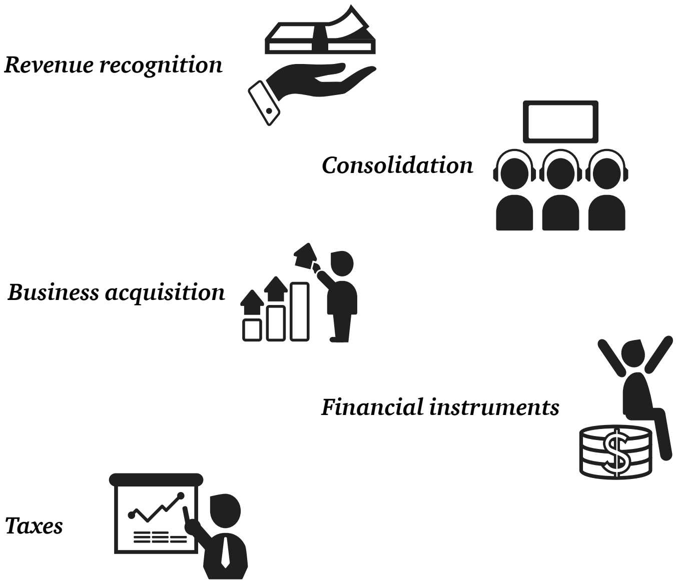
- At a very fundamental level, Ind AS focusses on substance rather than legal form, and risks and rewards of the underlying transactions. This will potentially break away from many existing legal structure-based accounting to a more substance-driven accounting. It is expected that adoption of Ind AS will also result in accounting which more closely reflects the underlying business rationale and true economics of the transaction. In general, we believe more entities will be consolidated under Ind AS, as a parent would consolidate based on control over the investee having exposure or rights to variable returns from its involvement and not based on the existing simple bright line definition of control under Indian GAAP. This difference could have a fundamental impact on the financial statements as a whole.
- The conclusion as to whether a given financial instrument is accounted for as debt or as equity can significantly vary under the two frameworks. Also certain hybrid instruments will be required to be split into its debt and equity components. These differences upon adoption of Ind AS can have a profound effect on a company's capitalisation profile, reported earnings, net worth and debt covenants.
- There is certainly a push towards increased use of fair value-driven accounting under Ind AS. This will in turn require adoption of appropriate accounting policies or else volatility could increase. The whole gamut of financial instruments comprising accounting for financial assets and liabilities will require a closer look with renewed vigour.
- Accounting for revenue recognition and mergers/business acquisitions will not be the same going forward.
- Finally, the quantum of disclosures will increase multifold. This will surely allow companies to tell their story to investors and also more meaningful information for informed users, however, companies will have to prepare for the extensive data requirements including the time and effort to prepare for these disclosures. Companies will also have to start discussing in more detail about significant judgments and estimates made, including what goes behind the reported numbers.

Adoption of Ind AS will put India at the centre stage of high quality and transparent financial reporting, however, it also poses unique challenges. For example, India would be adopting two of the most important accounting standards earlier than the rest of the world. Globally IFRS 15, 'Revenue from contracts with customers' and IFRS 9—Financial Instruments, have mandatory implementation dates of 1 January 2017 and 2018 respectively, while India will be adopting both these standards effective 1 April 2015. This will provides benefits by way of a stable platform, i.e. India will not have to change accounting policies again for a few years in these important areas. India will however not be able to learn from the experiences of other countries adopting these standards later. We believe in balance, the benefits outweigh potential challenges.

What is changing from current Indian GAAP?

The Famous Five

The volume and breadth of differences between Indian GAAP and Ind AS is enormous. Further, its impact will vary by industry and for each company. Ind AS will cover every area comprising reported revenues, expenses, assets, liabilities and equity. Before we get into the details of the specific differences, we think companies should be familiar with the Famous Five. In our view, companies will have to devote substantial amount of their time especially in these areas while preparing for Ind AS adoption. We have focussed on the Famous Five concepts below.



Revenue recognition

Revenue is one of the most important financial statement measures for both preparers and users of the financial statements. It is therefore an accounting topic heavily scrutinised by investors and regulators. Today, Accounting Standard (AS) 9 on Revenue Recognition does not provide comprehensive guidance for certain aspects resulting in diversity in practices under Indian GAAP. Adoption of Ind AS 115, Revenue from Contract with Customers, provides comprehensive principles for recognising revenue, which will affect mostly all entities that apply Ind AS. Companies will be required to closely analyse their business practices within the revenue cycle to identify and evaluate potential GAAP differences. We have discussed below some of the changes.

Transfer of control

Under Ind AS 115, revenue is recognised when a customer obtains control of a good or service, while under Indian GAAP, revenue is recognised when there is a transfer of risk and rewards. A customer obtains control when it has the ability to direct the use of and obtain the benefits from the good or service. Transfer of control is neither same as transfer of risks and rewards nor similar to the culmination of an earnings process as understood today.

Entities will be required to apply the new guidance to determine whether revenue should be recognised 'over time' or 'at a point in time'. So as the first step, a company will have to first determine whether control is transferred over time. If the answer to this question is negative, only then revenue will be recognised at a point in time, or else it will be recognised over time.

The difference between transfer of control vis-a-vis transfer of risk and reward can sometimes be subtle and at other times be stark requiring a detailed understanding of the accounting standard and customer contractual arrangements.

The five-step control model

The core principle of Ind AS 115 is that an entity will recognise revenue to depict the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services. This core principle is described in a five-step model framework:

Step 1: Identify the contract(s) with the customer

Step 2: Identify the separate performance obligations in the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to separate performance obligations

Step 5: Recognise revenue when (or as) each performance obligation is satisfied

Application of this guidance will depend on the facts and circumstances present in a contract with a customer and will require the exercise of judgment.

Performance obligation

Understanding what a customer expects to receive as a final product is necessary to assess whether goods or services should be combined and accounted as a single performance obligation or separate elements. Some contracts contain a promise to deliver multiple goods or services, but the customer is not purchasing the individual items. Rather, the customer is purchasing the final good or service which is the aggregate of those individual items. The judgment, based on proper application of the principles envisaged in Ind AS 115, will determine whether a contract involves a single or multiple performance obligations.

Until now there has been limited guidance in this area of multiple elements or performance obligations under Indian GAAP. Under Ind AS, companies will have to necessarily determine whether there are multiple promises in a contract and whether those promises are distinct. The consideration will then be allocated to multiple components and revenue recognised when those distinct goods or services are delivered, i.e. when control is transferred.

It is also to be noted that separate performance obligations may be identified based on promises in a contract which may be explicit or implicit including based on past customary business practices. Also, upon transition to Ind AS, certain previously identified multiple elements may no longer be considered as separate promises under the new standard. In our experience, this area can be quite complex. Companies should carefully understand the impact of this, as potentially upon transition some revenue may never be reported and some could be reported twice.

Variable consideration

Entities may agree to provide goods or services for consideration that varies upon certain future events which may or may not occur. Examples include volume and cash discounts, refund rights, rebates, performance bonuses/incentives, penalties, sales returns, etc. Sometimes this is also driven by past practice of an entity or a particular industry for example a history of giving discounts or concessions after the goods/services are sold. Variable consideration is a wide term and includes all types of positive and negative adjustments to the revenue.

Under the current accounting practice, it is not uncommon to defer the revenue until the contingency is resolved. However under Ind AS, if the consideration is variable, then a company will need to estimate this variability at the inception of the contract subject to certain constraints–that is there should not be a significant revenue reversal in the future, which will be reassessed at each reporting period. Some of these concepts are new for us, as entities will have to estimate not only downward but also upward adjustments to revenue, something we are not used to. Also, this could result in earlier recognition of revenue as compared to current practice. This could affect entities in industries where variable consideration is presently not recorded until all contingencies are resolved. There is a narrow exception for intellectual property (IP) licenses where the variable consideration is a sales-or usage-based royalty, which will continue to be recognised based on sales or usage.

Another significant area of difference from the current practice will be presentation of revenue. Upon adoption of Ind AS 115, generally all positive and negative adjustments to variable consideration discussed above will be presented as an adjustment to revenue as opposed to costs presently done for certain areas

Allocation of transaction price based on relative standalone selling price

Entities that sell multiple goods or services in a single arrangement (for example, sale of equipment with two year maintenance services contract) may be following different accounting practices under the current Indian GAAP. Under Ind AS 115, these entities must first evaluate whether the sale of equipment and services are two separate performance obligations, and if yes, then allocate the consideration to each of the distinct goods or services based on their relative standalone selling price. This allocation is based on the price an entity will charge a customer on a standalone basis for each good or service sold separately. In this regard, management will follow a hierarchy to estimate the selling price. Entities will first consider observable data to determine the standalone selling price. An entity will need to estimate the standalone selling price if such data does not exist (cost plus profit margin is an acceptable approach). Some entities may also need to determine the standalone selling price of goods or services that previously did not required this assessment.

Allocation of the transaction price to multiple performance obligations can be a matter involving significant estimate and judgment. Accordingly, a careful analysis of this aspect is required as a part of the transition to Ind AS.

Licences

Entities that license their IP to customers will need to determine whether the licence transfers to the customer 'over time' or 'at a point in time'. A licence that is transferred over time allows a customer access to the entity's IP as it exists throughout the licence period–such revenue is recognised over time. Licence provides right to access IP if all of the following criteria are met:

1) The licensor performs activities that significantly affect the IP.
2) The rights expose the customer to the effects of these activities.
3) The activities are not a separate good or service.

Licences transferred at a point in time allow the customer the right to use the entity's IP as it exists when the licence is granted. The customer must be able to direct the use and obtain substantially all of the remaining benefits from the licensed IP to recognise revenue when the licence is granted.

The standard includes several examples to assist entities making this assessment. In certain circumstances, this could result in change from current practice.

Time value of money

Some contracts provide the customer or the entity with a significant financing benefit (explicitly or implicitly). This is because performance by an entity and payment by its customer might occur at significantly different times. In such situations, under Ind AS, the entity will have to adjust the transaction price for the time value of money if the contract includes a significant financing component. The standard provides certain exceptions to applying this guidance and a practical expedient which allows entities to ignore time value of money if the time between transfer of goods or services and payment is less than one year.

Presently, under Indian GAAP, such financing benefit is not identified and separated. This aspect will impact entities which have significant advance or deferred payment arrangements.

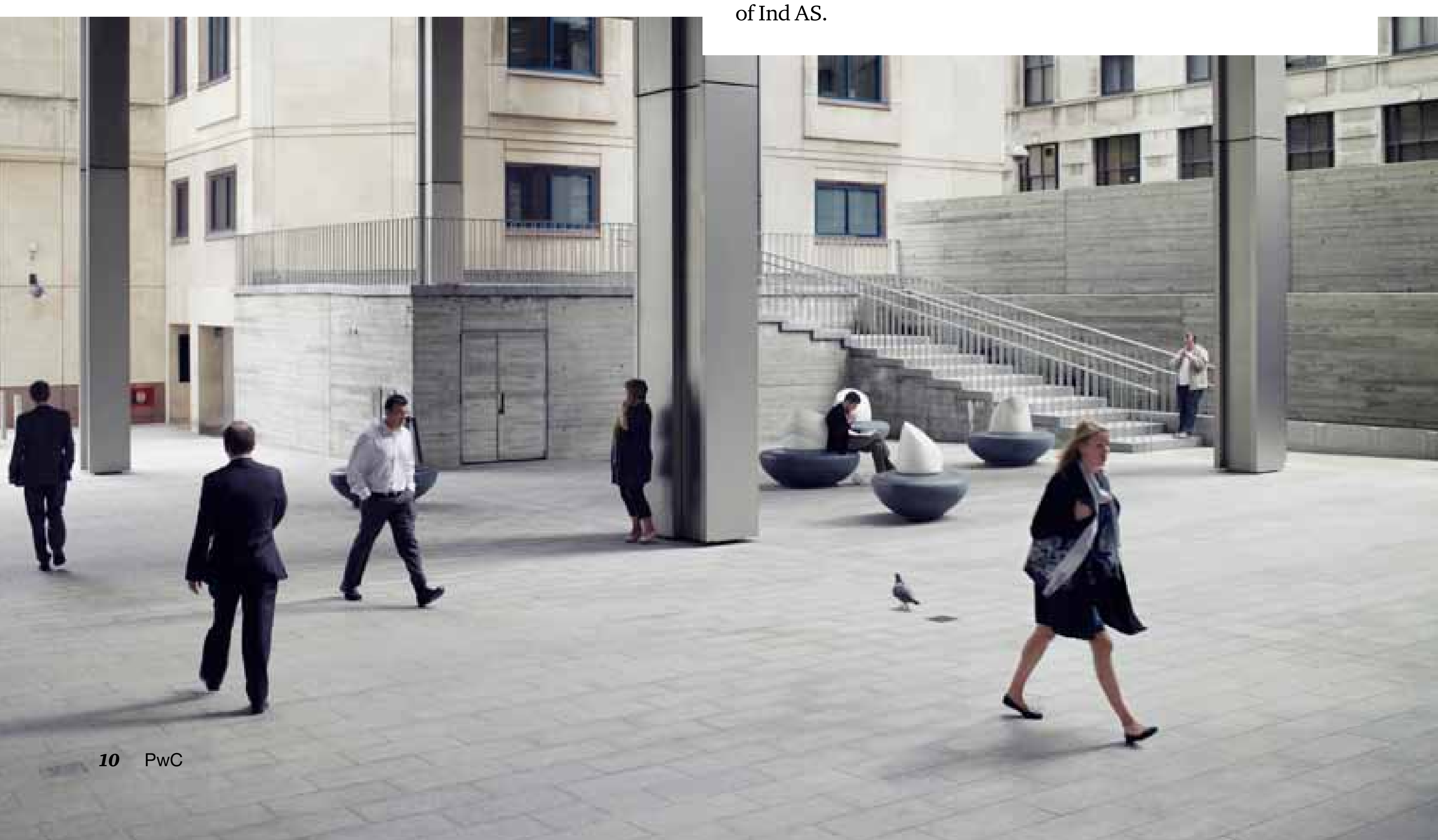
Contract costs

Entities sometimes incur costs (such as sales commissions or mobilisation activities) to obtain or fulfil a customer contract. Contract costs that meet certain criteria will be capitalised as an asset and get amortised as revenue is recognised upon adoption of Ind AS. Such capitalised costs will require a periodic review for recoverability and impairment, if applicable. If the contract period is a year or less, then as a practical expedient, such capitalisation may not be required.

Presently, under Indian GAAP, such costs are generally expensed as incurred. This will result in more cost deferral for long-term type of arrangements.

Presentation

Ind AS includes more guidance on gross versus net presentation (including items such as excise duty, other charges, etc). Some of this could change the presentation of revenue upon adoption of Ind AS.



Disclosures

Extensive disclosures are required to provide greater insight into both, revenue that has been recognised and revenue that is expected to be recognised in the future from existing customer contracts. Quantitative and qualitative information will have to be provided about the significant judgments and changes in those judgments made while recording revenue.

Financial instruments

Like IFRS 15, India has decided to be the first to adopt IFRS 9—the new standard on financial instruments. This standard will be globally effective in 2018. This standard is also expected to have a wide-ranging impact on companies. It is a myth that this standard will only impact financial institutions. Based on what we are observing, the impact of this standard on other companies and industries will also be substantial. At a high level, the use of fair value and present value in recording financial instruments will increase.

Ind AS 109 provides extensive guidance on identification, classification, recognition and measurement of financial instruments. Additionally, it provides guidance on derecognition of financial instruments, hedge accounting and has extensive disclosure requirements. At present, there is no comprehensive mandatory guidance on financial instruments under Indian GAAP.

Differences in the areas of financial liabilities and equity are also quite significant, which may impact how an entity chooses to finance its operations going forward. We have discussed some of the significant changes below.

Classification and measurement of financial assets

Presently, under Indian GAAP, investments are classified as current or long-term. Current investments are carried at lower of cost and fair value, whereas long-term investments are carried at cost less impairment, if any. Ind AS significantly changes this, where except for certain debt instruments described below financial assets will be recorded at fair value.

Debt instruments

Ind AS 109 now provides three categories for classifying debt instruments —amortised cost, fair value through other comprehensive income ('FVOCI') and fair value through profit or loss ('FVPL'). This classification of debt instruments is driven by the entity's business model for managing the financial assets and their contractual cash flow characteristics.

A financial asset is measured at amortised cost if it meets the following criteria:

- The asset is held to collect its contractual cash flows.
- The asset's contractual cash flows represent 'solely payments of principal and interest' ('SPPI').

Financial assets included within amortised cost category are initially recognised at fair value and subsequently measured at amortised cost.

A financial asset is measured at fair value through OCI if it fulfils the following requirements:

- The objective of the business model is achieved both by collecting contractual cash flows and by selling financial assets.
- The asset's contractual cash flows represent SPPI.

Financial assets included within the FVOCI category are initially recognised and subsequently measured at fair value. Movements in the carrying amount will be taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses, which are recognised in profit and loss. Where the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss.

Under the new model, FVPL is the residual category. Financial assets will be classified as FVPL if they do not meet the criteria of FVOCI or amortised cost. Financial assets included within the FVPL category will be measured at fair value with all changes taken through profit or loss. Regardless of the business model assessment, an entity can elect to classify a financial asset at FVPL, if doing so, reduces or eliminates a measurement or recognition inconsistency ('accounting mismatch').

Equity

Upon adoption of Ind AS, investments in equity instruments will always be measured at fair value. This will be a big change from the current practice. Equity instruments are those that meet the definition of 'equity' from the perspective of the issuer as defined in Ind AS 32. Equity instruments held for trading will be classified at FVPL. For all other equities, the management has the ability to make an irrevocable election on the initial recognition, on an instrument-by-instrument basis, to present the changes in fair value in OCI rather than profit or loss. If this election is made, all fair value changes, excluding dividends that are a return on investment, will be included in OCI. There will be no recycling of amounts from OCI to profit and loss (for example, on sale of an equity investment), nor are there any impairment requirements. However, the entity might transfer the cumulative gain or loss within equity.

Income

Under Ind AS 109, interest income is recognised based on effective interest rate (EIR) method, whereas under Indian GAAP, it is recognised based on an instrument's interest coupon.

Derecognition

Indian GAAP has limited guidance on derecognition of financial assets, whereas under Ind AS 109, financial assets are not derecognised and may significantly impact the transaction where the risks and rewards of ownership of the financial asset are substantially retained by the originator.

Expected credit losses

Ind AS 109 introduces a new model for the recognition of impairment losses–the 'expected credit losses' (ECL) model as compared to the 'incurred losses' model that we are currently familiar with. The ECL model seeks to address the criticisms of the incurred loss model which arose during the economic crisis. The standard contains a 'three stage' approach which is based on the change in credit quality of financial assets since initial recognition.

Stage 1 includes financial instruments that have not had a significant increase in credit risk since initial recognition or those having low credit risk on the reporting date. For these assets, 12-month expected credit losses (ECL) are recognised and interest revenue is calculated on the gross carrying amount of the asset (that is, without deduction for credit allowance). 12-month ECL are the expected credit losses resulting from default events possible within 12 months after the reporting date. It is not the expected cash shortfalls over the 12-month period, but the entire credit loss on an asset weighted by the probability that the loss will occur in the next 12 months.

Stage 2 includes financial instruments that have had a significant increase in credit risk since initial recognition (unless they have low credit risk at the reporting date) but that do not have objective evidence of impairment. For these assets, lifetime ECL are recognised, but interest revenue is still calculated on the gross carrying amount of the asset. Lifetime ECL are the expected credit losses that result from all possible default events over the expected life of the financial instrument. Expected credit losses are the weighted average credit losses with the probability of default (PD) as the weight.

Stage 3 includes financial assets that have objective evidence of impairment on the reporting date. For these assets, lifetime ECL are recognised and interest revenue is calculated on the net carrying amount (that is, net of credit allowance).

The standard requires management, when determining whether the credit risk on a financial instrument has increased significantly, to consider reasonable and supportable information available, in order to compare the risk of a default occurring on the reporting date with the risk of a default occurring at the initial recognition of the financial instrument.

This above change will surely have a 'big bang' effect on the balance sheets of financial institutions and similar entities. For other trade receivables that do not contain a significant financing component, the standard contains a simplified approach.

Derivatives and hedge accounting

Under Indian GAAP, there is diversity in practice in accounting for derivative contracts. In respect to foreign currency forward contracts covered under AS -11, The Effects of Changes in Foreign Exchange Rates, the premium or discount arising at inception of foreign currency forward contracts is amortised as expense or income over the life of the contract.

Derivative instruments not covered under AS 11 are accounted based on the guidance provided by the ICAI in its announcement dated 28 March 2008. This announcement required companies to adopt the principles of AS 30 with respect to accounting for derivatives (to the extent that it did not conflict with any of the notified accounting standards) or mark to market all the derivatives with the resultant losses being recognised in the statement of profit or loss. While the announcement required companies to recognise the losses, it did not allow for the recognition of gains. So companies that adopted AS 30 (which is not mandatory) recognised the positive and negative fair value changes of derivative instruments, whereas those who did not adopt AS 30 recognised only the mark to market losses.

Ind AS will bring in consistency in the accounting of derivative contracts including any embedded derivatives. Under Ind AS, all derivatives will be fair valued and recorded in the balance sheet. Further, both positive gains and negative losses resulting from changes in fair value of derivatives will get recognised. Whether the change in fair value gets recognised in profit or loss or OCI will depend on whether hedge accounting has been followed and also on the nature of the underlying derivative instruments.

Hedge accounting principles of Ind AS 109 are fairly similar to the basic principles of AS 30. However, the range of situations to which hedge accounting can be applied under Ind AS 109 has widened, including the use of hedging instruments. It also allows hedging a risk component of a non-financial item, if that component is separately identifiable and measurable. Finally, the hedge effectiveness testing has also been simplified making it more principle based and removing numerical thresholds (80 – 125% rule).

Financial liabilities

Under Indian GAAP, financial liabilities are generally recorded at face value and classified on the basis of legal form rather than underlying substance. For example, all types of preference shares are disclosed separately as share capital under the shareholders' funds and all types of convertible debt instruments are classified as debt.

Under Ind AS, an entity will have to determine the appropriate classification of an instrument as a liability or equity based on the substance of the contractual arrangement, rather than its legal form. As an overriding principle, Ind AS requires a financial instrument to be classified as a financial liability if the issuer is required to settle the obligation in cash or another financial asset. Further, Ind AS requires certain compound financial instruments to be separated into a liability and equity component.

For example, mandatory redeemable preference shares which until now were shown as part of equity under Indian GAAP will get classified as liability going forward under Ind AS. Also the dividend and dividend distribution tax on such capital will get recorded through the income statement as a borrowing expense instead of equity. This will result in higher interest expense and lower net equity going forward.

On the other hand, compound instruments such as convertible debentures and preference shares will be split into liability and equity components by applying fair valuation techniques at inception.

Finally, compulsorily convertible debentures and preference shares will likely get classified as equity.

This change in classification is likely to significantly affect the balance sheet structure of an entity, reported net worth and results of entities, especially those having complex capital structures. Companies may also need to take a closer look at their debt covenants requiring a proactive dialogue with their lenders.

Ind AS 109 allows two measurement categories for financial liabilities–fair value through profit or loss and amortised cost. Where an entity has chosen to measure a financial liability at FVPL, changes in fair value related to changes in own credit risk, are presented separately in OCI. Amounts in OCI relating to own credit are not recycled to profit or loss even when the liability is derecognised and the amounts are realised. However, the new standard does allow transfers within equity. Indian GAAP does not have the FVPL option for measuring financial liabilities.

Transaction costs

Upon adoption of Ind AS, transaction costs incurred on long-term borrowings will not be charged to the income statement immediately, instead it will be recognised in the profit or loss over the term of the loan using an effective interest method. This will be a change from current practice under Indian GAAP, where such costs were expensed as incurred.

On the other hand, transaction costs incurred to acquire financial assets are generally capitalised under Indian GAAP, which will be required to be expensed as incurred, when acquiring financial assets accounted at fair value under Ind AS. Transaction costs incurred to acquire financial assets recorded at amortised cost will be adjusted in the carrying value of those financial assets.

Disclosures

Adoption of Ind AS will require extensive disclosures, including on capital management, discussion on various risks perceived by the management, risk management strategies adopted, exposures, sensitivity around each of the category of risks such as credit, market, interest rate, foreign exchange rate, commodity price, etc. Most of these risk related disclosures, which may have been previously part of MD&A, will now be required to be disclosed in the financial statements. It is to be noted that extensive disclosures related to fair value measurements, including the assumptions used, will be required in the financial statements.

Consolidation

The Companies Act 2013 requires all companies to prepare and present consolidated financial statements, which are in line with the global requirements, including that of SEBI for listed companies. Additionally, companies will continue to prepare and present their standalone financial statements which will be used for the purpose of dividend distribution, managerial remuneration, income taxes, etc.

Scope of consolidation and definition of 'control'

This is another area where we expect to see significant changes in practice upon adopting Ind AS. Under Indian GAAP, a parent consolidates an entity which it controls either through ownership of more than 50% voting power or composition of the governing body. So, if one entity owns 49% of another entity (and does not have board control) based on current Indian GAAP, it will be concluded that there is no control–more of a bright line test.

Under Ind AS 110, while the above two factors play an important role in the evaluation of control, there are other indicators which have to be evaluated. Ind AS provides a single model for control, the definition of which is very broad. It requires evaluation of power of an entity over the other entity, exposure to variable returns (positive or negative) and ability to use the power to affect the returns of that other entity. This is another example of the 'substance over form' principle under Ind AS.

Based on the guidelines in Ind AS 110, an entity could control another entity with less than majority ownership of equity or voting interest, for example when the remaining shareholding is scattered (i.e. de-facto control). Control could also be obtained based on shareholder and other contractual arrangements. Lastly, even though existing equity ownership is less than 50%, to evaluate control, one would also have to take into account potential voting rights such as warrants, call options, etc.

This is not a one-way street. Sometimes an entity may own more than 50% equity/voting interest in another entity, however, the minority shareholders may have substantive participative rights with respect to the other entity as opposed to only protective rights. This fact pattern may result in a conclusion that the entity owning majority equity/voting ownership does not necessarily have control over the other entity–veto right.

Upon adoption of Ind AS, this new guidance can result in consolidation of entities which may not have been previously consolidated under Indian GAAP and may also result in de-consolidation of certain entities going forward. Depending on facts and circumstances of specific entities, special purpose structures or vehicles may no longer remain outside the consolidated group–which could significantly dent the reported net worth and performance of certain groups.

Indian GAAP allows exclusion of subsidiaries from consolidation when the control is intended to be temporary or when the subsidiary operates under severe long-term restrictions. Ind AS 110 does not provide any such exemption of temporary control.

In conclusion, under Ind AS, accounting policies have to be uniform whereas Indian GAAP can be provided with certain exemptions.

Economic entity model

Ind AS 110 requires the adoption of an economic entity model which considers all providers of equity capital as the entity's shareholders, even though they are not shareholders in the parent company. Accordingly, in case of change in the parent's ownership interest in an investee subsidiary without loss of control, the gain/loss on such transaction is not recognised in profit or loss and instead is considered as an equity transaction. However, when the sale/disposal transaction results in a loss of control in the investee subsidiary, the gain/loss is recognised in profit or loss, including the gain/loss resulting from remeasurement of the retained interest, if any in that investee. Under Indian GAAP, gain/loss on sale/disposal of any interest in the subsidiary investee is recognised in profit or loss. This could result in a significant GAAP difference.

Joint ventures and associates

Indian GAAP requires joint ventures to be consolidated proportionately whereas under Ind AS 111, with certain exceptions, consolidation is done using the equity method of accounting. Many companies could be impacted by this change, as they will have to move from proportionate consolidation to the equity method of accounting.This will effectively change the gross totals of reported assets and liabilities and other performance measures, though it may not change the reported net assets and net results.

Business combinations

A business combination involves the bringing together of separate entities or businesses into one reporting entity. The most common type of business combination is where one of the combining entities purchases the equity of another entity. Another example is where one entity purchases a group of net assets of another entity.

Currently, this is another area where there is diversity in practice under Indian GAAP. Depending on the legal form or structure of the acquisition, accounting results could significantly vary. For example, acquisition of a business (without the legal entity) gets accounted under AS 10 Fixed Assets, whereas amalgamation of legal entities is accounted under AS 14 Amalgamation. So, though from an economic stand point there may have been no difference in the two acquisitions, the accounting results would differ just because of the different accounting standards. This also has a consequential impact on the reported amounts of goodwill under Indian GAAP.

Ind AS 103 now fixes this and provides comprehensive guidance looking beyond the legal form of the transaction. Going forward, it will not matter whether the acquisition is of a legal entity or a group of net assets. So as long as what the entity is acquiring meets the definition of a business, 'the acquisition method' will be used consistently. Also going forward, the 'pooling of interest' method will not be permitted under Ind AS (except in limited circumstances of common control transactions).

To explain this further, under Ind AS, all assets and liabilities which are acquired in a business acquisition will be measured and recorded at fair value. 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.

Due to fair valuation, it is expected that the goodwill under Ind AS could be generally lower compared to Indian GAAP mainly due to the recognition of intangibles. Also, the resultant goodwill will not be amortised but annually tested for impairment. Due to the fair valuation exercise and the purchase price allocation process to be followed during acquisition accounting, many more intangibles may now get separately recognised, which may not have been previously recorded by the acquired entity or business. Examples of such intangibles include customer contracts, trademarks, brands, etc.

Under Ind AS, it may now also be possible to recognise indefinite life intangibles, i.e. those which are not required to be amortised. Further, the limit of 10 years (with a rebuttal presumption) for amortising intangibles under current Indian GAAP is not there under Ind AS. Accordingly, intangibles may get amortised over a longer period based on their estimated useful life and expected economic benefits. However, recognition of increased intangibles separately from goodwill and their subsequent amortisation will reduce the reported profit or increase the reported loss going forward upon adoption of Ind AS compared to Indian GAAP.

Another change in practice will be noted in the accounting of transaction costs. Under Ind AS, transaction costs related to business acquisitions will be charged to profit or loss, whereas under Indian GAAP, these are generally capitalised as part of investment resulting in higher goodwill/lower capital reserve.

Ind AS 103 also includes detailed guidance for the definitions of business, control, date of acquisition, step acquisitions, contingent consideration, taxes, etc, which can result in significant differences compared to current Indian GAAP. For example, going forward, deferred taxes will be required to be recognised on the fair value adjustments as part of acquisition accounting. Also, contingent consideration will be estimated and recorded during acquisition accounting. Subsequent changes in fair value of such contingent consideration will be recognised in profit or loss (unless it is equity related).

There are increased disclosure requirements such as disclosing fair value of acquired assets and liabilities, pro-forma financial information, etc.

Preparers will need to closely evaluate these provisions as they plan future mergers and acquisitions.

Taxes

Balance sheet approach

This is another area which will impact every entity. Ind AS 12 focusses on the use of asset and liability method (balance sheet approach) to measure deferred tax liability or asset. It is assumed that assets will be realised and liabilities will be settled at their carrying amounts. If the carrying amounts of assets and liabilities differ from their corresponding tax bases, future tax effects will result from reversals of such book-and tax-basis differences. Accordingly, deferred taxes will be recorded on the resultant temporary difference (as opposed to timing differences under current Indian GAAP). This approach under Ind AS is broader and likely to result in deferred taxes on more items and also additional deferred taxes on some items.

Deferred tax asset assessment in case of carried forward losses

Under Ind AS 12, a deferred tax asset can be recognised on the carried forward unused tax losses to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilised. This is a lower threshold compared to the virtual certainty supported by convincing evidence presently required in order to recognise deferred tax assets under Indian GAAP. This could potentially result in the reporting of higher deferred tax assets upon the adoption of Ind AS as compared to the current practice.

Taxes on consolidation

Indian GAAP prohibits any tax adjustment on consolidation, as it is a line-by-line consolidation of tax expense of the parent and its subsidiaries. Ind AS 12 requires recording deferred taxes on unrealised intercompany profits elimination.

Under Ind AS, a deferred tax liability may also get recorded in the consolidated accounts of a parent entity, if for example, distribution of unremitted earnings of its subsidiary will result in additional tax consequences. The impact of this could be quite significant in India due to dividend distribution tax regime. Also, such dividend distribution tax will be recorded in the income statement and not in equity in the consolidated financial statements. This will reduce the reported net results when Ind AS is adopted.

Disclosures

Adoption of Ind AS will also require extensive disclosures in the area of income taxes. This includes a reconciliation of effective tax expense with the actual tax expense, deferred tax assets not recognised on losses, movement in deferred tax assets and liabilities balances, etc.

Other key areas of differences

Non-financial assets

In general, the guidance under both Indian GAAP and Ind AS relating to non-financial assets (e.g., intangible property, plant and equipment—including leased assets and inventory) are similar with some specific differences that have potentially far-reaching implications. These include the following:

- **Componentisation:** Ind AS is consistent with the requirements of the Companies Act 2013, requiring depreciation or amortisation to be calculated taking into consideration significant components of fixed assets, i.e. when significant parts of an item have different useful lives.
- **Change in depreciation method:** The change in the depreciation method will be treated as a change in estimate under Ind AS. Similar to other changes in estimates, the impact of change in the depreciation method will be applied prospectively. Presently, under Indian GAAP this is accounted retrospectively.
- **Indefinite life intangibles:** As discussed earlier, under Ind AS, intangible assets can now have indefinite lives. A common example is brand name. Indefinite life intangibles will not be amortised but tested for impairment annually.
- **Revaluation:** Revaluation of property, plant and equipment is a policy choice under Ind AS. An entity which opts for this policy will have to measure its property, plant and equipment on fair value basis with sufficient regularity. The depreciation will also be recognised on the revalued amount. Unlike Indian GAAP, the incremental depreciation will flow through the profit or loss. The revaluation surplus accumulated in equity cannot be credited to profit or loss to offset the incremental depreciation expense.
- **Deferred payment obligation:** Consistent with present value concepts, when an item of fixed asset is acquired by paying in installments over a long period (i.e. includes a significant financing component), the financing component is separated from the total transaction price and recorded as an interest expense in profit or loss over the tenure of the obligation. Under Indian GAAP, discounting of long-term payables or deferred payment obligations is not permissible.
- **Discounting of decommissioning and restoration liabilities:** Consistent with present value concepts, any such long-term provisions will be discounted upon the adoption of Ind AS, which is not done under present Indian GAAP.
- **More guidance on leases (embedded leases):** Ind AS has more explicit guidance on arrangements in the nature of leases. Arrangements which may not have been legally termed as leases but in substance are 'right to use underlying assets' will now get accounted as leases using this guidance. For example, accounting for power purchase agreements, IT outsourcing contracts, toll manufacturing arrangements (take or pay type of contracts), etc.
- **Foreign exchange fluctuations:** Under Ind AS, foreign exchange fluctuations will need to be charged to the profit-and-loss account and cannot be capitalised to fixed assets (except as an adjustment to the borrowing costs), except for one-time transition relief discussed later in this document.

Share-based payments

Ind AS 102 provides comprehensive guidance for accounting for all types of share-based arrangements to employees and others. Under Indian GAAP, a company could have used the intrinsic value method or the fair value method. However, the adoption of Ind AS requires all types of share-based payments and transactions to be measured at fair value and recognised over the vesting period. This

will also include awards granted by the parent company to the employees of the subsidiary.

Further, costs with respect to awards granted with graded vesting will have to be recognised on an accelerated basis. All of this will result in reporting higher expense upon the adoption of Ind AS.

Actuarial gains and losses on defined benefit obligations

Upon Ind AS adoption, actuarial gains and losses on defined benefit obligations will now be recognised in other comprehensive income in equity and will no longer get recycled into profit or loss. Under Indian GAAP, these amounts are recognised in the income statement. This will reduce any volatility in reported profit or loss upon Ind AS adoption.

Segment information

Under Indian GAAP, segmental information is disclosed based on business and geographical reporting–one as primary format, the other as secondary. Whereas Ind AS 108 requires segmental information to be provided basis how the chief operating decision-maker evaluates financial information for the purposes of allocating resources and assessing performance. This may require certain companies to change segment disclosures consistent with the internal reporting.

Government grants

As compared to Indian GAAP, there is no concept of grants in the nature of promoter contribution under Ind AS. Accordingly, grants will either be capital or income in nature.

Also, certain sales tax deferral schemes may result in a portion of such collected taxes to be accounted as government grants (due to the impact of discounting and recording the liability at fair value). This could have a significant impact for certain entities which may have availed such benefits.

Dividend distribution

Under Ind AS, liability for dividend distribution will be recorded on shareholder approval. This will be a change in practice compared to current Indian GAAP.

Restatement

The concept of restatement will be new for India. Under Ind AS, change in accounting policies and correction of errors or omissions will be accounted for retrospectively by restating the comparative periods, i.e. previously finalised accounts. This will be a significant change as presently under Indian GAAP, these adjustments are recorded through the current period income statement as prior period items or effect of change in the accounting policy.

Functional currency

Ind AS requires that functional currency be determined for each entity, which could be different from the local currency of an entity. This is important, as the determination of functional currency in turn impacts reported foreign exchange gains or losses.

Industry specific guidance

Ind AS has more industry-specific guidance for example in the following areas:

- Agriculture (biological assets at fair value)
- Investment property
- Exploration for and evaluation of mineral resources
- Investment entities
- Service concession arrangements
- Regulatory deferral

Accounting for some of the above could be complex and requires careful consideration.

Ind AS and IFRS: A comparison

India has chosen the path of IFRS convergence and not adoption. Though, Ind AS has come a long way and is now quite close to IFRS, certain differences between the IFRS and Ind AS still remain. What we term as carve-outs or carve-ins. A high-level snapshot of such differences between Ind AS and IFRS is provided below:

Presentation

- Under Ind AS, the breach of a material provision of a long-term loan will be classified as current except where before the approval of the financial statements for issue, the lender had agreed not to demand payment as a consequence of the breach. A similar exemption is unavailable in IFRS. Consequently, adjusting events under Ind AS 10 has been modified to include events, where the lender had agreed to not demand payment as a consequence of the breach of material provision of a long-term loan, before the approval of the financial statement for issue. Though this is not in line with IFRS, it is in line with US GAAP.
- The option to present other comprehensive income in a separate statement is not available under Ind AS. Accordingly, only one statement comprising both profit or loss and other comprehensive income will be presented. The single statement approach requires all items of income and expense to be recognised in the statement of comprehensive income, while the two-statement approach requires two statements to be prepared, one displaying components of profit or loss (separate income statement) and the other beginning with profit or loss and displaying components of other comprehensive income. IFRS provides an option either to follow the single-statement approach or to follow the two-statement approach.
- Ind AS also does not allow the presentation of expenses by function, only the classification of expense by 'nature' is permitted. Under IFRS, this is a policy election. This difference could create problems particularly for entities with multiple overseas subsidiaries already using functional expense classification.
- IFRS allows the option to present inflows and outflows of interest and dividends in the operating activities section of the cash flow statement. Ind AS does not have this option for non-financial entities. Interest and divided inflows and outflows are required to be reported in the investing and financing sections of the cash flow statement.
- Under IFRS, earnings per share are not required in separate financial statements if both consolidated and separate financial statements are presented. Under Ind AS, the disclosure of earnings per share is required in both consolidated as well as separate financial statements.
- Under Ind AS, where any item of income and expense which is otherwise required to be recognised in profit or loss in accordance with Ind AS, is debited or credited to the securities premium account or other reserves, the amount in respect thereof shall be deducted from profit or loss from continuing operations for the purpose of calculating EPS. There is no such provision in IFRS.

Acquisitions

- Under IFRS, the bargain purchase gain or negative goodwill arising on business combinations is recognised in profit or loss. Under Ind AS, the bargain purchase gain can be recognised either in other comprehensive income or capital reserve but not in profit or loss. Similar to business combination, bargain purchase gain on the acquisition of an associate is also not recognised in profit or loss.
- Under Ind AS, common control transactions are to be accounted only based on the book values of assets and liabilities. IFRS also allows a fair value option.

Leases

- Under Ind AS, where the escalation of operating lease rentals is in line with the expected general inflation so as to compensate the lessor for expected inflationary cost, rentals are not required to be recognised as an expense on a straight-line basis. Under IFRS, this is considered contingent rent if linked to the index.

Derivatives

- Ind AS introduces an exception to the IFRS definition of a 'financial liability'. Ind AS classifies a conversion option embedded in a convertible bond denominated in a foreign currency as an equity instrument if it entitles the holder to acquire a fixed number of the entity's own equity instruments for a fixed amount of cash, and the exercise price is fixed in any currency. This is not provided in IFRS. Therefore, it will not be required to be fair valued at each balance sheet date under Ind AS. Under IFRS, this conversion option is treated as a derivative liability. This is one of the most significant differences between Ind AS and IFRS.

Property, plant and equipment

- Under Ind AS, investment property is to be accounted using only the cost model, with the disclosure of fair value. Under IFRS, both cost and fair value options of accounting are available.

- IFRS permits the treatment of property interest held in an operating lease to be classified as investment property, if the definition of investment property is otherwise met and a fair value model is applied. In such cases, the operating lease will be accounted as if it were a finance lease. However, there is no such option under Ind AS.

Government grants

- IFRS gives an option to measure non-monetary government grants related to assets (tangible and intangible) either at their fair value or at nominal value. Ind AS requires the measurement of such grants only at their fair value.
- IFRS gives an option to present the grants related to assets either by setting up the grant as deferred income or by deducting the grant in arriving at the carrying amount of the asset. Ind AS requires the presentation of such grants in the balance sheet as deferred income.

Related parties

- Under IFRS, certain relationships are specifically mentioned and considered to meet the definition of close members of the family of a person. These relationships are expanded in Ind AS to include brother, sister, father and mother of a person.
- Under Ind AS, the related party disclosures do not apply where providing such disclosures will conflict with the entity's duties of confidentiality provided under a statute or by a regulator or similar competent authority. IFRS does not provide such an exemption.

Associates

- When it is impracticable, Ind AS 28 allows the exemption from use of uniform accounting policies to perform equity method accounting of associates. IFRS does not allow this option.

Others

- Under IFRS, standards on segment information and earnings per share are applicable to only those companies which are listed or are in the process of being listed. Ind AS does not provide any such exemption for the applicability of standards. In the absence of any exemption under the Companies Act and the rules made thereunder, all companies applying Ind AS will have to apply standards on segment information and earnings per share.

Companies need to carefully evaluate the Ind AS transition provisions and accounting policy elections, in case they wish to bring their Ind AS financial information closer to IFRS as issued by the IASB. This may be more important for those entities that are planning international fund raising or listing, as they may require IFRS compliant financial statements for that purpose.

First-time adoption and transition to Ind AS

As in IFRS, Ind AS also has a specific standard to facilitate smooth transition–Ind AS 101, *First Time Adoption of Indian Accounting Standards*. This is applied during the preparation of a company's first Ind-AS compliant financial statements. Generally, Ind AS policies would have been required to be applied retrospectively, which would have resulted in significant cost and efforts outweighing the benefits. Accordingly, Ind AS 101 provides relief by way of certain optional exemptions and mandatory exceptions from applying Ind AS retrospectively.

Ind AS 101 requires companies to do the following:

- Consider existing notified Indian accounting standards as previous GAAP when they transition to Ind AS. Accordingly, Indian GAAP will be considered previous GAAP and the starting point for the transition to Ind AS.
- Identify the first Ind AS financial statements.
- Prepare an opening balance sheet at the date of transition to Ind AS, which is the earliest comparative period presented in the first Ind AS financial statements.
- Select accounting policies that comply with Ind AS and apply those retrospectively to all of the periods presented in the first Ind AS financial statements.
- Consider whether to apply any of the optional exemptions from the retrospective application of Ind AS.
- Apply the mandatory exceptions from retrospective application; and
- Make extensive disclosures to explain the transition to Ind AS. The company will have to provide the reconciliation of equity and income.

Application of the above process is expected to result in the preparation of transparent and high quality Ind AS financial statements.

Optional exemptions

- **Business combination**
  This allows companies not to restate business combinations which occurred prior to the transition date or before an earlier selected date. Accordingly, a company may continue with its current business combination accounting under Indian GAAP (with some adjustments to goodwill or capital reserve).
- **Property, plant and equipment, investment properties and intangible assets**
  Ind AS 101 provides an option to use Indian GAAP carrying values at the date of transition for all its property, plant and equipment, investment properties and intangible assets. The carrying amount for these assets on the date of transition becomes their deemed cost. The fact and accounting policy shall be disclosed by the entity until such time that those items of property, plant and equipment, investment properties or intangible assets, as the case may be, are significantly depreciated, impaired or derecognised from the entity's balance sheet. Companies may also decide to fair value these assets at the transition date.
- **Long-term foreign currency monetary items**
  Under IFRS, exchange differences arising on the settlement or on the translation of monetary items shall be recognised in profit or loss in the period in which they arise. Ind AS 101 provides an option to continue the policy adopted

for accounting for exchange differences arising from the translation of long-term foreign currency monetary items recognised in the financial statements for the period ending immediately before the beginning of the first Ind AS financial reporting period as per the previous GAAP.

- **Service concession arrangement: Toll roads**
  Ind AS 101 provides optional relief from retrospective application for the policy adopted for the amortisation of intangible assets arising from service concession arrangements related to toll roads recognised in the financial statements for the period ending immediately before the beginning of the first Ind AS financial reporting period as per the previous GAAP.
- **Non-current assets held for sale and discontinued operations**
  While applying Ind AS 105 Non-Current Assets Held for Sale and Discontinued Operations, a first-time adopter can measure such assets or operations at the lower of carrying value and fair value less cost to sell at the date of transition and recognise the difference directly in retained earnings.

Mandatory exceptions

In addition to the optional exceptions discussed above, which an entity may elect to apply or not, there are mandatory exceptions under Ind AS 101. These are quite straightforward and will ensure consistency across entities:

- The estimates made under previous GAAP (Indian GAAP) should not be changed by using subsequent information at the Ind AS transition date, i.e. not to use any hindsight. These estimates should be changed only if there is an error, or the estimates were not required under Indian GAAP but are now required under Ind AS.
- With respect to hedge accounting, companies will need to consider whether an existing hedging relationship under Indian GAAP will also qualify as a hedging relationship under Ind AS 109. If it does not, then any existing hedge accounting under Indian GAAP will need to be discontinued upon transition to Ind AS. Also, the use of hindsight to retrospectively designate derivatives and qualifying instruments as hedges is not permitted.
- The non-derivative financial assets and liabilities that were previously derecognised under Indian GAAP before the date of transition will continue to remain derecognised. Derecognition provisions will apply prospectively.
- The classification and measurement of financial assets will be made considering whether the conditions of Ind AS 109 are met based on facts and circumstances existing at the date of Ind AS transition.
- Finally, impairment requirements of Ind AS 109 will be required to be applied retrospectively

What this means for your business: A call to action

Ask the important questions now

Companies need to carefully plan for their Ind AS transition strategy. There are important questions that companies need to ask themselves and more importantly be prepared to answer with a clear action plan.

Communications with key stakeholders

- How are we preparing for the board communication, education process with respect to changes resulting from Ind AS including the impact on key metrics historically communicated?
- How well are we engaging with the board and whether it is timely?
- How will we communicate our findings to our shareholders, analysts and others?
- What are our competitors doing? How do we benchmark? How will others compare with us?
- What are the typical industry issues?

Operations, infrastructure and regulatory

- Are we considering the impact of Ind AS in our current negotiations and dealings with customers, vendors, lenders, etc.?
- How should long-term contract discussions be shaped today keeping in mind the requirements of Ind AS?
- What change management structures are in place? Will they get the job done?
- Can we consolidate legacy IT systems and processes under Ind AS?
- Are we buying, modifying or implementing new IT systems based on an Indian GAAP world? Will they provide us with the information we need under Ind AS?
- Are we embedding the implications of Ind AS into our internal control systems?
- What implications does Ind AS have on our tax strategies?
- How will accounting under Ind AS blend with the requirements of the new income computation and disclosure standards (ICDS) under tax?
- How will adoption of Ind AS interact with the provisions of MAT?

Human capital strategies

- Are all appropriate functional disciplines and business locations sufficiently engaged?
- Have we set up an appropriate project framework and communication channels?
- Which are the best incentives in ensuring a business-wide conversion?
- How does this change affect our employee compensation strategy?
- What level of in-house experience or expertise do we have? What types and extent of training will we require?
- How will we monitor milestones and progress?

By addressing these questions early, companies increase their chances of ensuring a smooth and effective conversion. This thorough approach can help companies 'bake-in' rather than 'bolt-on' Ind AS changes. Failure to do this may lead to ongoing conversion efforts, each aiming to correct the previous effort.

The time to embrace the Ind AS transformation journey is now!

Phase 1: Preliminary study	Phase 2: Conversion	Phase 3: Integrating the change
• Identification of GAAP differences • Industry specific issues • Key arrangements and contracts • Evaluate training needs	• Project management team • Training of staff • Complex areas • Optional exemptions and mandatory exceptions • Accounting policies • Quantification of adjustments • Detailed disclosures • Specialists involvement • Ind AS financial statements including reconciliations	• Ind AS chart of accounts • Accounting manual • Accounting software/reports • Business processes and internal controls • Ind AS to ICDS

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youtube.com/pwc

Our offices

Ahmedabad
President Plaza, 1st Floor Plot No 36
Opp Muktidham Derasar
Thaltej Cross Road, SG Highway
Ahmedabad, Gujarat 380054
Phone +91-79 3091 7000

Bangalore
6th Floor, Millenia Tower 'D'
1 & 2, Murphy Road, Ulsoor,
Bangalore 560 008
Phone +91-80 4079 6000

Chennai
8th Floor
Prestige Palladium Bayan
129-140, Greams Road
Chennai 600 006
Phone +91-44 4228 5000

Hyderabad
Plot No. 77/A, 8-2-624/A/1
Road No. 10, Banjara Hills
Hyderabad - 500034, Telangana
Phone +91 40 4424 6000

Kolkata
Plot No.Y-14, 5th Floor,
Block-EP, Sector-V, Salt Lake
Kolkata 700 091, West Bengal
Phone +91-33 2357 9100 / 2357 7200

Mumbai
252, Veer Savarkar Marg,
Shivaji Park, Dadar,
Mumbai - 400 028.
Phone +91 22 66691000

New Delhi / Gurgaon
Building No. 10, Tower C, 17th and 18th Floor,
DLF Cyber City, Gurgaon, Haryana -122002
Phone +91-124-4620000

Pune
7th Floor, Tower A – Wing 1,
Business Bay, Airport Road,
Yerwada, Pune 411 006
Phone +91-20-41004444

www.pwc.in

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