Ind AS: India’s accounting standards converged with the IFRS are here!
Consistent with its January 2015 announcement, the Ministry of Corporate Affairs (MCA) has moved quite swiftly and notified its phase-wise roadmap for adoption of the Indian Accounting Standards (Ind AS) – India’s accounting standards converged with the IFRS. After lingering skepticism regarding Ind AS getting notified, this positive development positions India well at the center of high quality financial reporting. The MCA has issued a notification dated 16 February 2015 announcing the Companies (Indian Accounting Standards) Rules, 2015 for applicability of Ind AS.

**Applicability**

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 having a net worth equal to or exceeding 250 crore INR will follow 1 April 2017 onwards. From April 2015 (which is less than six weeks away) companies impacted in the first phase will have to take a closer look at the details of the 39 new Ind ASs currently notified. Ind AS will also apply to subsidiaries, joint ventures, associates as well as holding companies of the entities covered by the roadmap.

**Clarifications**

The notification has clarified many previously open questions, some have been described below:

- The date and manner of calculation of net worth has been spelled out. It has been clarified that 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.

- 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 stand-alone 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 stand-alone 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.

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**All listed companies (except companies listed on SME exchanges) and companies having a net worth of 250 crore INR or more will be required to adopt Ind AS. Companies not covered by the rules will continue to apply the existing accounting standards.**

**The requirement to present comparatives implies that companies impacted by phase one will require an Ind-AS compliant opening balance sheet as of 1 April 2015.**
• Entities not covered by the roadmap can voluntarily adopt the Ind AS. Once having chosen 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 consolidated Ind AS accounts.

• The debate on two of the most significant standards, Revenue Recognition and Financial Instruments has now been settled with them being notified. 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 from 2017. These two standards 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), which 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.

**Carve outs**

India has chosen the path of IFRS convergence and not adoption. Accordingly, certain differences have remained between the IFRS as issued by the IASB and our Ind AS - carve outs. Some of these carve outs diminish comparability of Ind AS with the globally accepted IFRS. However, to overcome this, companies must carefully evaluate the Ind AS transition provisions and accounting policy elections so that their Ind AS financial statements can be brought closer to the IFRS, if not made the same. In this regard, some significant carve outs to be considered, are in the areas of negative goodwill arising on business combinations, operating leases with rent escalations, accounting for foreign currency convertible bonds and major breaches of long tenure debt covenants.

**Phase one: Mandatory for accounting periods beginning on or after 1 April 2016**

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<thead>
<tr>
<th>A</th>
<th>B</th>
<th>C</th>
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<tbody>
<tr>
<td>Companies whose equity and/or debt securities are listed, or</td>
<td>Unlisted companies having a net worth of 500 crore INR or more</td>
<td>Holding, subsidiaries, joint ventures or associate companies of companies covered in (A) and (B)</td>
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<td>Companies who are in the process of listing on any stock exchange in or outside India, and</td>
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<tr>
<td>Companies having a net worth of 500 crore INR or more</td>
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• Comparative information is required for the period ending 31 March 2016 or thereafter.

• The rules do not mention the net worth criteria for holding, subsidiary, joint venture or associate companies covered in (C) above. Accordingly, it appears that even smaller companies in this category will be covered under this phase.
Phase two: Mandatory for accounting periods beginning on or after 1 April 2017

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<tr>
<th>D</th>
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<tr>
<td>• Companies whose equity and/or debt securities are listed, or</td>
<td>• Unlisted companies having a net worth of 250 crore INR or more but less than 500 crore INR and not covered in any of the other categories</td>
<td>• Holding, subsidiaries, joint ventures or associate companies of companies covered in (D) and (E)</td>
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<tr>
<td>• Companies who are in the process of listing on any stock exchange in or outside India, and</td>
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<td>• Companies having a net worth of less than 500 crore INR</td>
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• Comparative information is required for the period ending 31 March 2017 or thereafter.
• The rules do not mention the net worth criteria for holding, subsidiary, joint venture or associate companies covered in (F) above. Accordingly, it appears that even smaller companies in this category will be covered under this phase.

Voluntary adoption: For accounting periods beginning on or after 1 April 2015

• Comparative information is required for the period ending 31 March 2015 or thereafter.
• The rules explicitly state that any company may comply with the Ind AS. However, it specifies that once a company opts to follow Ind AS, it shall be required to follow it for all subsequent financial statements.

Companies not covered in the rules

• Banking, insurance and NBFCs have been excluded. As mentioned in the Finance Minister’s Budget speech, it is expected that the implementation date for these companies shall be notified separately.
• Companies whose securities are listed or are in the process of listing on SME exchanges as referred to in chapter XB or on the institutional trading platform without initial public offering in accordance with the provisions of chapter XC of Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2009. These companies shall continue to comply with the existing accounting standards unless they choose otherwise.
• Overseas subsidiaries, associates, joint ventures and other similar entities of an Indian company may prepare their standalone financial statements in accordance with the requirements of the specific jurisdiction provided that the concerned Indian company prepares its consolidated financial statements in accordance with Ind AS either voluntarily or mandatorily if it meets the criteria.
• Companies not covered by the rules shall continue to apply the existing accounting standards prescribed in the Annexure to the Companies (Accounting Standards) Rules, 2006.

Next steps

Implementing Ind AS is likely to impact key performance metrics and hence requires 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 processes, systems, controls, income taxes and contractual arrangement.

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. The Ind AS implementation exercise needs to establish sustainable processes so as to continue to produce meaningful information long after the exercise is completed.
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