

**INTERNATIONAL FINANCIAL REPORTING STANDARDS  
(IFRS) / INDIAN ACCOUNTING STANDARDS (IND AS) -  
An Impact Seminar**

**Seminar Compendium**

**In Collaboration with the  
Institute of Chartered Accountants of India**

Editor-in-Chief:

**Rev. Dr. Daniel Fernandes, SJ**



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**Dr. Mohan P. Philip**

**Dr. Raja Jebasingh**

**CMA. Ravi Darshini**

**POST GRADUATE DEPARTMENT AND  
RESEARCH CENTER**



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## PREFACE

It gives me immense pleasure to publish the compendium of proceedings of the UGC Sponsored National Seminar organized by the Post Graduate Department of St. Joseph's College of Commerce (Autonomous) on "International Financial Reporting Standards (IFRS) / Indian Accounting Standards (IND-AS) – An Impact Seminar. "This is in collaboration with The Institute of Chartered Accountants of India (ICAI). Accounting is said to be the language of the business and as such it would be wise and helpful if there is a common language for the whole world to understand. Having a motive to achieve this uniformity, the International Accounting Standards Board formed the IFRS as a single set of accounting standards to be recognized globally. With the view of improving globalization in the Indian economy, there came a need to converge the IFRS with Indian GAAP. Thus, giving rise to the Indian accounting standards (IND-AS).

IND-AS were issued under the supervision and control of Accounting Standards Board (ASB). ASB is a committee under The Institute of Chartered Accounts of India (ICAI) which consists of representatives from government departments, academicians and other professional bodies. Presently, The Institute of Chartered Accounts of India (ICAI) has issued 39 accounting standards (IND-AS) which have been notified under the Companies (Indian Accounting Standards) Rules, 2015 ("IND-AS Rules"), of the Companies Act, 2013.

The benefits of this transition lies in the reduction of costs for Multinational Companies as they are able to use uniform accounting standards in all markets that they operate in and skills required across the companies with its homogeneity. While IND-AS is not the same as IFRS, it will bring the accounting standards in India much closer to the International standards that investors know and have confidence in. This will raise the standard of reporting in India and that in turn, will improve the appeal of Indian companies to foreign investors. Its relevant and improved disclosures will bring clarity across various elements of a company's management discussion and analysis making way to simplify its auditing tasks. The reduction in diversity of accounting principles holds good to handle challenges in accounting.

A majority of respondents believed that this move will give rise to major challenges in the implementation stages for the top concerns who are involved in educating and training individuals in the adoption of IND-AS. Changes to the IT systems and internal control over financial reporting is another tedious process. While the identification of the level of resources required for this shift is considered, expenses will rise as companies will either need to hire new staff, outsource or retrain current employees.

As a result of this convergence, the major sectors impacted involve Real estates, IT/ITES, Entertainment and Media, Pharmaceutical, Automobile, Oil and gas, Telecom and Infrastructure / Construction. This highlights the vast impact over the Indian Economy and throws its seeds to the profitability and growth of the nation. IND-AS shows its vitality in making India globalized as the current IND-AS will be accompanied by many more as and when the ICAI body decides to do so. Its implementation from FY 2016 (April 2016) applies to all companies with turnover more than 500 crores, aiming at a complete shift to IND-AS.

In this collection of articles, an attempt is made to present the role of IFRS/IND-AS as a game changer in the process of economic progress of the nation. All the paper presenters with their vision and outlook have made it possible in compiling these articles. I record my sincere appreciations to all the contributors.

A handwritten signature in black ink, appearing to read 'Daniel Fernandes S.J.', with a small dot at the end of the line.

**Dr. Daniel Fernandes S.J**  
Principal

## **Message from the Key Note Speaker**

I congratulate **St. Joseph's College of Commerce** for organizing an **Impact seminar” on International Financial Reporting Standards (IFRS) / Indian Accounting Standards** in collaboration with the **Accounting pioneer “Institute of Chartered Accountants of India” (ICAI)** on 31st August 2016.

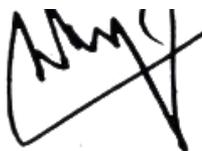
Every country stipulates a method for companies to report financial data based on rules called accounting standards. India has so far followed Indian Generally Acceptable Accounting Principle (IGAAP). However, from FY 2016-17, certain class of companies will follow IND-AS whose principles are closely based on international accounting system called IFRS. This will increase comparability of Indian companies with their international counterparts.

IND AS recognizes substance over form and importance of the fair value in the financial statements. This means accurate reporting will gain importance over just complying with legal provisions and it should reflect the most current picture of financials.

These new standards will impact key financials such as revenue, operating profit, net profit, book value, goodwill, and return on equity.

I am sure that with the galaxy of speakers and paper presenters, the seminar would have a meaningful impact on the target audience, who are all the change agents in the cycle of knowledge dissemination, thereby achieving the desired objective of the seminar.

I extend my best wishes to St. Joseph's College of Commerce and ICAI for the success of the one day seminar.



**K. Gururaj Acharya**

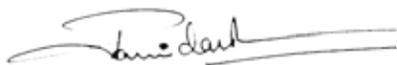
18th August 2016

## FOREWORD

The conference proceedings provide a clear and objective account of understanding the journey of IND AS converged with IFRS. Today there would be over 1000 companies that will have to comply with the new accounting norms, these norms were facilitated to adopt a common language of reporting of financial statements that is understood by investors worldwide. The ministry of corporate affairs has made IND AS mandatory for certain class of companies from 1st April 2016. These listed companies shall have to disclose their financials to ensure fair view of its affairs. India has found herself on the investor's radar as the fastest growing large economy in the world. With an expected growth rate of 7.2 percent these fiscal years in addition to an increase to 7.5 percent next year, investors worldwide are recognizing India as the next big player in the world economy. Convergence of IND As with IFRS will boost foreign investors' confidence as the financial statements will be presented in a more transparent and understandable style. The applicability and impact of IND AS on a company's financials will be understood better in the progressive years to come.

This conference aims at providing an insight on the applicability, implementation and effect of IND AS on the company's financial statements. By inviting researchers and students from across the country, we endeavor to understand the Convergence process, impact and scope of IND AS, on the business scenario in India. This conference aspires to provide a podium for research scholars to put forth their findings.

I whole-heartedly express my gratitude to the Principal Rev. Dr Daniel Fernandes, SJ and Vice Principal Dr. Nirmala Joseph. A special thanks to ICAI for contributing towards being knowledge partners. I also express my gratitude to the entire organizing committee for their hard work and dedication to make this seminar a success. My deep gratitude to all the participants for taking a keen interest on studying IND AS.



**Prof. Ravi Darshini**  
Head of PG Department  
St Josephs College of Commerce

## **Message form the Research Department**

Dear Colleagues,

The language of business is Accounting and Financial Reporting is the medium through which the language is communicated. A need for regulating Accounting and Financial reporting standards are more felt in the recent times. This can be achieved by conforming with the requirements of Generally Accepted Accounting Principles (GAAP), which comprises of accounting standards, company law, stock market regulations, and so on.

The global GAAP have been seeking to unify accounting and financial reporting practices worldwide which resulted into the birth of International Financial Reporting Standards (IFRS). IFRS is the product of deliberations made by the initiatives of International Accounting Standards (IAS), International Financial Reporting Standards (IFRS); Standing Interpretations Committee (SIC). IFRS, developed in the year 2001 by the International Accounting Standard Board (IASB) is expected to provide a single set of high quality, understandable and uniform accounting standards across the global accounting practices.

In accordance with its commitment to G20 requirements, India is converging to IFRS, from Indian GAAP to IND AS, which can be considered as a landmark change in this regard. The IFRS converged standards is presently referred to as Indian Accounting Standards (IND-AS) and contains numerous carve outs from IFRS. The change to IND AS is a hugely positive move that will bring the accounting practices in India substantially closer to the accounting practices followed by the global companies teamed under IFRS. The change should be considered as a very important stepping-stone towards the adoption of IFRS. IFRS ensures public commitment to high accounting standards in corporate governance and reporting. Each country signing in can decide its own regulations relating to the formulation and implementation of structure of IFRS.

The adoption of IFRS is expected to increase the level of confidence of global investors and investment analysts, which will assist them to generate more funds from foreign sources. Companies Act, 2013 requires that all companies to adhere to the changes prescribed by IFRS, while preparing the financial statements. The application of IND AS is more than a mere accounting or technical exercise. The consequences of this change are feared to be far wider than financial reporting issues. Repercussions of the shift are expected to have a significant impact on all the sectors of the economy, such as debt covenants, dividend, managerial remuneration, ESOP, Minimum Alternate Tax (MAT), training of employees, IT systems, internal control and taxation. The various stakeholders dealing with the standards such as

the government, investors, professionals and companies will also face the major challenges in the years ahead after implementation.

We are delighted to present this volume of composed proceedings of the National Seminar on IFRS / IND AS impact organized by the PG Department, St. Joseph's College of Commerce. Each paper in this proceeding has been reviewed by the review committee and we hope you find this publication a useful overview of this field of research.

The proceedings contain the outcome of the study conducted by authors who focused on what they are passionate about to IND AS and IFRS. It includes an extensive variety of contributors, who will broaden our view in exploring and giving their contribution in IFRS, IND AS issues, by sharing with us their different personal, academic and experiences.

We would like to express thanks to all the authors substantive contributions and participants. We especially welcome Seminar delegates who are attending IND AS and hope you will enjoy it.

Hoping to continue the collaboration in the future.

Warm greetings and welcome to IFRS & IND AS Seminar,



**Dr. Mohan P Philip**

Editor



**Dr. D. Raja Jebasingh**

Editor

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## **A COMPARATIVE ANALYSIS OF EARNINGS PER SHARE UNDER INDIAN GAAP AND IND AS**

**Varsha .V, Umme Asma .S**

### **Abstract**

*The primary objective of any business organization is profit maximization and to maximize the wealth of the equity shareholders. The performance of a business is essential to all the stakeholders in an organization. But it is more significant to the equity shareholders as they are the financiers to the organization and thereby the expectations with respect to the returns and capital appreciation are much higher when compared to other stakeholders. The returns to the shareholders are distributed based on their holdings out of profits after tax, which is known as EPS and hence EPS has a direct impact on the performance of the business. This paper mainly focuses on analyzing the EPS under the accounting standard issued by the Indian GAAP and Indian accounting standard issued by IASB.*

**Key words:** *EPS-Earnings per Share, GAAP- Generally Accepted Accounting Principles, IASB International Accounting Standards Board and profit after tax.*

### **Introduction**

#### **Accounting Standards (Indian GAAP)**

The Institute of Chartered Accountants of India (ICAI) constituted the Accounting Standards Board on April 21, 1977 to issue accounting standards. An Accounting Standard (AS) is a selected set of accounting policies or broad guidelines regarding the principles and methods to be chosen out of several alternatives or methods of treatment. Accounting standards are written policy documents issued by expert accounting body or by government or other regulatory body covering the aspects of recognition, measurement, presentation and disclosure of accounting transactions in financial statements. Its main objective is to synchronize the diverse accounting policies and practices at present in use in India. Its benefits are to reduce variations,

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to make disclosure beyond that is required by law and to facilitate comparison. Its drawbacks being they cannot override the statute or impose restriction on choice of alternative treatments and rigidity. At present, there are 31 Accounting Standards.

Accounting standards are applicable to all enterprises (whether organized in corporate, co-operative or other forms) engaged in commercial, industrial or business activities, profit or non-profit oriented and charitable or religious purpose organizations.

Indian accounting standards (IND AS): Indian Accounting Standards were issued under the supervision and control of Accounting Standard Board (ASB), which was constituted as a body in the year 1977. It is a committee under Institute of Chartered Accountants of India (ICAI), which includes representatives from government departments, academicians, other professional bodies such as Institute of Chartered Accountancy of India, etc. The Indian Accounting Standards are named in the same way as the corresponding International Financial Reporting Standards (IFRS). National Advisory Committee of Accounting Standards (NACAS) recommends the standards to the Ministry of Corporate Affairs (MCA) and MCA spells out the accounting standards applicable for companies in India. The Ministry of Corporate Affairs has notified 39 Indian accounting standards and they shall be applicable to certain class of companies whose financial year is 2015-16 on voluntary basis and once a company opts to follow Indian -AS, it will be required to follow the same for all subsequent years. From financial year 2016-17, it is considered to be mandatory for certain class of companies. Insurance companies, banking companies and non-banking finance companies cannot voluntarily adopt the Indian accounting standards. The components of financial statements under IND AS comprises of balance sheet as at the end of the period, statement of profit and loss account, statement of changes in equity, cash flow statement, notes including summary of accounting policies and other explanatory information.

International Financial Reporting Standards (IFRS) : IFRS are designed in such a way that it acts as a common global language for the purpose of business affairs, to facilitate company accounts which can be easily understood and comparable across international boundaries. (This is a consequence of globalization and Multinational Companies in different countries trade beyond national boundaries). They are rules to be followed by accountants in order to maintain books of accounts which are comparable, understandable, reliable and relevant as per the internal or external users. IFRS began as an attempt to synchronize accounting across the European Union. But the value of synchronization quickly made the concept attractive to the other countries in the world as well. However, a debate to adopt it or not still exists among few countries. Standards that were issued by IASC (the predecessor of IASB) are still within use today and go by the name International Accounting

Standards (IAS), while standards issued by IASB are called IFRS. IFRS has been adopted in many countries of the world, including South Korea, Turkey, Singapore, Africa, India and Pakistan but has not yet been adopted in the United States. It is generally expected that IFRS adoption will be beneficial to investors and other users of financial statements globally due to reduction of the costs of comparing alternative investments and increasing the quality of information. Companies are also expected to benefit as investors will be more willing to provide finance. Companies that have high levels of international activities like Multinational Companies are among the group that would benefit from adopting IFRS.

**Earnings per Share (EPS):** Earnings per share (EPS) is a ratio broadly used by financial analysts, investors and others to measure an entity's profitability and to value its shares. EPS is a portion of company's profit allocated to each outstanding share of common stock. EPS is normally calculated in the context of ordinary shares (equity shares) of the entity. It is also a major component used to calculate the price to earnings valuation ratio. When reporting financial results, revenue and EPS are two most commonly assessed metrics. Dilutive EPS is considered as a conservative metric because it indicates a worst case scenario in terms of EPS. An important aspect of EPS that is often ignored is the capital that is required to generate the earnings/net income in the calculation. The five types of EPS to be defined in the context of type of earnings being used are; GAAP/Reported EPS, ongoing EPS, pro forma EPS, headline EPS and cash EPS. EPS is only required to be reported by public companies. EPS is reported in a public company's income statement.

$$\text{EPS} = \frac{\text{Net earnings available to equity shareholders}}{\text{Number of equity shares}}$$

Outcome of above formula, gives the earnings available to each equity shareholder.

## **Review of literature**

**Praveen R**, studied "A comparison between Indian GAAP, IFRS and U.S GAAP" and found that there are similar differences between U.S GAAP, Indian GAAP and IFRS. It primarily focuses only on recognition, measurement principles and certain presentation requirements.

**Sunil A**, studied "A study on convergence of Indian accounting standards with international financial reporting standards-challenges and problems" and found that trade beyond national boundaries has led these companies to face many challenges one among them is to face multiple standards. Thus, convergence of Indian accounting standards with international financial reporting standards will benefit investors, industry, professionals and the economy as a whole. Implementation would rather

require change in formats of accounts, changes in different accounting policies and more extensive disclosure requirements. IFRS is more principle based approach.

## **Objectives**

- To study Earnings per Share under accounting standards (GAAP) and Indian Accounting Standards.
- To compare Indian GAAP with Indian Accounting Standards.

## **Methodology**

The research work is done based on the secondary data collected for the study of EPS under existing Indian GAAP and Indian Accounting Standards.

## **Results and Discussions**

### **Over view of AS-20**

Introduction: Under Indian GAAP, Accounting standard-20 deals with earning per share. This Standard prescribes principles to be followed while determining and presentation of earnings per share to enable and improve comparison of performance among different enterprises for the same period and among different accounting periods for the same enterprise. AS-20 dealing with EPS is issued by council of ICAI, comes into effect in respect of accounting periods commencing on or after 1-4-2001 and is mandatory in nature from that date, in respect of enterprises whose equity shares or potential equity shares are listed on a recognized stock exchange in India. An enterprise which has neither equity shares nor potential equity shares which are so listed but which discloses earnings per share should calculate and disclose EPS in accordance with this standard from the aforesaid date.

In case of holding companies, the EPS information of the entity should be separately as well as EPS information of all its subsidiaries in holding company's consolidated statements. An enterprise should present basic and diluted earnings per share on the face of the statement of profit and loss for each class of equity shares that has a different right to share in the net profit for the period. An enterprise should present basic and diluted earnings per share with equal prominence for all periods presented. This standard requires an enterprise to present basic and diluted earnings per share even if the amounts disclosed are negative (a loss per Share) that is, in the case if the entity has incurred losses.

Measurement: Measurement of basic earnings per share and diluted earnings per share.

Basic Earnings Per Share: Basic Earnings Per Share is a rough measurement of the amount of a company's profit that can be allocated to one share of its stock. Basic Earnings per Share do not factor in the dilutive effects of convertible securities.

For companies that have complex capital structure, diluted EPS is considered to be a more precise metric than basic EPS. Diluted EPS takes into account all of the outstanding dilutive securities that could potentially be exercised (such as stock options and convertible preferred stock) and shows an action would affect EPS. If a company has simple capital structure that is it has not issued any potentially dilutive securities, the basic EPS can be a useful metric. Companies with complex capital structure must report both basic and diluted EPS. If a company has simple capital structure, then it must report basic EPS only.

When basic earnings per share relating to prior periods are presented in current period and are adjusted, it is termed as restatement of basic earnings per share.

If an enterprise has more than one class of equity shares, net profit or loss for the period is apportioned over the different classes of shares in accordance with their dividend rights.

Basic Earning Per Share	=	$\frac{\text{Net profit or loss for the period attributable to equity shareholders}}{\text{Weighted average number of equity shares outstanding during the period}}$
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Where

Net profit or loss for the period to equity shareholders	A) Net profit before tax (includes prior period and Extraordinary items)  Less: Current tax (including tax on prior period and extraordinary items) + deferred tax + tax pertaining to earlier years.
	B) Net profit after tax Less: Preference dividend on cumulative preference shares for current period only (whether or not provided in accounts).  Less: Preference dividend on non-cumulative Preference shares for current period only (only if provided in accounts).
	C) Net profit or loss for the period attributable to equity shareholders.

Weighted average number of equity shares outstanding during the period	A) The weighted average no. of equity shares outstanding during the period is the no. of equity shares outstanding at the beginning of the period, adjusted by the no. of equity shares bought back or issued during the period multiplied by the time- weighting factor.
	B) The time-weighting factor is the no. of days for which the specific shares are outstanding as a proportion of the total number of days in the period. However a reasonable approximation of the weighted average may be adequate in many circumstances.

Diluted Earnings per Share: Diluted EPS is a performance metric used to measure the quality of a company’s earnings per share if all convertible securities were exercised. Convertible securities are all outstanding convertible preferred shares, convertible debentures, stock options (primarily employee based) and warrants. Unless the company has no additional potential shares outstanding, which is a relatively rare circumstance, the diluted EPS will always be lower than the simple EPS. If dilutive securities are converted into common stock then dilutive securities effectively increases the weighted number of shares outstanding and this in turn decreases EPS, because the calculation for EPS uses a weighted number of shares in the denominator.

Diluted Earnings Per Share	=	$\frac{\text{Net profit or loss for the period attributable to equity shareholders adjusted for the effects of all dilutive potential equity shares}}{\text{Weighted average number of equity shares outstanding during the period adjusted for the effects of all dilutive potential equity shares}}$
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Where,

Adjusted Net profit or loss for the period attributable to equity shareholders	A) Net profit or loss for the period attributable to equity Shareholders for basic EPS  Add: Preference dividend saved on the conversion of the dilutive potential equity shares into equity shares  Add: interest or other expenses (after tax) saved on the conversion of the dilutive potential equity shares into equity shares  Less: Income that will cease to accrue (after tax) on the conversion of the dilutive potential equity shares into equity shares
	B) Adjusted Net profit or loss for the period attributable to Equity Shareholders

Adjusted weighted average number of equity shares outstanding =	weighted average number of equity shares outstanding for basic EPS + weighted average (no. of equity shares which would be issued on the conversion of potential equity shares into equity shares).
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For the purpose of this standard, share application money pending on allotment or any advance share application money as at the balance sheet date, which is not statutorily required to be kept separately and is being utilized in the business of the enterprise, is treated in the same manner as dilutive potential equity shares for the purpose of calculation of diluted earnings per share.

#### Disclosure requirements

- Present Basic and Diluted EPS on the face of the statement of profit and loss for each class of equity shares even if the amounts disclosed are negative ( that is loss)
- Amounts used as numerators in calculating Present Basic and Diluted EPS and a reconciliation of those amounts to the net profit or loss for the period
- Weighted average number of equity shares used as a denominator in calculating Present Basic and Diluted EPS and a reconciliation of these denominators to each other and,
- Nominal value of shares along with earnings per share figures.

## **IND AS 33**

The main objective of this Standard is to provide principles for the determination and presentation of earnings per share, in order to improve performance and comparisons between different entities for the same accounting period and between different accounting periods of the same entity. Though earnings per share calculation has limitations because of the different accounting policies that may be used for determining ‘earnings’, a consistently used procedure will enhance financial reporting.

### **Scope of the study**

This Indian Accounting Standard shall apply to all the companies that have issued ordinary shares (equity shares) and are notified under the Companies Act. An entity that declares earnings per share shall calculate and disclose earnings per share according to the standards. When both consolidated financial statements and separate financial statements are prepared, the disclosures required by this Standard should be made both in the consolidated financial statements as well as in separate financial statements.

An entity should not present in consolidated financial statements, earnings per share which is based on the information given in separate financial statements and should not present in separate financial statements, earnings per share which is based on the information given in consolidated financial statements.

This standard includes the following terms:

**Anti-dilution-** It refers to an increase in earnings per share (due to increase in profit) or decrease in loss per share based on an assumption that all convertible instruments are converted, that options or warrants are issued, or that ordinary shares are issued on the satisfaction of specified conditions.

A contingent share agreement is an agreement to issue shares (ordinary shares) that are dependent on satisfaction of specified conditions. Ordinary shareholders participate in profit at the end of the period only after other types of shares such as preference shares have participated. An entity may have more than one class of ordinary shares. Basic earnings per share (EPS) shall be calculated by dividing profit or loss attributable to ordinary equity holders (after providing for preference shareholders) of the parent entity (the numerator) by the number of weighted average ordinary shares outstanding (the denominator) during the period. So on the basis of the above discussion, earnings refers to the profit after making payment for interest, tax, dividends for preference shares and then finally the remaining profits are distributed among the equity shareholders. Calculation of diluted earnings per

share, an entity shall adjust profit or loss attributable to ordinary equity holders of the parent entity, and the weighted average number of shares outstanding, for the effects of all dilutive potential ordinary shares.

Potential ordinary shares shall be treated as dilutive when their conversion to ordinary shares would result in decrease of earnings per share or increase loss per share from regular operations. For the purpose of calculating diluted earnings per share, an entity should assume dilutive options and warrants of the entity. The assumed returns from these instruments shall be considered as having received from the issue of ordinary shares at the average market price of ordinary shares during the period. The difference between the number of ordinary shares issued and the number of ordinary shares that would have been issued at the average market price of ordinary shares during the period shall be treated as an issue of ordinary shares for no consideration in return.

An entity should present in the statement of profit and loss both basic and diluted earnings per share from continuing operations which is attributable to the ordinary equity holders of the parent entity. An entity shall present basic and diluted earnings per share with equal prominence for all periods presented.

## **Comparison**

	<b>NATURE</b>	<b>INDIAN GAAP (AS - 20 EPS)</b>	<b>IND AS</b>
1	Scope	This standard is applicable to companies irrespective of whether listed or in process of filing. It is not linked to the listing status of a company	Indian Accounting Standards is applicable to all companies that have issued ordinary shares (equity shares) and as to be notified under companies act
2	Separate disclosure in financial statement	This standard requires disclosure of basic and diluted EPS information both in the separate and consolidated financial statements of parent company.	An entity shall disclose its earnings per share based on the standards issued for calculation and disclosure under the act. In the case of consolidated financial statements, such disclosures shall be based on consolidated information and in separate financial statements such disclosures shall be based on information given in separate financial statements.

3	Continuing and discontinued operations disclosures	No separate disclosure of this nature is required.	Disclosure with respect to the operations of an entity is to be disclosed. Irrespective of continuity and discontinuity of the business.
4	Additional disclosures	Not required as in IFRS.	Disclosure with respect to the amount used as a bases(numerator) for calculation of basic and diluted EPS.
5	Extra the weighted average number of equity shares, ordinary items	EPS with and without extraordinary items is to be presented.	EPS with extraordinary items as to be presented. That includes the instruments that would potentially dilute the earnings per share.
6	Mandatorily convertible instruments	No specific requirements as in IFRS.	There are no specific requirements.
7	Contingently returnable shares	No guidance given.	Contingently issuable shares are taken into consideration for calculation of weighted average number of shares.

## **Comment**

There are 31 accounting standards under Indian GAAP. These standards are given by the experts to provide guidance to the business firms for accounting transactions treatment. It facilitates comparison of financial statements of an entity over a number of years and also between different firms and brings uniformity in the treatment.

IFRS has resulted as a common global language for the purpose of business transactions which is adopted by many countries in the world. It will benefit investors and other users of financial statements, by reducing the costs of comparing alternative investments and increasing the quality of information.

The Components of financial statement under IND AS comprises of balance sheet as at the end of the period, statement of profit and loss account, statement of changes in equity, cash flow statement and notes. If a company has a simple capital structure, the basic EPS can be a useful metric. And for companies that have complex capital structure, diluted EPS is considered to be a more precise metric.

IND AS which is a convergence of Indian GAAP and IFRS provides a platform where a uniform procedure is followed throughout the world in treatment of accounting transactions which also enables a company to compare its performance with other companies during the same accounting period and also it enables the entity to make a strategic decision because IFRS mainly relies on market price and data.

## **Impact**

Impact of Indian GAAP is that, the companies are supposed to follow the broad guidelines as given by the regulatory body, regarding the principles and methods to be applied in treatment of business transactions. To facilitate comparison and maintain uniformity and impact of IND AS is, it not only facilitates and maintain uniformity within Indian companies financial statements but only across international boundaries. Transition from Indian GAAP to IND AS will have considerable impact on the computation of revenue, operating profit, net profit, and net worth of the listed companies. For example Maruti Suzuki, Tata steel, BPCL, ultra tech and coal India may report 3-12% increase in earnings after the implementation of IND AS. Sectors like metals, telecoms. Oil and gas and real estate are likely to impact the most.

## **Findings**

EPS measures entity's profitability. Dilutive EPS is considered as a conservative metric because it indicates a worst case scenario in terms of EPS. AS-20, dealing with EPS is issued by council of ICAI, comes into effect in respect of accounting periods commencing on or after 1-4-2001 and is mandatory in nature from that date, in respect of enterprises whose equity shares or potential equity shares are listed on a recognized stock exchange in India . An enterprise, which has neither equity shares nor potential equity shares which are so listed but which discloses earnings per share, should calculate and disclose EPS in accordance with this standard. This Standard requires an enterprise to present basic and diluted earnings per share, even if the amounts disclosed are negative. From the financial year 2016-17, it is mandatory for certain class of companies to follow IND AS.

## **Conclusion**

On convergence of IFRS with the Indian standards provides benefits like to reduce variations, to make a disclosure beyond that is required by law and facilitates comparisons, to maintain uniformity in the accounts so that the entity may compare its financial performance with other company because of the same accounting policy used. It facilitates comparison of financial statements within a firm as well as between firms located globally or across International boundaries. It is generally expected that IFRS adoption globally will be beneficial to investors and other users of financial statements, by reducing the costs of comparing alternative investments and increasing the quality of information. These companies (like MNC's) faced many challenges; one among them is to face multiple standards of different countries. So IFRS can be followed in these cases. Convergence of Indian accounting standards with international financial reporting standards will benefit investors, industry, professionals and the economy as a whole. Diluted EPS is a performance metric

used to measure the quality of a company's earnings per share if all convertible securities were exercised. Present basic and diluted EPS on the face of the statement of profit and loss for each class of equity shares even if the amounts disclosed are negative.

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## **A COMPARATIVE STUDY OF INDIAN GAAP AND IND AS BRINGING OUT DIFFERENCES IN AS 6 AND IND AS 16 WITH REFERENCE TO DEPRECIATION ON FIXED ASSETS**

**Shalini Pandey, MadhushreeMahadevaiah**

### **Abstract**

*As world is a global market, there are complexities which arise that calls for meeting the requirements of this market and to have smooth functioning of trade and commerce in practical scenario between the nations. Certain uniform norms and regulations, that is, “The Accounting Standards” have to be followed. For this reason, India has “Indian GAAP (Generally Accepted Accounting Principles), United States – “US GAAP” and “IFRS (International Financial Reporting Standards)” for other nations. IND AS 16 talks about the accounting for property, plant and equipment and depreciation thereon. Under the existing AS (Indian GAAP) these come under AS 10 – Accounting for Fixed Assets and AS 6 Depreciation Accounting. Depreciation plays a vital role for a business because it helps to ascertain true income, determine value of asset, reserve funds for replacement of an asset, abatement of tax liability and articulate the legitimate financial position of the business. Though depreciation is an expense to an organization, it helps to diminish the net income eventually leading to low tax liability.*

*This research paper reflects the comparison between AS 6(Depreciation Accounting) with IND AS 16(Property, Plant and Equipment) bringing out the comparative differences between the two standards with reference to depreciation. The study conducted based on the financials obtained from TCS company leads to the finding that the impact of changes under IND AS with respect to depreciation accounting would be beneficial for the stakeholders.*

**Keywords:** *Depreciation, Fixed Assets, Tax, Indian GAAP*

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## **Introduction**

The changing scenario of the business world raised a necessity to bring in uniformity and reduce the confusion and conflict of the financial statement across the world through introduction of IND AS.

IND AS is the result of merger of Indian Accounting Standard and IFRS. As per the notification issued on 16<sup>th</sup> Feb 2015 by the Ministry of Corporate Affairs (MCA) required the application of IFRS converged Indian accounting standards (IND AS) to Indian companies other than banking companies, insurance companies and non-banking finance companies (NBFCs). The standards are applicable for the following company:

- 1.) The company which is listed or non-listed companies with net worth of INR 500 Crores or more and it should be either holding, subsidiaries, joint ventures or associates companies of these companies and have to implement the IND AS from 1<sup>st</sup> April 2016.
- 2.) Non-listed company having net worth of INR 250 Crores or more and are holding, subsidiaries, joint ventures or associates companies of these companies and have to implement the IND AS from 1<sup>st</sup> April 2016.

The company who do not fall under the bracket of the first two they have to follow from the next financial year i.e. 2017

IND AS is applied to both standalone financial statements (SFS) and consolidated financial statements (CFS) of companies covered under the turnover bracket.

The change in the various Indian accounting standards to IND AS is going to impact the various stakeholders like shareholders, government and the company itself.

## **Review of Literature**

(Poonam Dugar, Vibha Tripathi, 2015) in their study “**Convergence to IND AS 16: Changes and Implications**” conducted found that significant components of a property, plant and equipment can be depreciated separately or individually. There is a great impact on the value of PPE due to changes brought about in the treatment of depreciation due to convergence.

(Vedanandamurthy, 2015) in his research paper on “**IFRS Performance in India: Problems and Challenges**” has discussed the problems that will be faced by the stakeholders due to the convergence of the existing Indian accounting standards with IFRS. He points out that even though the convergence has many problems and challenges yet the benefits outweighing the difficulties that would be faced, thereby, strongly recommending the implementation of IFRS in India.

(Dave, 2016) in his article in **The Economic Times** on “**IND AS to raise June quarter tax liabilities by 20%**” brings out how Indian companies would attract more minimum alternate tax (MAT) by adopting new accounting standards for June quarter in FY 2016-2017 which would thereby result in increase in their tax liability by as much as 20%. The companies that have net worth of Rs 500 Crore or above have to mandatorily follow IND AS starting April 2016. As per the article, the method in which the financials would be calculated would lead to impacting the net worth, profit and goodwill, net worth and market capitalization in few cases.

An outlook survey report published by (PricewaterhouseCooper, 2016), “**IndAS: Convergence with IFRS**” gives us an insight into how IND AS adoption would not just be about accounting but goes beyond it to affect key performance metrics, shareholders and various other stakeholders. The change can have a great impact on the company’s budgeting and reporting processes, income taxes and so on.

## **Statement of Problem**

The main reason to introduce a merged accounting standard in the form of IND AS is to bring about consistency and avoid any form of confusion while meeting the requirements of the global market. This study analyses how IND AS would impact various stakeholders of a company as it moves towards IND AS with respect to depreciation accounting.

## **Objectives**

- To identify the differences arising in depreciation accounting in moving from INDIAN GAAP (AS 6) to IND AS 16.
- To study the impacts of this shift on various stakeholders – government, shareholders, prospective investors and the company.

## **Scope of the study**

The present study is made to identify the differences and its impact on various stakeholders of a company. The main aim is to understand whether movement towards INDAS will be of benefit or disadvantage to the stakeholders. A comparative study is being made on financials of the TCS (Tata Consultancy Services) company from Q1 FY16 to Q4 FY16 (FY 2015 – 2016) to understand the impact of the depreciation accounting change under IND AS with respect to the existing Indian accounting standard.

## **Research Methodology**

This is a descriptive research study.

## Methods and Materials

This study is based on the secondary data which includes the financials under the two accounting systems – Indian GAAP and IND AS taken from the TCS company website and also various other information from articles, Journals, Newspaper, and books.

## Analysis

### Comparison of the financials of TCS under IND AS and IGAAP

This comparison is being done to understand the impact of depreciation of fixed assets on the profit of the company thereby influencing the taxes, dividend to the shareholders, profits for the company and prospective investors.

TCS - Profit and Loss Statement showing depreciation and profit as per IGAAP

Consolidated Indian GAAP	Crore				% of Revenue				Total FY 16
	Q1 FY16	Q2 FY16	Q3 FY16	Q4 FY16	Q1 FY16	Q2 FY16	Q3 FY16	Q4 FY16	
Income	25,668	27,165	27,364	28,449	100.00	100.00	100.00	100.00	108,646
Expenditure									
a) Salaries & Wages	9,976	10,284	10,599	10,910	38.87	37.86	38.73	38.35	
b) Overseas business expenditure	3,579	3,688	3,695	3,877	13.94	13.57	13.50	13.63	
c) Other operating expenses	4,918	5,401	5,355	5,775	19.16	19.88	19.57	20.30	
<b>Total Expenditure</b>	<b>18,473</b>	<b>19,373</b>	<b>19,649</b>	<b>20,562</b>	<b>71.97</b>	<b>71.31</b>	<b>71.80</b>	<b>72.28</b>	
<b>Profit Before Interest, Depreciation, Taxes &amp; Other Income</b>	<b>7,195</b>	<b>7,792</b>	<b>7,715</b>	<b>7,887</b>	<b>28.03</b>	<b>28.69</b>	<b>28.20</b>	<b>27.72</b>	
Interest	4	4	5	6	0.02	0.02	0.02	0.02	
Depreciation	471	485	485	507	1.83	1.79	1.78	1.78	1,948
<b>Profit Before Taxes &amp; Other Income</b>	<b>6,720</b>	<b>7,303</b>	<b>7,225</b>	<b>7,374</b>	<b>26.18</b>	<b>26.88</b>	<b>26.40</b>	<b>25.92</b>	
Other income (expense), net	740	702	694	917	2.88	2.59	2.54	3.22	
<b>Profit Before Taxes</b>	<b>7,460</b>	<b>8,005</b>	<b>7,919</b>	<b>8,291</b>	<b>29.06</b>	<b>29.47</b>	<b>28.94</b>	<b>29.14</b>	<b>31,676</b>

**International Financial Reporting Standards (IFRS) / Indian Accounting Standards (IND AS)-An Impact Seminar**

Provision For Taxes	1,719	1,897	1,816	1,868	6.70	6.98	6.64	6.56	7,301
<b>Profit After Taxes &amp; Before Minority Interest</b>	<b>5,741</b>	<b>6,108</b>	<b>6,103</b>	<b>6,423</b>	<b>22.36</b>	<b>22.49</b>	<b>22.30</b>	<b>22.58</b>	
Minority Interest	30	23	20	10	0.11	0.09	0.07	0.04	
<b>Net Profit</b>	<b>5,711</b>	<b>6,085</b>	<b>6,083</b>	<b>6,413</b>	<b>22.25</b>	<b>22.40</b>	<b>22.23</b>	<b>22.54</b>	<b>24,291</b>

Source: TCS (<http://www.tcs.com/investors/Pages/default.aspx>)

TCS - Profit and Loss Statement showing depreciation and profit as per IND AS

Consolidated IND AS	Crore				% of Revenue				Total FY 16
	Q1 FY16	Q2 FY16	Q3 FY16	Q4 FY16	Q1 FY16	Q2 FY16	Q3 FY16	Q4 FY16	
<b>Revenue</b>	<b>25,668</b>	<b>27,165</b>	<b>27,364</b>	<b>28,449</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	
Expenditure									
a) Employee Costs	13,291	13,623	14,011	14,423	51.78	50.15	51.20	50.70	
b) Other Operating expenses	5,174	5,720	5,606	6,119	20.16	21.06	20.49	21.51	
i) Fees to external consultants	1,844	2,158	2,109	2,301	7.18	7.94	7.71	8.09	
ii) Facility running expenses	813	853	858	882	3.17	3.14	3.14	3.10	
iii) Cost of equipment and software licenses	658	561	559	793	2.56	2.07	2.04	2.79	
iv) Travel expenses	603	678	643	740	2.35	2.50	2.35	2.60	
v) Communication	281	265	294	267	1.09	0.98	1.07	0.94	
vi) Bad debts, provision for trade receivables and advances(net)	39	36	24	35	0.15	0.13	0.09	0.12	
vii) Other expenses	936	1,169	1,119	1,101	3.65	4.30	4.09	3.87	
c) Depreciation	453	469	471	495	1.76	1.73	1.72	1.74	1,888
<b>Total Expenditure</b>	<b>18,918</b>	<b>19,812</b>	<b>20,088</b>	<b>21,037</b>	<b>73.70</b>	<b>72.93</b>	<b>73.41</b>	<b>73.95</b>	

<b>Profit Before Taxes &amp; Other Income</b>	<b>6,750</b>	<b>7,353</b>	<b>7,276</b>	<b>7,412</b>	<b>26.30</b>	<b>27.07</b>	<b>26.59</b>	<b>26.05</b>	
Other income (expense), net	771	675	699	905	3.00	2.48	2.55	3.18	
<b>Profit Before Taxes</b>	<b>7,520</b>	<b>8,028</b>	<b>7,975</b>	<b>8,317</b>	<b>29.30</b>	<b>29.55</b>	<b>29.14</b>	<b>29.23</b>	<b>31,840</b>
Provision For Taxes	1,747	1,935	1,850	1,970	6.81	7.12	6.76	6.92	7,502
<b>Profit After Taxes &amp; Before Minority Interest</b>	<b>5,773</b>	<b>6,093</b>	<b>6,125</b>	<b>6,347</b>	<b>22.49</b>	<b>22.43</b>	<b>22.38</b>	<b>22.31</b>	
Minority Interest	26	20	16	6	0.10	0.07	0.06	0.02	
<b>Net Profit</b>	<b>5,747</b>	<b>6,073</b>	<b>6,109</b>	<b>6,341</b>	<b>22.39</b>	<b>22.35</b>	<b>22.32</b>	<b>22.29</b>	<b>24,270</b>

Source: TCS (<http://www.tcs.com/investors/Pages/default.aspx>)

## Results and Discussion

**Table 1**

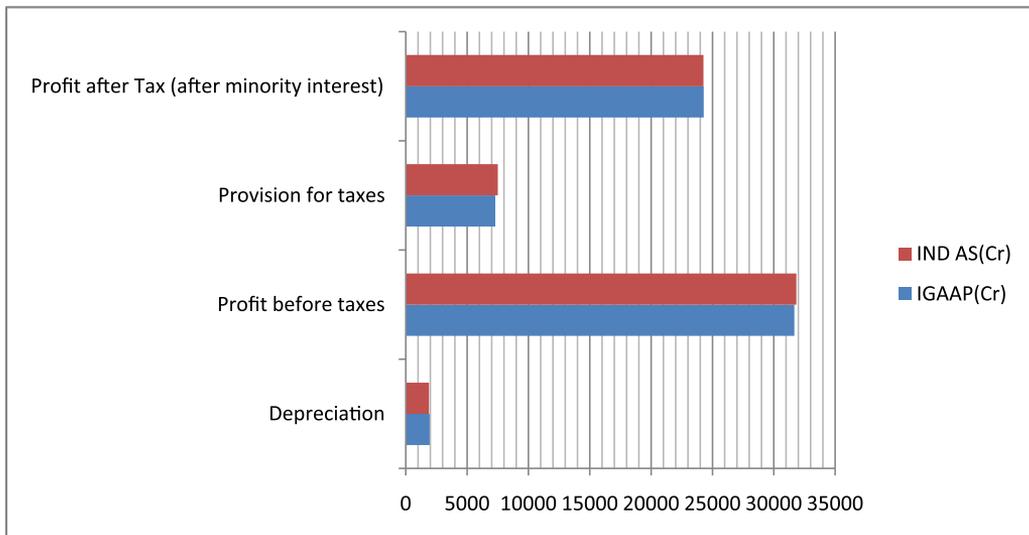
### **Comparison of the depreciation amount pre and post implementation of IND AS**

<b>COMPONENTS OF P/L UNDER STUDY</b>	<b>IGAAP(Cr)</b>	<b>IND AS(Cr)</b>	<b>OBSERVATIONS MADE</b>
Depreciation	1,947.96	1,888.00	Depreciation provided is lesser under IND AS than IGAAP
Profit before taxes	31,676.11	31,840.10	Lesser depreciation leads to increase in the profits before taxes under IND AS.
Provision for taxes	7,300.83	7,502.40	Increased profits will result in higher provision for taxes.
Profit after Tax (after minority interest)	24,291.46	24,269.70	Increased provision for taxes would lead to decrease in the earnings of the shareholders.

Source: Author's Design

The above table is a comparative study of the differences in the amount of depreciation that were found from the pre and post implementation of IND AS of calculation of depreciation from the profit and loss statements available on the website of the TCS Company and the observations that were made.

**Graph based on Table 1 representing change occurring in the depreciation calculation pre and post adoption of IND AS**



For FY 2015 -2016, from the comparison of the P/L statement between Indian GAAP and IND AS of TCS, it was concluded that its consolidated revenue remained same under both the systems that is Rs.1,08,646 Crore. However, TCS profit after tax (before minority interest) differed marginally, with Indian GAAP figure at Rs 24,291.46 Crore and IND AS figure at 24,269.70 Crore reflecting a reduction in the profit of the company due to the implementation of IND AS.

Thus, based on the above case of TCS we can conclude about the impact of depreciation on various stakeholders post implementation of IND AS as follows:

**From the shareholders point of view**

The adoption of the changes imposed by IND AS with respect to depreciation of fixed assets would lead to lower depreciation value but higher profits after taxes and this would reduce the earnings per share or revenue of the shareholders. Hence, the shareholders would stand to lose with the adoption of the IND AS.

In general, the shift to IND AS would lead to making accounting information much more relevant and comparable across the different legal and economic frameworks and requirements as it can then be prepared using common accounting standards which will help the investors who are willing to invest in countries other than India. It will as well lead to better understanding of financials of a company across the globe thereby increasing the confidence of the investors.

## **From the government's point of view**

As per the above case study, it is understood that the reduction in the amount of depreciation would lead to increase in the profit after depreciation of a company thereby resulting in payment of higher taxes to the government. This would in turn result in greater earnings for the government.

Thus, convergence of Indian GAAP to IND AS would impact many of the items in the financial statements of a company, thereafter, changing their tax liabilities. Thus, more robust system of taxation laws would be required to be able to meet the demands of the changes in the tax liability.

## **From the company and prospective investor's point of view**

The above analysis has led to an understanding that the depreciation to be provided on the fixed assets would reduce thereby, increasing the profit before taxes of the company. However, there is a decline seen in the profit after taxes which would be available for the company as well as its shareholders. Hence, shareholders tend to lose in the adoption of IND AS which can eventually be viewed as a loss to the company. This is not just in terms of profitability, but also in terms of losing its prospective investors by making the investment in the company lesser attractive to them.

Apart from the above, some of the key differences found out that are part of the change due to implementation of IND AS and makes it different from Indian GAAP are as follows:

<b>S. No.</b>	<b>Indian GAAP</b>	<b>IND AS</b>
1.	Under existing system, the assets are not required to be componentised and depreciated separately. However, it mentions that this kind of approach is beneficial during the reporting of the fixed assets. Schedule II of the Companies Act, 2013 sets out the useful life should not be different from the life specified in the Schedule. However, a different useful life may be used if such difference is disclosed and a jurisdiction, backed by technical advice, is provided in this behalf. Schedule II mandates fixed assets to be componentised for depreciation purposes.	Property, Plant and Equipment are componentised and are depreciated separately.
2.	It does not require annual reassessment of the useful life of the fixed asset and depreciation method.	It requires annual reassessment of the useful life of the fixed asset and depreciation method.

3.	Depreciation methods include the straight line method, the diminishing balance method and the units of production method.	A variety of methods can be used based on systematic basis over useful life of the asset. These methods include straight line, diminishing balance method and units of production method.
4.	It requires retrospective re-computation of depreciation and any excess or deficit on such re-computation is required to be adjusted in the period in which such change is affected. Such a change is treated as a change in accounting policy and its effect is quantified and disclosed.	Under this, changes in depreciation method, are considered as change in accounting estimate and applied prospectively.

Source: Deloitte (<https://www2.deloitte.com/content/dam/Deloitte/in/Documents/audit/in-audit-indian-gaap-ifs-and-indas-a-comparison-noexp.pdf>)

## **Conclusion**

Thus, a change in the method of depreciation under IND AS does have an impact on various stakeholders. It is to be noted that for some, this impact is negative and for others positive. From this study we understand that the company tends to lose by reduction in the net profit and increase in the corporate tax paid to the government. However, the government tends to benefit from this change. The overall impact is that it eventually leads to more fairer financial reporting eliminating the older practice of understatement of the profits by a company.

As already stated, the adoption of IND AS will lead to creating more transparency, thereby developing greater confidence in the financial reporting quality. This will in turn wipe out the possibilities of companies being suspected for attaching the risk premium or discounted earnings to their reported earnings.

Hence adoption of IND AS will take the Indian business to newer heights thereby improving the economy of the company.

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## **“A CRITICAL STUDY ON THE ACCOUNTING STANDARDS OF INDIAN GAAP AND IND-AS WITH SPECIAL REFERENCE TO FINANCIAL INSTRUMENTS”**

**Anumala Kumari, Lakshmi**

### **Abstract: -**

*The Accounting Standard for Financial Instrument will be implemented in India and some components from IFRS are also included which are new, this paper studies the key components in the AS, differences between the two accounting standard regarding Financial Instrument. It deals with the classification, measurement, recognition and disclosures to be made. It also focus on the impact, when the new Accounting Standards are implemented.*

*This paper provides an overview of IND AS and Indian GAAP for accounting of ‘Financial Instrument’. INDIAN GAAP does not include mandatory guidance on accounting for Financial Instruments as INDIAN GAAP only mandates for Accounting of Investments (i.e. AS-13). Standards for Accounting for Financial Instruments are used as a reference and have not been notified by the Ministry of Corporate Affairs (MCA). India will directly implement IND AS 32, 39,107 and 109 for accounting Financial Instrument.*

**Keywords:-** *Implementation of IND AS 32, 39,107 and 109, comparison, classification, disclosures, impact*

### **Introduction**

In accordance with its commitment to G20, India is converging Indian GAAP and IFRS to Indian Accounting Standards (IND AS) considering Indian environment in framing out the principles. Balance sheet includes financial instruments on both the sides. A financial instrument is a tradable asset, which can be either cash, evidence, ownership in an entity or right to receive or deliver money or other

financial instruments. The entities procure financial instruments for short term and long term finances in the form of liability. Financial liabilities include derivatives, notes payable and bonds payable, which are invested on the instruments when they have cash surplus to make money. Investment securities like stocks and bonds, derivatives, loans and receivables are some of the Financial Assets.

The main objective of providing accounting standards for financial instrument is to provide the financial statement users with more timely and representative depiction of a company on its performance and to reduce the complexity in accounting for those instruments.

Under Indian GAAP, ICAI provided following accounting standards for accounting financial instruments:

AS 30- Recognition and Measurement

AS 31- Presentation

AS 32 – Disclosure

Since there is mandatory obligation to comply with IND AS, the companies functioning in India will have to prepare their financial statements according to the new accounting standard. As India is converging to meet the global accounting standard requirements, IND AS has adopted many components from IFRS for the accounting of financial instruments. Therefore, there will huge variation in the presentation and measurement of financial instrument which will impact the financial position and presentation of the financial statements of an entity.

The new accounting standard (IND AS) recognizes the following standards for the accounting for financial instruments.

IND AS 32 – Presentation

IND AS 39 – Recognition and Measurement

IND AS 107 – Disclosures

IND AS 109 –Financial Instrument

## **Review of literature**

**(Chopra, 2016)** gives the insight the major changes in accounting standards with respect to its valuation of revenue recognition, inventory valuation, business combinations etc. He also talks about the challenges in the first time adoption of Ind AS.

**(Garg, 2016)** States the need for this convergence of IFRS with IND AS and provides detailed guidance on all accounting standards in IND AS. It also gives the brief idea on various accounting standards in the preparation of financial statements.

**(Subramani, 2016)** discussed that when an entity adopts IND AS for the first time there are certain mandatory and optional exemptions for financial instruments. Also provides the brief explanation on adoption of financial instruments.

**(Patil, 2015)** describes the advantages, problems, challenges and action to be taken by the entities on the implementation of IND AS. It also provide guidance on action required face challenges.

**(Pal, 2015)** studied that India has the capacity and resources to adopt IND AS in its business environment and also suggested that in order to maintain a sense of comparability in their financial statements Indian entities would have slow route of convergence from IGAAP to IND AS.

**(Kumar, 2015)** Articulate on first time adoption of Indian Accounting Standards, Practical Issues and Implementation of IND AS related to presentation of financial instruments. It describes the impact on stakeholders in case of management, governing body and auditors etc.

**(Soheli Ghose, 2015)** In their Study of Convergence of Indian GAAP with IFRS and the Major Carve – Outs reveals that implementation of IND AS will have wide impact on company's process, IT systems, internal financial controls, income taxes, remuneration policies and also contractual arrangements. It provides key goals and outputs of each phase such as diagnostic, designing and planning, solution development etc.

**(TRAI, 2013)** the study paper based analyses the implication of adoption of IND AS on Indian Telecom Service sector companies to know the financial position of the entities.

**(Jain, 2011)** Studied the IFRS Implementation in India, Opportunities and Challenges according to study IFRS adoption in India will be very smooth and accurate if proper training is provided to the process. He also discussed the procedure for adoption of IFRS and its utility.

## **Objectives of the study**

- i. To analyze the differences in Indian GAAP and INDAS on Financial Instrument accounting standards.
- ii. To study the impact of the implementation of IND AS, on reporting of Financial Instruments in the Financial Statements by Indian Companies.

## **Scope of the study**

- There was a wide gap in the existing Accounting Standards when compared with Global Standards i.e. IFRS. This study provides an overview of application of IND AS in India related to financial instruments.
- To identify the key differences between Indian GAAP and the converged IND AS based on Financial Instruments, which helps in presentation of financial statement and impact on financial reporting system of Indian companies due to adaptation of IND AS.

## **Material and methods**

Nature of the study carried out in this paper is limited to one Accounting Standard. It is based on theoretical and qualitative techniques to identify objectives and to systematically review the accounting standard for financial instruments under the study.

## **Data tools**

This study is based on the Secondary data collected from various journals by ICAI and other Official Websites like IFRS and Ministry of Corporate Affairs. Various Journals and Research Papers, Reports and Newspaper Articles have been referred to while writing this paper.

## **Discussion**

India has decided to adopt IFRS 9 – the new standard on Financial Instruments, which will be globally effective in 2018. IND AS 109 has many changes on the classification and measurement of financial assets and liabilities. Additionally, it provides the guidance on de-recognition, hedge accounting, and extensive disclosure requirements. At present, there is no mandatory guidance on Financial Instruments under Indian GAAP.

On the basis of the study we can see that after the implementation of IND AS 32 and 109 there will be a major impact on all Industrial, Commercial entities and Banks. The differences found between the two accounting standards can be analyzed by its impact on an organization, its process and various other parties interested in a company's affairs.

## **Impact on the Government(Taxation point of view)**

- Under IND AS, certain corporate entities could be seen reporting a higher consolidated tax expense in its consolidated financial statements. To illustrate this – when a subsidiary company distributes dividend to its parent company,

is an incidence of dividend distribution tax (DDT). Though the dividend transaction is eliminated in the consolidated financial statements, DDT is generally recorded as a deduction from consolidated reserves under current Indian GAAP. Under IND AS, DDT will be recorded in the income statement as a part of consolidated tax expense. Parent company will also have to evaluate whether additional differed tax liability for such DDT is to be recorded for future repatriation of associate's cumulated profits. Due to these, there will be an increase in taxable income.

- Due to the fair value accounting under IND AS, there will be significant increase in the Minimum Alternative Tax (MAT) payments by the corporate entities. Ex:- Equity investments under Indian GAAP is measured at lower of cost and at fair value under IND AS. The entities will have to report unrealized gains on their equity investments. When these gains are recorded in the income statement, it will consequently lead to increase in their MAT liability.
- Due to implementation of IND AS, there will be an increase in the tax inflows to the government because of the increase in the income or delay of expense payable for tax purpose such as mark to market losses on derivative contracts and non-deduction of expected losses on contracts.

### **Impact on investors**

- For example under Indian GAAP, foreign currency convertible bonds, the foreign exchange difference are capitalized or amortized over a period of time but, under IND-AS it is charged to P&L account. Similarly the premium that is paid on the foreign currency convertible bond is adjusted against security premium under Indian GAAP, but it is charged to P&L account under IND-AS. Due to the increase use of Fair value accounting, the impairment model of ECL (Expected Credit Losses) will have an impact on the EPS of the shareholders, on account of foreign currency convertible bonds.

### **Impact on the management**

In the case of Banks and Financial institutions, they need to make extensive disclosures on the mechanism of credit risk assessment. Estimation of expected of credit loss will require development of complex model and data points

- The classification, measurement and impairment of financial assets according to the new accounting standards are not only complex, but will also require investments in processes and IT systems.
- Operational processes and current hedge accounting policies should be reviewed by those entities in particular who have central treasury functions. Various

departmental operational personnel must be involved in the implementation of IND AS 32 and 109,

For example:

- ▲ The treasury department needs to analyze all financial contracts, since initial recognition the change in credit risk should be measured by setting parameters.
- ▲ Sales representatives to identify interest rate, embedded derivatives financial instrument price or other variables.
- ▲ Purchasing department personnel should analyze indexing provisions in commodity contracts (included) and supply contracts.
- ▲ Hedging documentation done by operational personnel.

Significant changes below will be noted when Indian GAAP and IFRS converged to IND AS under our analysis:

BASIS	INDIAN GAAP	IND AS
<b>1.Presentation (General recognition)</b>	Indian GAAP accounting standards do not distinguish between equity and liability for the recognition.	IND AS 32 establishes principles for presenting financial instruments as financial liabilities financial assets. A financial instrument is contract that gives rise to a financial asset of one entity and financial liability or equity instruments of another entity. A financial instrument is recognized as a liability when there is contractual obligation of one party to deliver another financial asset to the other party or cash, or to exchange financial assets or liability under unfavorable conditions. The issuer has no obligation to deliver cash or financial asset to the holder of the instruments in case of equity instruments,
<b>2.Classification and measurement of financial assets</b>	Under Indian GAAP AS 13 investments are classified as long term measured at cost. And current investments measured at market price or lower of cost .	IND AS 109 states that financial assets are measured under 3 categories at fair value through other comprehensive income amortized cost, and fair value through profit or loss (FVTPL). A financial asset is measured at amortized cost only if - i. The asset is held within a business model whose objective is to collect contractual cash flows. ii. The contractual terms give rise to cash flows that are solely the payments principal and interest (SPP). A financial asset is measured at FVTCOI if i. Meets the SPPI criterion ii. Is held in business model whose objective is to sell financial assets and to collect contractual cash flows. All other financial assets are measured at FVTPL whereas equity investments that are not held for trading is recognized under FVTOCI or else at FVTPL.

<b>3.Classification and measurement of financial liabilities</b>	In Indian GAAP, there is no specific guidance for the treatment given for the changes in fair value of financial liabilities due to changes in credit risk. The financial liabilities are recognized when consideration is received.	IND AS 109 measures financial liabilities at FVTPL when it is held for trading and other liabilities are measured at amortized cost using the affective interest method. Financial liabilities designated as FVTPL,the gain or loss arising from the changes in credit risk of the liability should normally be recognized in other comprehensive income and the remaining amount in recognized in profit or loss.
<b>4.Reclassification of financial instruments</b>	Indian GAAP reclassifies the investments from long term to current at lower of cost and carrying value. In case of reclassifying current to long term, it made at lower of cost and fair value.	IND AS allows an entity to reclassify for managing financial assets for which the business model undergoes the change. Reclassification of financial liabilities are not allowed.
<b>5.Rerecognition</b>	There is no detailed guidance to determine recognition of these aspects under the current Indian GAAP.	<ul style="list-style-type: none"> <li>a. Losses and Gains relating to a financial instruments,Interests, Dividends or a financial liabilitycomponent - In profit and Loss Account.</li> <li>b. Distributions to holders of Equity Instruments- Directly in Equity.</li> <li>c. Transaction Costs of an Equity Transaction- As deduction from Equity.</li> <li>d. Income Tax relating to distributions to holders and Transaction Costs of an Equity Transaction -As per IND AS 12, Income Taxes</li> </ul>
<b>7. Impairment of assets</b>	Under Indian GAAP (AS) 13 an enterprise should assess the provision for doubtful debts at period end using different methods like ageing analysis, Individual assessment of recoverability. Impairment losses recognized in profit and loss for equity investments are reversed through profit or loss.	IND AS 109 introduces a new model for impairment of financial assets that is expected credit loss (ECL). The new model is applicable to IND AS 115 to loans, leases and trade receivables, debt securities, contract and that are not measured at FVTPL for specified financial guarantees and loan commitments issued. Since equity instruments are measured at FVTPL or FVTOCI this model is not applicable for it. The model provides a dual measurement approach where loss allowance is measured at 12 month expected credit losses when credit risk has not significantly increased since the initial recognition or if credit risk has increased significantly then lifetime expected credit losses (lifetime ECL) is allowed.

<p><b>8.Derivative and embedded derivatives</b></p>	<p>Indian GAAP (AS) 11 provides standards for some of the foreign currency forward exchange contracts. Entities not considering AS 30, the ICAI announcement require entities to recognize losses of all outstanding derivative contracts by a mark-to-market loss at the balance sheet date.</p> <p>No specific guidance is notified on Embedded derivatives under Indian GAAP.</p> <p>The recent guidance note issued by ICAI provides accounting for derivatives contracts that are applicable to all entities that do not follow IND AS.</p>	<p>In IND AS 109, except on derivatives used for hedge purpose, the gain or loss is recognized in profit or loss and all the derivatives are measured at fair value.</p> <p>A component of a hybrid contract that also includes a non-derivative instrument is an Embedded Derivative. IND AS 109 does not allow embedded derivatives that are financial assets to be separated from host contracts. Classification and measurement principles as applicable to financial assets are applied to the entire hybrid contract.</p>
<p><b>9.Hedge accounting</b></p>	<p>Under Indian GAAP the forward exchange contracts for hedging foreign currency exposures is dealt under AS 11. A detailed principle for hedge accounting is given in the guidance note issued by ICAI.</p>	<p>IND AS 109 provides accounting for hedges in a detailed manner. It also defines cash flow hedges, hedges of net investment in a foreign operation and fair value hedges. It allows to hedge a risk component of a non- financial item if it is separately identifiable and measureable. It gives us the prerequisites conditions to apply hedge accounting.</p>
<p><b>10.Disclosures</b></p>	<p>A minimum disclosure requirement has to be made as per ICAI announcement. But the Guidance Note requires a comprehensive disclosure of hedge accounting and derivative instruments.</p>	<p>IND AS 107 requires entities to provide disclosures of their financial instruments in a comprehensive manner in order to enable users to evaluate, to know the financial position and performance of organization the significance of financial instruments should be analyzed, the nature and extent of risk and management this risk is necessary. The disclosures should include quantitative and qualitative information</p>

## **Impact on the financial statement presentation**

Since there are many changes in the recognition, measurement and disclosures requirements necessary under the new accounting standard IND AS, we can also see that the entities if they implement IND AS there will be huge changes to be made while preparing the financial statements of the company. Following are some of the key impact areas:

## **1. Liability and equity classification -**

- Due to implementation of IND AS 109, instruments such as redeemable preference shares is identified as liability under IND AS where as it is identified as equity in Indian GAAP where a substantial change could be seen in the classification of financial instruments.
- The classification of instruments into equity and liability is not just an accounting matter or presentation, but there will be significant impact on financial performance reported by an entity. For example:-If an instrument instead of equity,needs to be classified as liability and any return payable will be charged as expense in profit or loss account, instead as distribution of profit.

This will impact the key performance Indicators like earnings per share, debt-equity ratio and interest coverage ratio. This also impacts the decision making of the stakeholders such as customers, financial institution, investors and tax authorities.

- Depending on the nature of instruments issued and situation of the company, the impact will be either positive or negative. For example if perpetual bonds are issued to raise long term financing because they do not have fixed maturity, they give comfort as equity to the issuer.

If these are redeemed at a later date, based on the contractual and legal terms it can be said that they are a part of equity under IND AS and not a liability to the issuer. Then the interest payable on these bonds will be treated as distribution of profit and the same will be debited to equity.

## **2. Recognition-**

- IND AS 109 uses fair value accounting to recognize all financial instruments (including derivatives) in the balance sheet; therefore, IND AS makes more use of fair value than under IGAAP.
- All financial assets and liabilities are recognised initially at fair value in the balance sheet. The FVTPL assets, liabilities, derivatives and subsequent differences due to, fair value are recognised in profit or loss, which causes volatility in Other Comprehensive Income (OCI) and in the statement of profit and loss.
- Entities will have to make use of valuation methods, for fair value measurement in order to comply with IND AS 109.

## **3. Impairment -**

- Provision for impairment, under ECL model is required by IND AS 109. The companies should consider past events, current conditions and forecasts of future economic conditions. The entities should analyze the effect on ECL by the macroeconomic changes to incorporate the forward-looking information.

- The focus on expected losses will result increased volatility in the amounts charged to profit or loss especially for financial institutions and comparison of reported results of different entities will be difficult. If detailed disclosure requirements are provided, then greater transparency over an entity's credit risk and provisioning processes can be viewed.

#### **4. De-recognition-**

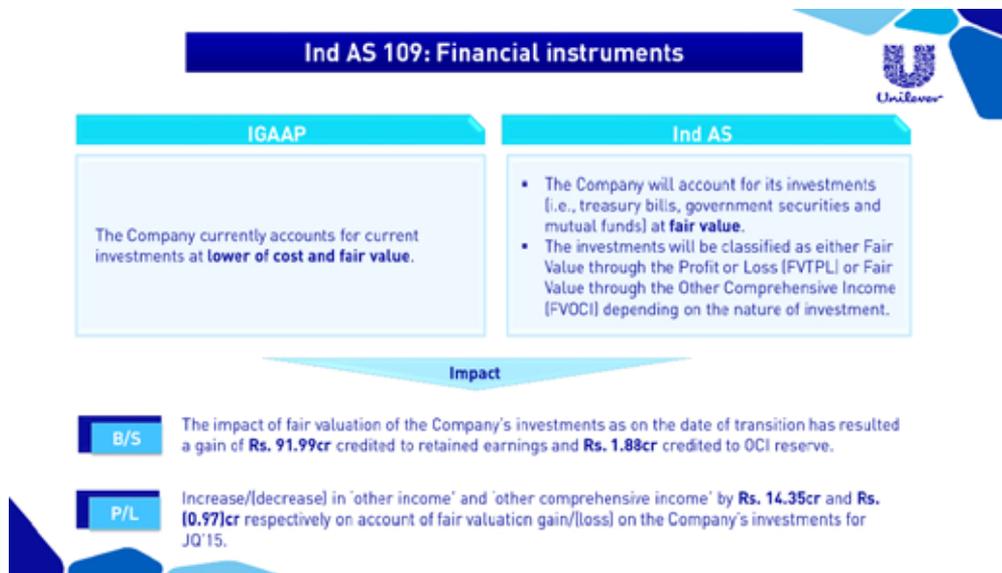
- As per IND AS 109 de-recognition requirements, the entities may not be able to derecognise financial assets transferred under the arrangement such as bill discounting, factoring of trade receivables, in entirety, if it has provided credit enhancement to the transferor.
- Based on the specific facts the entity should treat the transfer as financing transaction (i.e., debt) or transferred asset could be recognized to an extent of its continuing involvement as per continuing involvement approach.

#### **5. Disclosures -**

- Comprehensive information on the fair value will enhance the transparency and accountability of financial statements. IND AS 107 requires comprehensive disclosure of financial instruments and risk policies for managing such risk.

### **Case study:-**

#### **1. Hindustan Unilever Limited Source -**



1. Hindustan Unilever Limited:- [www.hul.co.in\(IND-as-session\\_tcm1255-468628\\_1\\_en\)](http://www.hul.co.in(IND-as-session_tcm1255-468628_1_en))

From the above case study, a preliminary assessment made by Hindustan Unilever Limited says that due to fair value accounting there is huge increase in the balance of retained earnings and also the other income and comprehensive income has increased.

2.

**Case study: Zee Entertainment**

Zee Entertainment is one company that could see a significant impact to its reported profitability, margin and net worth profiles as we move from IGAAP to Ind AS.

According to the company's FY15 annual report, note that the company has issued 20,170 mn worth of 6% cumulative redeemable non-convertible preference shares to its equity shareholders in FY14. Further, the company has also issued 22 mn worth of 6% non-cumulative redeemable non-convertible preference shares pursuant to a Scheme of Arrangement in FY15.

Relevant information from Zee's FY15 annual report has been shown in Exhibit 9 below.

**Exhibit 9: Zee Entertainment - Relevant extracts from its FY15 annual report (Figures in mn)**

Particulars	Under IGAAP		Under Ind AS	
	FY14	FY15	FY14	FY15
<b>Balance sheet impact</b>				
Total Debt (incl. pref. share capital under Ind AS a/cs)	29	22	20,199	20,214
Total Equity (excl. pref. share capital under Ind AS a/cs)	47,377	55,498	27,207	35,306
Debt/Equity	0.00	0.00	0.74	0.57
<b>P&amp;L impact</b>				
EBIT	13,349	14,143	13,349	14,143
Interest expense (incl. pref. dividend & div. distb. tax under Ind AS a/cs)	158	103	259	1,556
PBT	13,191	14,040	13,090	12,587
Interest coverage ratio	84.5	137.3	51.5	9.1

Source: Annual report, Ambit Capital research, <http://goo.gl/XSpUjP>

From our discussions above, we note that under Ind AS, redeemable preference shares will be classified as debt instead of equity. Further, the preference dividend as well as the relevant dividend distribution tax will be classified as part of borrowing costs.

In case of Zee, the company's FY15 debt:equity would change from close to zero to ~0.57. Further, its FY15 PBT would be lower by ~10%, as the preference dividend and the relevant dividend distribution tax are clubbed under borrowing costs. Furthermore, Zee's FY15 interest coverage ratio would slide from ~137.3x under IGAAP to ~9.1x under Ind AS. Thus, the reported profitability, net worth, leverage and interest coverage profiles of several large Indian companies with preferred equity would materially change as we move to Ind AS.

Source-

Zee Entertainment: - reports.ambitcapital.com (Ambit\_Strategy\_Thematic\_AreyoureadyforINDAS\_20Oct2015)

In this study there is negative impact on the financial position of ZEE Entertainment, the preference share capital is treated as Debt as per IND AS, the dividend distribution tax and the preference dividend are included as part of borrowing cost which negatively impacts the profitability and the interest coverage ratio because of the new accounting method for measurement and classification under IND AS.

**Conclusion:**

The transition from Indian GAAP to IND AS will enable entities to recognize their Financial Statements globally. Since the global accounting standards are considered to frame. IND AS we find various changes in the presentation, recognition, measurement and disclosure requirements. The Financial Instrument standard

under IND AS is a refined and matured approach where fair value method is applied consistently and the gains or losses are recognized under ‘Other Comprehensive Income’. IND AS provides more transparency and reliability for recognizing the company globally when compared to existing Indian GAAP. The impact of the convergence may be positive or negative based on the nature of the company and nature of instrument. The transition may cause short term hindrances, but in the long run, the benefit of investments and consistency will definitely outweigh the challenges.

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## **A PARADIGM SHIFT FROM CURRENT ACCOUNTING STANDARDS TO IND AS – AN AUDITOR’S PERSPECTIVE**

**Petricia.S, Aishwarya.B**

### **Abstract**

*In an attempt to attain perfect harmony worldwide in the financial reports, IFRS has come into effect in the European Union, but the value of harmonization attracted the world in a short period. Hence, all the organizations are adopting IFRS in their current accounting system.*

*IFRS has set a universal financial language for the accounting regulations, which enabled the organizations to understand and compare the standards across international boundaries. Due to the implementation of IFRS, there has been a direct impact on the Indian organization. Hence, the rapid change in the accounting system had led to the introduction of IND AS, the converged IFRS. Due to the shift, there have been a lot of difficulties faced by the various stakeholders such as shareholders, government, investors, accounting professionals, etc. This study is specifically undertaken to look into an auditor’s perspective towards the shift from current Accounting Standards to the IND AS. This research intends to use primary as well as secondary data along with the suitable statistical tools to do the analysis and interpretation.*

**Keywords-** *Current Accounting Standards, IND AS, Auditor’s Perspective.*

### **Introduction**

In the current scenario, due to the competitiveness existing in the world, every nation strives to be globally competitive. The economic growth of a country can be determined in terms of its revenue. The source of motivation for a country to adopt any principle is to benefit from it. Business plays a crucial role in the economic progression of the country. Since the International Financial Reporting Standards

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(IFRS) is the heart and soul of accounting and it acts as a financial language in the global market, the need to adopt IFRS has become a necessity.

The use of different accounting principles in different countries having a same transaction creates a discomfort among the financial users. This calls India to adopt unified standards such as IFRS that helps industry, economy and accounting professionals. Thus, the Ministry of Corporate Affairs has made a requisite statute for every company having a net worth of Rs.500 crores or more to adopt the converged IFRS that is Indian Accounting Standards.

The sudden change in the accounting fraternity has created a lot of confusion among various fields in trade and commerce, industries and corporates. This change has affected various players in the economy. The auditors are the nerve center of this study. It will centralize the auditor's perception towards the shift from the Current Accounting Standards to IND AS. The adoption of IND AS will favor the auditing professionals to render expert services in different countries.

## **Review of Literature**

**(Gurpreet Kaur, 2014)**, "IFRS And India: Problems And Challenges", in their article stated that due to the convergence with IFRS, initially there would be a lot of problems faced by the accounting and auditing professionals but in the long run it will surely benefit the professionals and will enhance them to showcase their talents across borders.

**(Raghu, 2014)**, enumerated in his article, with the adoption of Indian Accounting Standards which is converged IFRS, a new trend in the accounting world will be set. ICAI chief foresees a global demand for Indian chartered accountants and auditors and thereby plans to set a curriculum for chartered accountants and auditors to meet industry expectation.

**(Deloitte, 2015)**, in its report "IND AS considerations for Boards and Audit Committee" focused that the Board and audit panel members play a very crucial role in the effective management of the organization. Their experience and oversight will assist the decision makers of the firm to navigate and operate the opportunities, challenges effectively and efficiently by providing reliable financial information to the investors on time. It also stated that the panel members should be prepared for the transition phase by appropriate training and development.

**(Thornton, 2015)**, conducted a survey on "Is India Inc. prepared for adoption of Indian Accounting Standards" to know the level of preparedness and proficiency of the employees for the transition. It mentioned that there would be many challenges faced by the corporates due to the shift from Current Accounting Standards to IND

AS, since these challenges were realistic in nature, it advised the corporates to have well trained teams and financial reporting advisors to make a thorough analysis.

**(Chadha, 2016)**, has articulated that with the introduction of Indian Accounting Standards corporate reporting has become a crucial task. Based on a survey of CFOs and the financial controllers of large entities, global consultancy EY stated that, the demand for scrutinizations of the corporate reports have increased drastically. Technical knowledge and risk management are the most needed skills to improve the quality of corporate reports. According to EY, Indian stakeholders are paying more attention to corporate reporting. This indicates to the audit panel members to pay more attention in the preparation of financial reports.

**(Singh, 2016)**, in his article mentioned a statement made by the RBI, which stated that the IND AS implementation is likely to have a significant impact on the financial reporting systems and processes and as such these changes need to be planned, managed, tested and executed in advance of the implementation date.

## **Objective of the Study**

- To understand the auditor's perspective towards the shift from Current Accounting Standards to IND AS.

## **Problem Statement**

Although entities regularly adopt new accounting standards under Indian GAAP, adopting IND AS has posed distinct problems. Due to the shift there have been a lot of difficulties faced by various stakeholders such as investors, accounting professionals, etc. This study is undertaken to understand the auditor's perspective towards the shift from Current Accounting Standards to IND AS. It mainly aims to understand how the auditors are feeling towards the sudden change.

## **Scope of the Study**

The study is undertaken to understand the auditor's perspective towards the change in the accounting system that is from the Current Accounting Standards to IND AS. This study is primarily focused to understand whether the converged IFRS will be a boon or a curse in the auditor's life. A critical analysis is made on the growth, opportunities, challenges and difficulties faced by the auditor's. Here the auditors refer to professionally qualified personnel.

## **Research Methodology**

The study was conducted among the practicing auditors working with Deloitte, KPMG,

Ernst & Young and some of the mid-sized firms. A total of 30 auditors were randomly selected based on the convenience of the research. For the development of research questionnaire, the researcher had formal interaction with the practicing auditor. Based on his opinion a self-structured questionnaire was framed online to collect information from the respondents. Simple percentage analysis was used to analyze the data.

Secondary data for the study includes various articles, journals, newspaper clippings, online resources and the company survey reports, which were conducted by the Auditing firms.

#### Limitation of the Study

The study was limited to the auditors working in companies namely Deloitte, KPMG,

Ernst & Young and some of the mid-sized firms in Bangalore. The results cannot be generalised as only limited sample was taken.

#### Analysis and Interpretation

A survey was conducted to figure out the auditor's viewpoint towards the shift. The survey was taken up by 30 auditors from various firms. It was evident from the survey results that the majority of the respondents were in favour of the convergence and were welcoming

IND ASAs their new accounting mandate and it was also noted from the observation that a larger portion of auditing professionals were ready to adapt the change and were open for new learning. The detailed analysis of the survey is shown below with their respective tables.

**Table 1 Opinion based on respondents favoring IND AS**

<b>PARTICULARS</b>	<b>FREQUENCY</b>	<b>PERCENT</b>
FAVOR	30	100.0
AGAINST	0	0.0
TOTAL	30	100.0

Source: Primary Data

An analysis on auditors favouring to INDAS has be compiled. The responses revealed that all the auditors of the sample population were welcoming the change.

**Table 2 Opinion based on respondent's career growth**

<b>PARTICULARS</b>	<b>FREQUENCY</b>	<b>PERCENT</b>
EXCELLENT	4	13.3
GOOD	23	76.7
AVERAGE	3	10.0
POOR	0	0.0
TOTAL	30	100.0

Source: Primary Data

As shown above, auditors consider that their growth rate will increase after the convergence. Around 13.3 per cent auditors said that they will have an excellent growth rate, 76.7 per cent felt the growth is good and 10 per cent were of average opinion.

**Table 3 Opinion based on respondent's exposure of their skills**

<b>PARTICULARS</b>	<b>FREQUENCY</b>	<b>PERCENT</b>
EXCELLENT	7	23.3
GOOD	15	50.0
AVERAGE	8	26.7
POOR	0	0.0
TOTAL	30	100.0

Source: Primary Data

The above table explicit that most auditors consider their exposure of skills across the globe will increase after the convergence. 50 percent of the population feels that they will have a good exposure of their skills across the globe, 23.3 per cent feels that they will have an excellent exposure and 26.7 per cent of the population feels they will have an average exposure.

**Table 4 Opinion based on respondent's acceptance of new accounting system**

<b>PARTICULARS</b>	<b>FREQUENCY</b>	<b>PERCENT</b>
EXTREMELY CONFIDENT	3	10.0
QUITE CONFIDENT	20	66.7
SOMEWHAT CONFIDENT	4	13.3
SLIGHTLY CONFIDENT	3	10.0
NOT CONFIDENT	0	0.0
TOTAL	30	100.0

Source: Primary Data

As represented above, auditors are very confident to face the challenge in adopting new accounting system. Around 66.7 per cent of the population are quite confident in taking up the challenge. It was also observed few auditors showed lack of confidence in accepting the challenge.

**Table 5 Opinion based on respondent's openness to learning and development**

<b>PARTICULARS</b>	<b>FREQUENCY</b>	<b>PERCENT</b>
EXCELLENT	4	13.3
GOOD	16	53.3
AVERAGE	10	33.3
POOR	0	0.0
TOTAL	30	100.0

Source: Primary Data

As portrayed above, auditors are willing for learning and development, which will enhance their skills. Out of the total population, 53.3per cent feels that it is a good sign.

**Table 6 Opinion based on respondents work life balance**

<b>PARTICULARS</b>	<b>FREQUENCY</b>	<b>PERCENT</b>
A LITTLE BIT	4	13.3
SOMEWHAT	10	33.3
QUITE A BIT	12	40.0
A TREMENDOUS AMOUNT	4	13.3
TOTAL	30	100.0

Source: Primary Data

As demonstrated above, the auditors feel that their work life balance will be affected due to the shift.

**Table 7 Opinion based on optimum benefits gained to various sectors**

<b>PARTICULARS</b>	<b>FREQUENCY</b>	<b>PERCENT</b>
GOVERNMENT	3	10.0
INDUSTRY SECTOR	9	30.0
CORPORATE WORLD	14	46.7
ECONOMY	4	13.3
TOTAL	30	100.0

Source: Primary Data

In the opinion of auditors, it is the corporate sector which will benefit significantly due to convergence followed by industry, economy and the government.

**Table 8 Opinion based on optimum benefits gained to various individuals**

<b>PARTICULARS</b>	<b>FREQUENCY</b>	<b>PERCENT</b>
TAX PAYERS	4	13.3
ACCOUNTING AND AUDITING PROFESSIONALS	18	60.0
INVESTORS	6	20.0
RECRUITERS	2	6.7
TOTAL	30	100.0

Source: Primary Data

It was witnessed from the above table that accounting and auditing individuals will benefit tremendously due to the transition followed by investors, tax payers and recruiters.

**Table 9 Opinion based on respondent's outlook towards INS AS**

<b>PARTICULARS</b>	<b>FREQUENCY</b>	<b>PERCENT</b>
BOON	25	83.3
CURSE	1	3.3
MIXED OPINION	4	13.3
TOTAL	30	100.0

Source: Primary Data

As per the survey initiated, it was discovered that the implementation of IND AS brought a mixed opinion among the auditors, 83.3 per cent of the population feels its a boon.

**Table 10 Opinion based on employability**

<b>PARTICULARS</b>	<b>FREQUENCY</b>	<b>PERCENT</b>
HIRE EXPERT PROFESSIONALS	9	30.0
RETRAIN AND DEVELOP EXISTING EMPLOYEES	21	70.0
REPLACEMENT OF THE EMPLOYEES	0	0.0
TOTAL	30	100.0

Source: Primary Data

According to the auditors, the factors to be concentrated on while implementation of IND AS where to retrain and develop the existing employees, 30 per cent of the population believe in hiring expert professionals. However, it is notable that none of them in favour of replacing the existing employees.

**Table 11 are Opinion based on time required for transition**

<b>PARTICULARS</b>	<b>FREQUENCY</b>	<b>PERCENT</b>
0 - 6 MONTHS	2	6.7
6 MONTHS - 1 YEAR	15	50.0
1 - 2 YEARS	13	43.3
TOTAL	30	100.0

Source: Primary Data

It is evident from the above table that around 50 per cent of auditors feel that they would require 6 months - 1 year for the convergence. However, 43.3 per cent believe that it would take 1 – 2 years. Only 6.7 per cent of the population suggested 6 months would be sufficient for the change.

**Table 12 Opinion based on future of IFRS in India**

<b>PARTICULARS</b>	<b>FREQUENCY</b>	<b>PERCENT</b>
YES	25	83.3
NO	5	16.7

Source: Primary Data

It was observed that around 83.3 per cent of the population were of the impression that India will completely adopt IFRS in future. But around 16.7 per cent were of the opinion that they would stick to IND AS.

## **Findings**

- It is evident that the auditors are willing to learn and develop, hence making them confident to adapt the shift.
- It is observed from the study though a greater part of the population was in favour of IND AS a few auditors were of diversified notion.
- It is witnessed that the auditors have readiness to the changeover and they would want to access the opportunities posed by the global market and gain expertise in the industry.
- It is portrayed from the study that the majority of auditors feel that the transition phase will be completed within a year.

## **Conclusion**

The switchover from the Current Accounting Standards to IND AS has become a challenging task to all the stakeholders. Auditors are the spotlight for this research. Various factors have been considered to understand the auditor's mind-set or perception towards adoption of IND AS.

It was viewed that the initial transition phase would be a tedious task for the auditors to accept, as this adoption would pose serious challenges to the auditors such as first time reporting implementation which is a demanding factor and the reconciliation of the previous year's financial statements with the current year's financial statements. Like any other shift, the changeover is not easy and it will lack trained resources and the first time reporting implementation will require a thorough planning. But the auditors believe that this transition would benefit them in the long run. They foresee that this shift will provide them better opportunities to foster their professional abilities and have an in depth knowledge. It is also believed that, in the future there would be a potential demand for the Indian Auditors. It is also considered that this convergence will improve the quality and transparency of the financial reporting process and it would also reduce the cost of conversion of financial statements by the local companies to make investments abroad. It provides a drive to have cross border acquisitions, partnerships with the foreign companies thereby expanding business as well as the economic growth globally.

The adoption of IND AS has also enabled the auditing firms to see a tremendous growth as their clients will increase due to the mandatory adoption set by the Ministry of Corporate Affairs, which is directly proportional to the growth of the auditing professionals. This encourages the responsibilities of the auditors to be prepared for the adoption. It is essential for the auditors to be proficient in order to sell themselves in the global market.

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## **Annexure**

1. As an auditor, are you in favour of IND AS? (Yes / No - Please comment)
2. How would you rate the growth of an auditor due to the convergence of IFRS with respect to Career? (Promotion/progression in the organization's hierarchy)
  - a) Excellent      b) Good      c) Average      d) Poor
3. Due to the convergence, as an Auditor how would you rate the growth with respect to exposure of their skills across the globe?
  - a) Excellent      b) Good      c) Average      d) Poor
4. As an Auditor how confident, are you to take up the challenges with respect to adopting new accounting system?
  - a) Extremely confident      b) Quite confident      c) Somewhat confident
  - d) Slightly confident      e) Not confident
5. As an auditor, how would you rate the challenges faced due to the implementation of IND AS with respect to learning and development?
  - a) Excellent      b) Good      c) Average      d) Poor
6. In your opinion to what extent, is the auditor's working hours and work life balance affected?
  - a) A little bit      b) Somewhat      c) Quite a bit      d) A tremendous amount
7. In your opinion, which sector will gain the optimum benefit due to the convergence?
  - a) Government      b) Industry sector      c) Corporate world      d) Economy
8. Whom do you think among the below individuals would gain the optimum benefit due to the transition?
  - a) Tax payers      c) Investors
  - b) Accounting and Auditing Professionals      d) Recruiters
9. Is the implementation of IND AS a boon or curse to the auditors? (Please comment)

10. In your opinion, what are the factors that need to be looked into while implementation of IND AS with respect to employability?
- a) Hire Expert Professional
  - b) Retrain and develop existing employees
  - c) Replacement of the Employees
11. In your opinion how long, will the transition phase take place in our country?(AS to IND AS)
- a) 0 – 6 months
  - b) 6 months - 1 year
  - c) 1 year – 2 years
12. Do you believe that IFRS will be completely adopted in our country in the future? (Yes/No)

# **A REVIEW ON THE IMPACT OF IND AS ON THE INDIAN COMPANIES WITH RESPECT TO MEASUREMENT AND DISCLOSURE**

**Lynne Rose Justine, Manjitha Mathew, Disha Dechamma**

## **Abstract**

*The focus of this research is to study the impact of IND AS on Indian companies. Economic development of any country requires a sound financial reporting system. In the globalized world, India cannot afford to isolate itself from the developments and modifications taking place worldwide. As the Indian market is being open to the world market, the need for uniform reporting standards arises for a better understanding of the financial statements. Therefore, the significance of convergence with IFRS increases. India has two phases for the adaptation of IND AS. The first phase begins on or after 1st April 2016, with comparatives the period ending 31st March 2016. The second phase begins on or after 1st April 2017, with comparatives for the period ending 31st March 2017. IND AS includes standards and interpretations approved by IASB, IASC and SIC.*

*The objective of this paper is to study the significance of IND AS on Indian business environment and its impact on Indian companies with respect to measurement and disclosure.*

**Key words-** *IFRS, convergence, business environment, IASB, IASC*

## **Introduction**

The fundamentals to economic development of a country is a sound financial reporting system which is nurtured by good governance, clearly defined standards and established regulatory frame work. In India, ICAI is the formulating body for accounting standards. As we globalize, the significance of merging with IFRS increases. IND AS is the acronym for India Accounting Standards. These are International Financial Reporting Standards (IFRS) slightly modified in order to suite the Indian business scenario.

The IND AS is expected to eventually phase out the current Accounting Standards. The change over from existing AS to IND AS is a major challenge for the companies. The success of it depends on the availability of adequate tools and recourses and expertise in this filed. Adopting IND AS helps the economy, large investors, industries as well as the accounting professionals. It benefits the economy by

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increasing growth of its international business. Thereby it encourages investors to invest more in the Indian economy, thus it leads to an increase in foreign reserves and the GDP of the country.

The MCA has issued a notification dated 16 February 2015 announcing the Companies (Indian Accounting Standards) Rules, 2015 for applicability of IND AS. The rule came into force on the 1st day of April 2015.

## **Review of Literature**

**(Press Release, 2010)**, discusses about the roadmap for achieving convergence of IND AS with IFRS by April 2011.

**(Moorthy, 2014)**, studied about IFRS and its benefits to users and preparers of financial statements as well as for national regulatory bodies.

**(The Gazette of India, 2015)**, have published the rules and applicability of accounting standards, on the Indian companies in accordance with IND AS. They state that insurance companies, banking companies and non-banking companies shall not be required to apply IND AS for preparation of financial statement.

## **Problem statement**

Simple globally accepted financial reporting system is essential in the present era of globalization. It encourages growth of international business. The use of different Accounting frameworks in different countries creates confusion for users of financial statements. Investors want relevant, reliable, timely & comparative financial information. India is on the path of development, and it is necessary for us to adopt a sound financial reporting system .ICAI has decided to converge exiting accounting standards with the International Financial Reporting Standards. This study is to analyse the impact of IND AS on Indian companies focusing on presentation of financial statement.

## **Objective of the study**

- To study the significance of IND AS on Indian business environment.
- To study the impact of IND AS on Indian companies with respect to measurement and disclosure (AS-1)

## **Scope of study**

The present study is to understand about IND AS and its impact on Indian companies. The study is limited to the changes from existing AS 1 i.e. disclosure of accounting policies to IND AS 1 i.e. Presentation financial statement. Its main focus is to understand whether it will be a burden or will be beneficial for the Indian companies' investors and the economy as a whole.

## **Methodology**

This is an exploratory research. It is based on secondary data such as articles, journals and web sites.

India is one of the emerging economies in the world. India has to integrate its financial reporting with rest of the economies of the globe so that the investors from outside understand the financial position and results of the company. The financial statements can be compared with statements of other countries only if there is uniformity. The current Indian companies are preparing financial statements according to accepted accounting principles (Indian GAAP) and these principles can be based on IFRS.

India made a commitment to converge the existing Indian accounting standard with IFRS at the G20 summit in 2009. The Ministry of Corporate Affairs would implement the IFRS converged Indian Accounting Standards in a phased manner. They have implemented it in two phases. First phase begins from on or after 1st April, 2016 and is applicable for companies having a net worth of Rs. 500 crore or more. The second phase begins on or after 1st April 2017 and are applicable for listed companies as well as other companies having a net worth equal to or exceeding Rs 250 crore. Companies listed on SME exchange, Insurance companies, Banks and NBFC's are exempt from IND AS.

IND AS 1 generally deals with presentation of financial statements whereas existing AS-1 deals only with the disclosure of accounting policies. The scope of IND AS is much wider than existing AS. IND AS 1 lays down the given major requirements:

- 1) An enterprise shall make an explicit statement in the financial statements of compliance with all the Indian Accounting Standards.
- 2) IND AS 1 requires presentation and provides criteria for classification of current/Non-Current assets/liabilities.
- 3) IND AS 1 requires disclosure of judgements made by management while framing the accounting policies.
- 4) IND AS 1 requires classification of expenses be presented based on nature of expenses.
- 5) IND AS 1 prohibits presentation of any item as an extraordinary item in the statement of profit and loss or in the notes.
- 6) IND AS 1 requires presentation of the balance sheet as at the beginning of the earliest period when an entity applies in accounting policy retrospectively.

- 7) IND AS 1 requires disclosure of nature, amount and reason for reclassification in the notes to financial statements, in respect of re classification of items.
- 8) IND AS 1 requires the financial statements to include a statement of changes in equity to be shown as a part of the balance sheet, which includes reconciliation between opening and closing balance for each component of equity.

Financial statement prepared under IND AS 1 consists of the following:

- (a) A balance sheet as at the end of the period.
- (b) A statement of profit and loss for the period.
- (c) Statement of changes in equity for the period.
- (d) A statement of cash flows for the period.
- (e) Notes comprising a summary of significant accounting policies, other explanatory information and comparative information in respect of the preceding period.
- (f) A 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.

When the companies shift from exiting AS-1 to IND AS-1 they have to revalue their assets and liabilities on the basis of guidelines provided by IND AS-1 and IND AS 101.

IND AS 1 prescribes the basis for presentation of general purpose financial statement. It ensures comparability both with the entity's financial statement of the previous periods with the current financial statement of the entities. An entity shall apply the standard in preparing and presenting general purpose financial statements in accordance with IND AS. This standard uses terminology that is suitable for profit-oriented entities including public sector entities.

IND AS 1 requires particular disclosure in the balance sheet or in the statement of profit and loss and requires disclosure of other line items either in those statements or in the notes. This standard uses the term "disclosure" in a broad sense. Disclosures are also required by other IND AS.

## **A comparative study of AS and IND AS**

<b>IND AS(Converged IFRS)</b>	<b>Existing AS</b>
INDAS-1 'Presentation of Financial Statements'	AS-1'Disclosure of Accounting Policies'
Scope is wider.	Scope is comparatively narrow.
Requires classification of expenses be presented based on nature of expenses.	No specific restriction.
Requires presentation and provides criteria for classification of current/non-current assets/liabilities.	Such bifurcation is not required. However, it is required as per the Schedule 3 of the Companies Act, 2013.
Deals with presentation of financial statements.	Deals with disclosure of financial statements.

### **Benefits of IND AS**

#### **A) Benefits of IND AS to users and auditors of Financial Statements:**

- If a business adopts IND AS, the business can present its financial statements on a single set of high quality and global standards.
- Adoption of IND AS will facilitate high quality, transparent and comparable financial statements which, are based on the concepts that are being applied in global markets.
- A company using IND AS enjoys the benefit of raising capital from abroad.
- For a company using IND AS, comparison of financial statements with a foreign competitor becomes easier.
- It improves cross border investment by enhancing comparability of financial statements anywhere in the world.

#### **B) Benefits to National Regulatory Bodies:**

- It brings about a higher and improved standard of financial disclosure.
- It also brings about better quality to attract and monitor listings by foreign company.

### **Impact of IND AS- 1 on Indian companies**

The transition from exiting AS 1 to IND AS 1 has resulted in changes in the presentation of financial statement, disclosure in the notes and the accounting

policies and the principles. The preparation of financial statement in accordance with IND AS 1 requires management to make estimates, judgements and assumptions. These estimates, judgements and assumptions affect the application of accounting policies and the amount of assets and liabilities, the disclosure of contingent assets and liabilities at the date of financial statement and the reported amount of revenue and expenses during the period. The application of IND AS 1 in preparation of financial statements requires critical accounting estimates, which involves complex and subjective judgements and assumptions be made in this regard. The accounting estimates could change from period to period and actual result could vary from those estimates. Appropriate changes in estimates are to be made by management by considering the business environment. The companies have to make critical accounting estimates in the method of revenue recognition, provisions to be made on income taxes, the valuation of tangible and intangible assets and the method of depreciation. In order to adopt IND AS 1 the net worth of the companies shall be calculated in accordance with the stand-alone financial statements of the company as on 31st March 2014 or the first audited financial statements for accounting period which ends after that date. Therefore IND-AS 1 will be applicable in the immediate subsequent year for which the company's net worth exceeds 500 crore/250 crore as the case may be. It also means that in its first accounting year (for a new company), IND AS 1 in not applicable.

### **A study on the financial statement of Infosys Ltd.**

The following reconciliation shows the effect of transition from exiting AS 1 to IND AS 1

(In crores)

Particulars	Notes	Opening balance sheet as at April 1, 2015			Balance sheet as at June 30, 2015			Balance sheet as at March 31 <sup>st</sup> , 2016		
		IGAAP	Effects of transition to INDAS	IND AS	IGAAP	Effects of transition to INDAS	IND AS	IGAAP	Effects of transition to INDAS	IND AS
<b>ASSETS</b>										
<b>Non-current assets</b>										
Property, plant and equipment		7347	-	7347	7603	-	7603	8248	-	8248
Capital work in progress		769	-	769	818	-	818	934	-	934
Intangible assets		-	-	-	-	-	-	-	-	-
Financial assets:										
Investments		6108	-	6108	7018	-	7018	11,111	-	11076
Loans		4	-	4	4	-	4	5	-	5

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Other financial assets		110	-	110	128	-	128	192	-	192
Deferred tax assets(net)		433	-	433	381	-	381	405	-	405
Other non-current assets		349	-	349	389	-	389	755	-	755
Income tax assets		3491	-	3491	4427	-	4427	5020	-	5020
<b>Total non-current assets</b>		<b>19,061</b>	<b>-</b>	<b>19,061</b>	<b>20,768</b>	<b>28</b>	<b>20,740</b>	<b>26670</b>	<b>35</b>	<b>26,635</b>
<b>Current assets</b>										
Financial assets Investments		749	-	749	602	-	602	2	-	2
Trade receivables		8627	-	8627	9200	-	9200	9798	-	9798
Cash and cash equivalents		27722	-	27722	25231	-	25231	29176	-	29176
Loans		225	-	225	263	-	263	355	-	355
Other financial assets		4045	-	4045	4656	-	4656	4801	-	4801
Other current assets		1384	-	1384	1579	-	1579	1965	-	1965
<b>Total current assets</b>		<b>42752</b>	<b>-</b>	<b>42752</b>	<b>41531</b>	<b>-</b>	<b>41531</b>	<b>46097</b>	<b>-</b>	<b>46097</b>
<b>Total assets</b>		<b>61813</b>	<b>-</b>	<b>61813</b>	<b>62299</b>	<b>-</b>	<b>62299</b>	<b>62271</b>	<b>-</b>	<b>62271</b>
<b>Equity and liabilities</b>										
Equity										
Equity share capital		574	-	574	1148	-	1148	1148	-	1148
Other equity		47494	4123	51617	49819	31	49850	56009	3925	59934
<b>Total equity</b>		<b>48068</b>	<b>4123</b>	<b>52191</b>	<b>50967</b>	<b>31</b>	<b>50998</b>	<b>57157</b>	<b>3925</b>	<b>61082</b>
Non-controlling interests		-	-	-	-	-	-	-	-	-
<b>Total equity</b>		<b>480,68</b>	<b>4,123</b>	<b>52,191</b>	<b>50967</b>	<b>31</b>	<b>50,998</b>	<b>57157</b>	<b>3925</b>	<b>61082</b>
<b>Non-current liabilities</b>										
Financial liabilities		-	-	-	-	-	-	-	-	-
Other financial liabilities										
Deferred tax liabilities (net)										
Other non-current liabilities		27	-	27	117	23	94	73	11	62

Total non-current liabilities		-	-	-	-	-	-	-	-	-
<b>Current liabilities</b>		<b>3</b>	<b>(3)</b>	<b>-</b>	<b>3</b>	<b>(3)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Financial liabilities		30	3	27	120	26	94	73	11	62
Trade payables		124	-	124	151	-	151	623	-	623
Other financial liabilities		4,885	(38)	4847	5024	30	4994	5138	6	5123
Other current liabilities		1,568	(4)	1,564	1977	3	1974	2097	4	2093
Provisions		4,460	(4,078)	382	1088	-	1088	4375	3939	436
Income tax liabilities(net)		2678	-	2678	2972	-	2972	3304	-	3304
<b>Total current liabilities</b>		<b>13,715</b>	<b>(4120)</b>	<b>9595</b>	<b>11212</b>	<b>33</b>	<b>11179</b>	<b>15537</b>	<b>3949</b>	<b>11588</b>
<b>Total liabilities and equity</b>		<b>61813</b>	<b>-</b>	<b>61813</b>	<b>62299</b>	<b>28</b>	<b>62271</b>	<b>72767</b>	<b>35</b>	<b>72732</b>

Source: www.infosys.com

## Interpretations

From the above reconciliation statement, we can see that, when the company shifts from existing AS 1 to IND AS 1, the companies have to revalue their assets and liabilities.

- Infosys have to revalue their investments on the basis of IND AS, it results in valuation of tax-free bonds under amortized cost, investment in equity on fair value and investments include discounted value of contingent consideration payable on acquisition of business.
- They have to revalue other equity on the basis of certain adjustments in retained earnings and other comprehensive income in order to suit IND AS. As per IND AS 19 actual gain and losses are recognised under other comprehensive income. Profit on transfer of business between entities under common control, which were earlier under profit and loss, are now adjusted to reserves on transition to IND AS.
- Infosys has revalued their liabilities by bringing in the unamortized negative past service cost, on modification of gratuity plan in certain period. As per IND AS 19 such losses and gains have to be adjusted in retained earnings.

## Conclusion

From this study, we conclude that the adaption of IFRS as a universal financial reporting language is gaining momentum across the globe. Adopting IND AS by Indian corporate is going to be very challenging at the same time it also is very beneficial to the Indian companies. India is adopting IND AS in 2 phases as per the

2015-16 guidelines provided by MCA. The study focuses on the implementation of IND AS on Indian companies with reference to disclosure of accounting policies. When companies shift from existing accounting standards to IND AS they have to revalue their assets and liabilities based on certain assumptions, estimates and judgements in order to prepare the financial statements as per IND AS 1. Once the companies have adopted IND AS they cannot move back to existing accounting standards, certain companies like insurance companies, banking companies and non-banking finance companies are not necessarily required to prepare their financial statements as per IND AS 1.

Indian companies benefit by adopting IND AS, even though it is difficult to adopt IND AS by the companies for the first time. The companies adopting IND AS for the first time should prepare it as per the IND AS 101 i.e. first time adaption of Indian accounting standards.

Infosys have prepared their financial statement as per IND AS 1, for this purpose they have revalued their assets and liabilities and have made certain assumptions and judgements in the preparation of financial statement. They have followed IND AS 101 for the first time adoption.

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## **A STUDY ON CHALLENGES OF ADOPTING IFRS IN INDIA**

**Varsha.V, Sonam Dhundup**

### **Abstract**

*With the pace at which the world is growing, there is a huge change taking place in every field. During last few decades, the companies all over the world have become international. Firms were looking for a standard, harmonizing and globally accepted financial reporting system. The financial reporting process of the business has also undergone huge changes. Like other countries, India also has declared to the adoption of IFRS. It holds both opportunities and challenges to the stakeholders and also to the country. To implement IFRS successfully in India, it requires contribution from both the government and the firm. This article discusses about the challenges faced by the stakeholders due to adoption of IFRS in India. It also suggests some ways for the smooth implementation of IFRS in India.*

**Key words:** *IFRS – International Financial Reporting Standards, IND AS- Indian accounting standards, GAAP-generally accepted accounting principles.*

### **Introduction**

During 19th century, the accounting practices in the country were controlled by ICAI to harmonize the diverse accounting policies and practices in India. This also resulted in reviewing the existing AS and revising them. The necessity emerged in 2006 and ICAI set up a task force committee to lay down a road map for the convergence of IFRS in India with prevailing standards rather than adoption.

As we know, International Financial Reporting Standards (IFRS) refers to the common financial language that has been adopted by all companies around the world. This is done to cope up with the changing environment and makes things easier by bringing in uniformity to accounting, so that, it is helpful to the management to

identify the problem areas, opportunities of growth, reduction of cost and finally making a decision for its ongoing concern.

As there is globalization across the world, many multinational companies tie up with other domestic or local companies for mergers, acquisitions, joint ventures with an intention of synergy or management control and so on. In this scenario, from a financial perspective, we find that the standards followed by the acquiring company are much different from the target company or the joint venture company. Thus, making it quite challenging to value the firms for globalization across borders. The IASB is responsible for setting up the AS, it issued common standards that are used worldwide by various countries and has helped the firms to understand the performance not as a branches or subsidiaries, but as one whole company, though it operates in various countries.

## **Literature review**

**Rawat Roa, 2012**, studied “The convergence of Indian accounting standards with International Financial reporting standards-challenges & problems”, and found that trade beyond national boundaries has led companies to face many challenges, one among them is facing multiple standards. Hence, adoption of IFRS will provide a solution for this problem as there will be a standard accounting system which is accepted worldwide.

**Pawan Gain, 2011**, studied “IFRS Implementation in India: Opportunities and Challenges” and found that for the successful implementation of IFRS in India, requires contribution from the firm, stakeholder and the government. Necessary training and education has to be organized to create awareness, and provisions have to be made for certain laws that need changes.

## **Objective**

1. To study the adoption of IFRS in India
2. To study the challenges faced in adopting IFRS in India

## **Methodology**

Our research work is done on base of secondary data collection for the study of challenges in adopting and implementation of IFRS in India.

## **Result and discussion**

### **Adoption of IFRS in India**

As a result of globalization across the world, many multinational company tie up with other domestic or local companies for mergers, acquisition and joint ventures

with an intention of synergy or for the management control and so. In this scenario, from financial perspective, we find that the standards that is followed by acquiring company is much different from the target company or the joint venture company and is quite challenging to value the firms, as a result of this globalization across the borders. The IASB is responsible for setting up the AS issued on the basis of recommendations made by the taskforce on convergence with IFRS and also on the basis of results of various discussions that were conducted by the professions, top managements of various company both public and top private companies, the following three step procedure for adoption of IFRS was laid down by ICAI in India . They are as follows-

### **Step1: IFRS Impact Assessment**

In this stage of adoption, the firm will begin with the assessment on the impact of IFRS adoption on the prevailing or existing system followed in respect to the accounting and reporting system on the country. This is done in order to find the gap in the existing system.

It then identifies the key conversion dates and accordingly an IFRS training program has to be provided to the employees or professions to get a hang of it. Hence, it is considered to be one of the important limitation of adopting IFRS, as the employees, professions, education institution have not made an attempt to provide an insight of how IFRS actually works and this acts as a major drawback for the implementation.

Once the training plan is exercised the firm will have to identify key standards that would apply to other firm and also the difference prevailing in the current Financial Reporting standards and International Financial Reporting Standard, this enables the firm to identify the various short comings of the existing process.

### **Step 2: Preparation for implementation of IFRS**

The second most important step is to carry out the activities required for the implementation of IFRS. So this, begins with a documentation process of IFRS accounting manual. The firm will restore the internal reporting system and process. The first time adoption of IFRS is guided through the first time IFRS guideline procedure for adoption. Once these procedure are complete, it makes convergence process more favorable. There are certain exemptions that are provided under the act and hence these exemptions should be identified and applied in order to ensure that adoption process is correct and consistent and control systems are to be designed and developed and put in action.

### **Step 3: Actual execution**

The last stage involves the actual implementation of IFRS. The first activity carried in this stage is to prepare an opening balance sheet at the date of transition to IFRS. A proper understanding of the impact of the transformation from Indian Accounting standards to IFRS is to be developed. This will provide a clear picture on the application of IFRS. Its implementation requires a lot of training as it is used by various firms and which is also a challenging task, so efforts should be made to train and address the staff to adopt or carry on the activities and also sort problems as an when they occurs on implementation.

### **Challenges in adopting IFRS in India**

By adopting IFRS, it will results in many benefits and creates an international standard accounting reporting system. Despite the benefits, adoption of IFRS in India is difficult and faces many challenges. The following are the challenges that are faced due to adoption of IFRS in India.

- **Education and training;**

Since the IFRS is new in India and many of them are not completely trained to implement it successfully, the lack of academic course on IFRS and training will be a challenge for adopting IFRS in India. The companies, auditors, regulators and the investment communities have to be appropriately trained and skilled to implement IFRS.

- **Fair value measurement**

In India, most of the companies prepare financial statement based on historical cost under the existing standards, but on adoption of IFRS most of the items in financial statement will be valued using fair value as a measurement base. This will lead to volatility and subjectivity to the financial statement. It requires high level of knowledge in order to value an asset at face value and valuation experts have to be appointed, which in turn is an additional cost. Hence, most of the companies will face difficulties in shifting to fair value accounting.

- **Reporting Systems**

The IFRS reporting system is different from the Indian reporting system. The company has to carry out necessary changes to ensure that their reporting system suits the IFRS reporting system requirement.

- **Taxation**

The current Indian tax law does not recognize or consider the accounting standard. To implement IFRS successfully in India, the Indian tax law has to recognize IFRS and its financial statements. As a result, adoption of IFRS will affect items in the

financial statement and also the tax liabilities will have to undergo huge changes.

• **Lack of awareness**

IFRS reporting system is completely different from Indian Accounting Standard. Adoption of IFRS is like new unknown guest coming to homeland. The new reporting standard has to be framed and people should be made aware of new changes. Unfortunately, the awareness among stakeholder likes firms, banks, and stock exchanges etc are really poor.

## **Conclusion**

IFRS is a global accounting standard which provides a clear picture with respect to the financial statements of the companies operating across the world to compare its financial performance for decision making process and also to standardize the reporting system. In India, IFRS is not completely adopted but certain principles were adopted along with the existing standard, which is known as Indian accounting standard. Though its adoption results in huge cost for the companies to actually implement and train its employees, to successfully adopt the convergence of IFRS with IND AS. The current accounting standard (Indian GAAP) measures the items in the financial statement by using historical prices as a measurement base, but on adoption of IFRS (IND AS) the fair market value is taken into consideration. Hence, it provides a relative value of the particular asset in the market.

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## **AN OVERVIEW OF POSSIBLE CHANGE IN ACCOUNTING PERIOD WITH REFERENCE TO IND AS**

**Rushika Mehta, Madhura .L**

### **Abstract**

*With the evolution of globalization, setting up uniform standards has become the need of the hour. In order to meet these requirements and be at par with the international accounting standards, India has decided to converge itself with IFRS, which is now known as IND AS. Though this convergence has become mandatory, the issue of change in accounting period is of a major concern. From the past 150 years, India has been following the Gregorian Calendar System of accounting (April–March), but after this change we will have to follow the calendar year (January-December). This change will help the government account for monsoons while preparing the budget. However, it has its own set of challenges. In order to address this concern, the government has set up a four-member committee headed by former Chief Economic Adviser Shankar Acharya, to examine the desirability and feasibility of having a new financial year. The researchers, through primary and secondary data have observed and analyzed the various needs and challenges for this change.*

**Key words-***Accounting period, Calendar year, Financial year.*

### **Introduction**

The Indian accounting system evolved in the early 16th century when India built its trade links with Europe and Central Asia. Having a financial year has been an integral part of maintaining the books of accounts and reporting. A financial year typically refers to a one-year period, starting on a chosen date until end of 12 months from the start date, typically used for estimating and analyzing the financial situations and positions of enterprises. During the 18th century with the invasion of England, came in their system of book keeping which affected India's accounting system to

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a large extent. It was in the year 1867 that India adopted 1st April to 31st March as its financial year in order to align itself with the British Government. Since then the appropriateness of this practice has been questioned at different points of time.

Various committees had been established from 1908-1984 in order to discuss this change. Recently in 2016, a proposal was made to discuss the same. One of the main reasons for wanting this change was that this time period did not allow the government to account for the impact of monsoon rains. Others being, it led to sub-optimal utilization of the working season. The Gregorian year has no reference to national culture or convenience of legislators, it is not aligned with international practices and it affects data collection and dissemination from the perspective of national accounts.

## **Review of Literature**

The researchers have referred to various newspaper articles, reports from government committees such as discussion note from (Aayog, 2016) and L.K. Jha's report for the review.

**Estimates Committee (1958)**, recommended that the financial year commenced from 1st October. According to the committee, under such an arrangement, the working season would be almost over by the time the preparation of the next budget started and the monsoon months be utilized consequently be for the penultimate and final states of the preparation of the budget.

**The Administrative Reforms Commission (1966)**, examined that, from the perspective of accuracy of revenue estimates in the budget, 1st January is the most suitable date for commencement of the financial year, while 1st April was the least suitable date. The commission also suggested that from the point of view of convenience of legislators and administrators 1st January was considered suitable from the angle of presenting and passing the budget while 1st October was considered suitable from the angle of touring the constituencies.

**The Hanumanthaiya Committee (1968)**, recommended 1<sup>st</sup> November as the preferred date for starting a financial year. He stated that the financial year starting from 1st April wasn't based on customs and needs of the nation. Considering India being an agrarian economy, it is dependent on behavior of the principal monsoon and a realistic financial year should enable a correct assessment of revenue, it should also synchronize with a maximum continuous spell of the working season and facilitate an even spread of expenditure.

**Lakshmi KhantJha(1984)**, suggested to change the existing financial year and advised adopting 1st January as the preferred date for commencement of financial year mainly with reference to the impact of south west monsoon on the economy.

They also mentioned in their report that if for any reason a changeover to calendar year is not acceptable despite its many advantages, then on balance, it might be best to live with the existing financial year and avoid the problem of transition.

**Associated Chambers of Commerce and Industry** issued a statement according to which any move to change India's financial year from April-March to any other permutation and combination would serve no purpose but cause a huge avoidable disruption at a big cost for country's trade and industry.

From the above study, the researchers found that all the committees set up were in favour of changing the accounting period though the time period they suggested were different. But, it was quite evident that most of them agreed that April to March was not an ideal period for India's financial year.

## **Statement of the Problem**

Every country follows a fiscal year for the purpose of taxation and budget planning. This year is usually decided on the basis of the convenience or traditions followed by them. Though there is not any uniformity in standards set, most countries follow January to December as their accounting year. India for the past 150 years is following April to March as its accounting year. This year the government came up with a suggestion to make a shift in the Financial year (April – March). The researcher aims to analyze the need for the shift as well as its consequences.

## **Objectives of the Study**

1. To understand the need for the possible change in accounting period.
2. To observe the challenges of the shift of accounting period.

## **Research Methodology**

The study is conceptual in nature. The data collected is from primary as well as secondary sources. The interview method was followed. The respondents included Chartered Accountants and Auditors and inferences were made. The data was also collected from various government organizations such as National Institute for Transforming India (NITI) Aayog and L.K.Jha's Committee.

## **Observations and Discussions**

### **Need for Possible Change**

The change in accounting period will help the government in accounting for monsoons. Considering that India is an agricultural economy, the income from agriculture is divided into two different years because of our current financial year. However, after this change our agricultural income will fall into a single year thus

making it easier for computation. This will also help the government in preparing the budget efficiently and will lead to the optimum utilization of the working season. The calendar year will also help the legislators to visit their constituencies before the preparation of the budget. Considering that India has a diverse culture it is practically impossible to decide a financial year based on various religious and cultural practices. However, in the modern context January 1st is celebrated as New Year amongst the Indians, hence the Calendar Year can be used as the new Financial Year. The calendar system of collection of data will enable us to align ourselves with UN standards.

From the observations it is visible that there is a need for change in the accounting period. However, this change has its own set of challenges.

## **Challenges**

- 1. Cost Involvement:** Whenever the recommendations were made to shift our accounting period, the government would always conclude by saying, “why fix something that isn’t broken”, one of the major reasons being that it would involve huge costs. The government will have to bear a lot of expenditure with respect to updating software, formulating committees, training people and other administrative expenditures.
- 2. Conservative Approach of the People:** After Companies Act 2013, it was made mandatory that all enterprises should follow April to March accounting cycle, now again a shift in accounting cycle will result in a lot of chaos. Considering the fact that a person earning meager income of Rs.1 Lakh p.a. should also file his returns irrespective of the fact that he doesn’t have to pay any tax. For such income groups this will be considered as an additional burden. Citizens at large do not seem to be welcoming this move.
- 3. Change in Taxation System and Policies:** Once the transition period is completed, the government will have to change all the filing dates, submission of financials and tax returns. Companies will also face problems with respect to payment of advance tax, computation of depreciation, employees declaration etc.
- 4. Problems Related to Statistics and Data Collection:** Out of 35 important basic statistical series, 22 compiled are on basis of financial year. The change in financial year will lead to alteration of all these series. The transitional period will either be for a time period of 9 months or 21 months. The compilation of data for this time period would be difficult. Even for future reference, this abrupt year will always be shown.

5. **Determination of Transitional Period:** In order to change the accounting cycle, the Government would have to decide on a “transitional financial year” to effect this change. For example, if they decide to change the year from January 2018, then April 1st to December 31st would be considered as transitional phase. This period has to be well-planned and very carefully handled keeping in mind five year plans, budget allocations and the like or else the shift will not be possible.
6. **Abrupt Financial Year:** The transitional period will be an abrupt financial year and it will cause hindrance for retrospective analysis, comparative studies, trend analysis, calculation of depreciation etc. For tax related cases, usually the previous year’s financials serves as proof but for the year after transitional period, this wouldn’t be possible.
7. **Tax Laws for Transitional Period:** Shifting of transitional period would require a lot of technical expertise on various issues like taxation, legal aspects, expenditures, revenues etc. The allocation of budgets will also undergo a change. Specific laws will have to be created for this transitional period, which again requires additional manpower and costs. Since these tax policies will be for a temporary period, the needs and effects cannot be determined.

### **Future Scope for Research**

- This paper is a conceptual paper. A further study can be done by using primary data.
- This topic of research is a new one hence there isn’t much scope for collection of data.

### **Conclusion**

India today is in a transitional Phase. It is undergoing changes in all aspects. Right from transition of AS to IND AS, to developing its own smart cities. The time has come when we come at par with all the international economies and this shift is a step towards the same. This change will help us align the Indian statistical series with that of UN reporting standards. Though there is no global standards set for adopting a financial year. The calendar year is a most widely accepted one. This shift will help us account for our monsoon in the budget and help our country become more proactive than reactive. Though there might be problems with respect to the transitional period, it would be only for a shorter period. On a long term basis this change will be beneficial. Countries such as Pakistan and U.S are examples of how normalcy could be achieved on a long term basis.

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## **AS 3 TO IND AS 7: AN OVERVIEW**

**Amrita Sarmah, John Paul**

### **Abstract**

*India has changed its accounting standards from Indian GAAP to IND AS, which is on par with IFRS. With India deciding to converge with IFRS and not adopt IFRS, IND AS is certainly a way forward for Indian companies. A cash flow is a financial statement, which shows the changes in the company's balance sheet or income statement due to the change in cash and cash equivalents. A globally competitive economy strives for a balanced growth in all sectors of economy. Over more than a decade India has been following AS 3 for preparing its cash flow statements, but now with IND AS coming into picture, it has to report its cash flow according to IND AS 7. This paper deals with cash and cash equivalents its implementation under IND AS 7. It will help us to have an overview about IND AS 7 and its implementation on the Indian companies.*

**Keywords** - AS 3, IND AS 7, IFRS, Cash flow, financial statements.

### **Introduction**

For the virtue of different country's business together in the world market, it was necessary for the business to espouse a common set of reporting standard, as accounting is the language of business. Hence, in 2001, international professionals from different nations established the International Accounting Standard Board (IASB) previously called as International Accounting Standard committee (IASC). The main objective of this board is to issue International Accounting Standards and these standards issued by IASB are called International Financial Reporting Standards (IFRS), these standards helps to maintain a common framework of accounting standards across the globe, which helps in the comparison and lucidity of the financial statements.

These accounting standards are being converged with many national accounting standards and India is no exception to this global change. Since the 2014 Indian budget, the finance minister announced that there was an immediate need for the adaptation of Indian Accounting standards with the International Financial Reporting Standards (IFRS).

Due to the effects of this need, IND AS (i.e. Indian standards converged with International Financial Reporting Standards) came into picture as On 2 January 2015. The Ministry of Corporate Affairs (MCA) of India issued a note stating the various areas in which Indian accounting standards converged with IFRS that is IND AS, which is to be implemented for the various companies in India other than banking companies, insurance companies and Non-bank financial companies (NBFCs).

As IFRS is making an impact in the Indian accounting standards, AS 3 statement of cash flow is one such standard that converged with International Financial Reporting Standards forming IND AS 7 statement of cash flow. The cash flow statement is an important statement in financial reporting along with the profit and loss statements, the balance sheet and the statement of changes in equity. It shows the generation and use of cash and cash equivalents by categories like operating, investing and finance over a period. It provides the users with a basis to assess the company's ability to generate and utilize its cash, an entity prepares the statement of cash flows in accordance with the requirements of this standard and present it as a fundamental part of the financial statements for the period in which the financial statements are prepared.

## **Review of literature**

**(White, 2007)** Demonstrated that the impact of Multinational Enterprises and large international accounting firms can lead to transfer of economic resources in their favor, wherein the public interests are usually ignored.

**(Motlagh, 2013)** States in his report, that a cash flow is one of the most important financial statements prepared by an entity. It provides the necessary information about an entity's activities in generating cash from operating, financing and investing activities. Cash flow statements list down various items and the activities, which bring about changes in the cash balances between two balance sheet dates.

**(Jain, IFRS Implementation in India: Opportunities and Challenges)** States in his paper, that merely adopting IFRS is not enough. All the interested parties, mainly the top management and the directors of the firm, accountants and auditors and regulators and law makers needs to work together as a team for a smooth IFRS convergence procedure.

**(Chhabra)** States that, the new concept of IND AS would make the companies face a few problems as their cost will rise. However, overall IND AS is a good step to discard the differences because of different accounting policies followed in different countries.

## **Objective**

1. To understand the impact of IFRS in convergence with Accounting standards in preparation of the statement of cash flow in India.
2. To have an insight on Indian Accounting standard (IND AS) 7 i.e. Statement of Cash flow.
3. To understand the various differences between Accounting Standard (AS) 3 and Indian Accounting Standard (IND AS) 7.

## **Scope of the study**

The present study is made to understand the various necessities to prepare a cash flow statement under IND AS 7 and how IND AS i.e. the converged IFRS is impacting in preparation of the cash flow statement. Its main aim is to highlight how IND AS 7 is different from the existing AS 3. A critical analysis is done to show the various differences between IND AS 7& and AS 3.

## **The statement of the problem**

The fundamental idea behind India following the converged IFRS, which is known as IND AS (Indian Accounting Standards) is to maintain uniformity of its financial statements with the financial statements of the other countries. Out of the many accounting standards, AS 3(Statement of Cash flow) is one such standard that underwent changes after the converged IFRS came into the picture and how it's now known as IND AS 7. The study analyzes the various changes that have been brought in during the preparation of the cash flows by various Indian Companies and how the statement of cash flow in IND AS 7 is different from the existing AS 3.

## **Methodology**

This research is an exploratory research.

## **Methods and Materials**

This study is based on Primary and Secondary data. The primary data includes the auditors view on the subject. Secondary data for the study includes IFRS and its impact on accounting standards specifically on AS 3 discussed in various journals, articles, newspapers and Accounting Textbooks.

## **Discussions and Results**

### **The impact of convergence of accounting standards with IFRS in preparation of statement of cash flow in India.**

With finance minister, Arun Jaitley making an announcement in the July budget session for the statutory adoption of IFRS from April 2016 for the listed and big companies, it has become an obligation for all these companies to prepare their financial statements as per the new converged IFRS which is known as IND AS.

With IND AS coming into picture, many changes to the existing Accounting standards will come into place, which include the various modifications in the preparation of cash flow statements under AS 3. After convergence, the companies need to compose their cash flow statements in accordance with the IND AS 7.

Information provided by the cash flows of an entity is helpful for users of financial statements that give them an idea about the capacity of the organization to generate cash and cash equivalents and the requirements of the entity to employ those cash flows. The users can take their economic decisions based on the evaluation of the capacity of the organization to create cash and cash equivalents and the period of its generation and the assurance of its generation. The main objective of this Standard is to facilitate the data regarding historic changes in cash and cash equivalents of an enterprise by showing it in the form of a statement of cash flows that categorize cash flows during the time from operating, investing and financing activities. The statement of cash flows helps in bringing down a comparison with the previous reporting periods of the same entity as well as comparison with other entities for the same reporting period.

### **An insight on IND AS 7**

A statement of cash flow along with the other financial statements facilitates information that allows the user to the changes in net assets of an entity, its financial formation (including its solvency and liquidity) and its ability to influence the amounts and period of cash flows in order to adjust to changing conditions and predictions. Cash flow information is productive in estimating the capacity of the entity to produce cash and cash equivalents and helps users to develop models to determine and collate the current value of the upcoming cash flows of different entities. It also improves the comparability of the reporting of operating enactment by different organizations because it removes the effects of using various accounting treatments for the same transactions and events.

Historical cash flow statements are often used to find out the timing and certainty of an entity to produce cash and cash equivalents in the future period. Cash equivalents are met with various short-term cash liability of the entity.

The cash flow statements are classified under three activities:

- Cash flow from operating activities
- Cash flow from investing activities
- Cash flow from financing activities

## **Operating activities**

The amount of cash generating from the operating activities shows if the firm has generated sufficient cash to repay loans, pay dividends, to maintain its operation and to make investments without outsourcing any finance externally. In this aspect, the historical cost might come to use to forecast the future operations cash flow.

- The cash flows in the operating activity are generally obtained through primary revenue generating units of the entity. Therefore, they result from the various transactions that penetrate in the determination of the profit or loss. Few examples of cash flows that makes it to the operating activities are:
  - Cash receipts- rendering of services and sale of goods.
  - Cash receipts-royalties, commissions, fees and any other form of revenue.
  - Cash payments-goods and services.
  - Cash payments-to and on behalf of employees.
  - Cash receipts and payments arising out of contracts help for dealing for the purpose of trading.

## **Investing Activities**

It is important for a firm to have a separate disclosure for the cash flows arising out of investing activities as it helps the firm to determine whether the expenses made on the investments are going to yield any future incomes. The expenses that end up with a recognized asset in the balance sheet are the only ones that are placed as cash outflows under investing activities. Few examples of cash flows under investing activities are:

- Cash payment- acquiring property, equipment and plant, long term assets and other intangibles.
- Cash receipts- the sale of any kind of intangibles ,properties and other long term assets
- Cash receipts-from sales of any kind of debt instruments or equity of other entities and interests in joint venture.

- Cash payments in the process of acquiring debt instruments or equity of other entities and interests in joint ventures.
- Cash loans and advances- to other parties other than made by financial institutions.
- Cash receipts -that arose from the repayment of loans and advances to other parties (except from financial institutions).
- Cash receipts and payments- from future contracts, forward contracts, swap contracts and option contracts except when the contracts are held for trading or dealings then it is taken under the financial activities.

### **Financing Activities**

The disclosure of financing activities in the cash flow is of as paramount importance as the other activities. The significance of the financial activities is that it helps the enterprise in estimating the claims of capital on future cash flows by the investors of the entity. Few examples of cash flows under financing activities are

- Cash proceeds- arising out of issuing shares or other equities.
- Cash payments- made to the owners to redeem or acquire the entity's share.
- Cash proceeds- arising out from issuing debentures, notes, bonds, loans and other long-term and short-term borrowings.
- Amounts borrowed on various cash repayments.
- Cash payments- that are made by a lessee in order to reduce the liability, which is outstanding.

### **AS 3 vs. IND AS 7**

The companies need to prepare their cash flows according to IND AS 7, which is different from the existing AS 3. The people who will be utmost concerned with the new IND AS are the auditors as they are the ones who gives the final approval of the financial statements. Below is a table that list out the differences between the existing AS 3 and IND AS 7 and what the auditors feel about those changes in the cash flow Statement.

<b>BASIS</b>	<b>IND AS 7</b>	<b>AS 3</b>	<b>Auditors Comment</b>
BANK OVER-DRAFTS	Bank overdrafts that are to be repaid on demand and form a major part of entity's cash management are in cash equivalents.	AS 3 doesn't require an entity to treat bank overdrafts as part of cash equivalent.	From the financial point of view bank overdraft shows the financial crunch or insufficiency of liquid fund to meet immediate requirements. As per AS 3 overdraft is treated as part of current liability and it showed under working capital changes. But as per new IND AS 7 it should form part of cash and cash equivalent, It will show a clear view of the cash and bank positions. Since as per IND AS 7 net cash balance only will be shown. So IND AS 7 will give a clear picture of the cash balance and it is appropriate method for showing the movement of cash over a period of time
CONCEPT OF EXTRAORDINARY ITEMS	As presentation of items as extraordinary is not allowed, the cash flow statement does not reflect any items of cash flow as extraordinary.	AS 3 requires that cash flows associated with extraordinary items should be classified as occurring from operating, investing or financing activities as appropriately and separately disclosed.	Extra ordinary items are the items, which are not ordinarily related to business activity. eg, Government grant received, its w/off etc. According to AS 3 it is classified separately under each activity. But, as per IND AS 7 It is not showing under any heads in cash flow statement. Since extra ordinary items are not linked to business activity it is not required to show in cash flow. Moreover, in other IND AS it is disclosed appropriately. The approach followed by IND AS 7 is appropriate

<p>ACQUISITION AND DISPOSAL OF PROPERTIES HELD FOR RENTAL TO OTHERS</p>	<p>Requires cash payments to manufacture or acquire assets held for rental to others and subsequently held for sale in the ordinary course of business should be presented as a part of cash flow under operating activities. Consequently, rent and the following sale of such assets should also be shown as a part of operating activities.</p>	<p>AS 3 does not basically deal with cash flows from such assets. Cash flow relating to such fixed assets is generally classified as investing activities.</p>	<p>As per AS 3 these items are treated as part of investing activity. But, as per IND AS 7 it is shown as part of operating activity. As per IND AS 7, stating that the asset bought not for business purpose, but subsequently used for the purpose of business. The income earned previously and later forms part of operating activity. By this method, it shows all income from the particular operating asset in one place. By this way, operating income will show as increased and it will show the strength of company to stakeholders.</p>
<p>PREPARATION AND PRESENTATION OF CONSOLIDATED CASH FLOW STATEMENTS</p>	<p>IND AS 7 deals with specific guidance on preparation and presentation of consolidated cash flows.</p>	<p>AS 3 does not give any guidance on preparation and presentation of consolidated cash flows.</p>	<p>Consolidated cash flow statements are part of consolidated financial statements, cash flows show the entire cash movement of a group of company. Through this, a clear picture of the movement of cash flow of group of company will be known and it will help in decision making for the group. AS 3 does not give guidance to prepare consolidated cash flow statement. But, IND AS 7 specifically provides for the same.</p>
<p>ADDITIONAL DISCLOSURES</p>	<p>IND AS 7 requires additional disclosures.</p>	<p>Disclosure is not required under AS 3.</p>	<p>Additional disclosures will help to explain more about companies' cash movement. IND AS 7 gives more emphasis on this.</p>

CASH FLOWS ARISING FROM CHANGES IN OWNERSHIP OF SUBSIDIARIES	IND AS 7 requires the classifications of cash flows arising from the change in ownership interests in a subsidiary that need not result in the loss of control as cash flows from financing activities.	AS 3 does not contain such requirements.	Parent company money is blocked in subsidiaries. So if there is any change in it, that should be shown as cash flow from financing activities. AS 3 does not specify regarding this but as per IND AS 7 it is a requirement. It will show a clear picture of the financing activities of the company.
USE OF DIFFERENT TERMINOLOGY AND TRANSLATION OF CASH-FLOWS OF A FOREIGN SUBSIDIARY	IND AS 7 uses the term 'functional currency' instead of reporting currency.	AS 3 uses the term reporting currency.	The term functional currency gives more clarity than reporting currency.
INVESTMENT IN SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES.	IND AS 7 states the use of equity or cost method while accounting for an investment in an associate, joint venture or a subsidiary. It also deals with the reporting of interest in an associate or a joint venture.	AS 3 does not contain such requirement.	IND AS 7 considers different methods of accounting for preparing cash flows. So, it will show real cash flow and appropriate presentation for stakeholders. AS-3 does not contain this requirement. IND AS 7 is more appropriate in the auditors point of view.

Source:<http://cas.ind.in/knowledgecenter/cnsupdates/INDASGYM/INDASGYM-SESSION1/SESSION1-INDASGYM-SPK2.pdf>

## Conclusion

Everyday companies are being listed in different stock exchanges located at different parts of the world. These companies are also raising their finance and making various investments throughout the world. But their financial statements will be according to the various accounting procedures followed in the respective country. The difference in the financial statement will make it unfriendly for the global investors. Hence, there is a need to converge accounting information into common reporting standards and that's when IFRS came into India. India did not

completely change its accounting standards to IFRS rather it converged its existing accounting standards with IFRS, which is known as IND AS.

As IFRS implemented in India it brought in changes to the existing accounting standards of India and AS 3 (i.e. statement of cash flow), is one such standard that got changed to IND AS 7 the hybrid of Indian accounting standards and IFRS.(AS 3 which is now known as IND AS 7)

INDAS 7 comprises of operating, investing and financing activities along with the elements of cash and cash equivalents at the commencement and end of the reporting period. It may present the operating activities in an indirect or direct method. In the direct method the substantial amount of cash and payments are obtained. IND AS 7 prescribes that the net cash flow arising out of operating activities can be presented using indirect method by revealing the revenues and expenses from the profit and loss statement. Cash flow arising out of taxes is taken under operating activities unless it is specifically mentioned to be a part of financing or investing activity, dividend and interest received and paid shall be disclosed separately. Investing and financing activities that do not include cash or cash equivalents shall be omitted in the cash flow statement.

Whenever IND AS 7 is compared with AS 3, we can see that there are various changes and requirements that need to be followed under IND AS 7, which were previously not followed by AS 3. Out of all the many changes the major change in this convergence is that AS 3 wasn't mandatory for small and medium size industries but now it is compulsory under IND AS 7. When asked about these, changes the auditors gave a broader view on the various changes that have taken place in the cash flow statement.

## **Findings**

1. Bank overdrafts are included in IND AS 7 and it can be a part of financing activity or cash and cash equivalents.
2. In IND AS 7 the management of cash payments made for manufacturing or purchasing assets which were held for the purpose of renting to others and consequently held for ordinary courses of business are provided in the operating activities.
3. The financial activities under IND AS 7 require to classify the cash flows that come out from the changes in ownership interests in a subsidiary.
4. The amount of cash and cash equivalents and the other liabilities and assets of the subsidiaries over which control is procured or lost needs to be disclosed under IND AS 7

5. IND AS 7 does not require cash flows from extraordinary items to be classified under operating, financing and investing activities.
6. If there has been a change in the ownership interest in a subsidiary then it needs to be disclosed under IND AS 7.
7. Cash flows rising out of financing activities such as cash proceeds from mortgages, cash payment to owners to redeem or acquire entity's share are to be included in IND AS 7.

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## **AS 9 to IND AS (18) – COMPARATIVE STUDY ON REVENUE RECOGNITION – WITH SPECIAL REFERENCE TO HUL**

**Alisha Leonita D’souza, Tania Michelle Lobo**

### **Abstract**

*The Ministry of Corporate Affairs (MCA) proposed the adaptation of Indian Accounting Standards (IND AS) in the fiscal year 2017-2018. IND AS was established to understand and analyse the financial statements of companies in an unambiguous manner. India is growing into a Glocal economy which after adaptation of IND AS, the companies would reflect the hidden economic substance of transactions and their impact on net worth and net income. With the adaptation of IND AS. Indian companies will be able to exhibit their financial statements in formats, better understood by foreign investors. The study aims to highlight the usefulness of IND AS in revenue recognition in the Indian companies, before and after the adaptation of IND AS in convergence to IFRS. This research is intended to bring forth the comparative difference between AS 9(Revenue Recognition) and IND AS 18 (Revenue). This would in turn show the change in accounting treatment of revenue items in the previous and forth coming years.*

**Key Words-** Revenue Recognition, Net worth.

### **Introduction**

The competitive business environment today has put companies on a never ending spree to optimize its performance. Any stakeholder of a business entity both Internal (shareholders investors, management) and External (suppliers, customers, bankers, regulatory authorities), evaluate the performance of the company based on the revenue it generates. Revenue is income that arises in the course of ordinary activities of an entity, when sale of goods occur, when services are rendered or when there is yield of royalty, interest and dividend. All businesses operate with an

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objective to maximize its revenue. This makes revenue an indispensable parameter for a business's sustainability and growth.

In a globalized business scenario where a company's shareholders are scattered across continents a uniform language of reporting of financial statements is the need of the hour.

Homogeneity in reporting standards, translates even to recognition and valuation of revenue. IND AS was adapted to align Indian GAAP to the accounting standards of IFRS with this investors worldwide will be able to derive information from financial statements of Indian companies with much ease. As companies, face a transition from Indian GAAP AS9 to IND AS 18 pertaining to revenue recognition. Under IND AS 18 revenues will be calculated with adding excise duty. The impact of this transition will lead to higher revenues with low margin and EPS, which will be neutral, because of this change in revenue valuation of MNC's in India fear that they would now have transfer pricing demands from income tax authorities.

## **Review of Literature**

(Anubha , Priyanka , 2014) Examined the impact of adaptation of IFRS on Wipro Ltd. The research discovered that since the formats of financial statements vary considerably the amounts also varied. Further, the consolidated statement of accounts in equity is prepared only under IFRS. Consolidated statement of comprehensive income is prepared under IFRS only.

(Saurabh and Joy , 2015) Observed that IFRS represents assets value based on fair value method. There is also a difference in pattern of presentation of financial statements. Under IFRS revenue is recognised only when risk and rewards are transferred to the buyer. Because of the above reasons, IFRS is considered more transparent, reliable and investor friendly with an emphasis on the adaptation of uniform accounting practices across the globe.

(Shshank, 2016) Investigated the impact of adaptation of IFRS 15 'Revenue from Contract with customers'. The study found that the impact of adaptation of IFRS 15 'Revenue from contract with customers'. The study instituted, that the implementation of IFRS 15 will be challenging for enterprises, as they will need to overlook their contractual terms. The study suggested that a robust internal control backed by strong IT environment is crucial for successful adaptation of IND AS.

(Jigar, 2016) Management should focus on addressing the issues arising from the transition to IND AS on all aspects of the organisation mainly with respect to internal control over financial reporting, managing regulator compliances by upgrading or modifying their processes and system, modification of IT system and processes and computation of direct taxes. Only if these aspects are dealt with, can the organisation progress towards a phase of sustainable financial reporting.

## **Objectives**

- Observation of changes after adopting IND AS 18 from Indian GAAP-9.
- To understand IND AS 18 and its impact on the financials of HUL.

## **Scope of the Study**

The study highlights the changes in revenue after the implementation of IND AS 18.

## **Research Methodology**

The study is based on theoretical and qualitative techniques of observation methodology. In order to attain the identified objectives, a methodical review of literature was conducted. A systematic review of literature facilitates cultivation of knowledge regarding the accounting standards under study. The literature was collected from relevant books, journal articles, and online articles and from the official website of HUL.

## **Discussion**

### **Indian Accounting Standard 18- Revenue**

IND AS 18 lays down the principles of recognition and measurement of revenue arising from sale of goods, rendering of services and the use by others of entity assets yielding interest, royalties and dividends. As per this IND AS18, revenue is “the gross inflow of economic benefits during the period arising in the course of the ordinary activities of an entity when those inflows result in increase in equity, other than increases relating to contributions from equity participants.” This accounting standard sets the criteria under which, revenue is to be recognized and it also provides practical guidance on the application of these criteria.

### **Non-Applicability of IND AS 18**

Revenue is not recognized under IND AS 18 in case of the following transactions and events:

- (a) Lease agreements (IND AS 17, Leases);
- (b) Dividends arising from investments, which are accounted for under the equity method (IND AS 28, Investments in Associates);
- (c) Insurance contracts within the scope of IND AS 104, Insurance Contracts;
- (d) Changes in the fair value of financial assets and financial liabilities or their disposal (IND AS 39, Financial Instruments: Recognition and Measurement);
- (e) Changes in the value of other current assets;

- (f) Initial recognition and from changes in the fair value of biological assets related to agricultural activity (IND AS 41, Agriculture);
- (g) Initial recognition of agricultural produce (IND AS 41); and
- (h) The extraction of mineral ores IND AS 18 does not deal with revenue from contracts for rendering services associated with construction contracts since revenue of this nature is covered under IND AS 11 Construction Contracts.

**Difference in Accounting Treatment between Accounting Standard 9 and IND AS 18**

<b>Accounting Standard 9 (IGAAP)</b>	<b>IND AS 18</b>
<ul style="list-style-type: none"> <li>• This Standard is concerned with the recognition of revenue in the statement of profit and loss of an enterprise. Revenue is Recognized arising in the ordinary activities of the enterprise from                             <ul style="list-style-type: none"> <li>- The sale of goods,</li> <li>- The rendering of services, and</li> <li>- The use by others.</li> </ul> </li> <li>• Revenue from contracts of real estate is scoped.</li> <li>• Recognition of revenue is done at nominal rate a consideration receivable.</li> <li>• No treatment existed</li> <li>• Revenue is recognized in case of rendering of services in completed service contract method.</li> <li>• Interest as per AS 9 is recognized using time proportion basis.</li> <li>• This standard did not provide guidelines for discounts and loyalty program for customers.</li> <li>• This standard didn't have this treatment.</li> <li>• Excises duty was not a part of the standard.</li> <li>• Disclosures are not elaborated in detail.</li> </ul>	<ul style="list-style-type: none"> <li>• This Standard is applied in Accounting of revenue arising from the transactions and events:                             <ul style="list-style-type: none"> <li>(a) The sale of goods;</li> <li>(b) The rendering of services; and</li> <li>(c) The use by others of entity assets yielding interest and royalties.</li> </ul> </li> <li>• Revenue arising from contracts of real estate development is precisely scoped out.</li> <li>• Revenue is recognized at fair value of consideration received/ receivable.</li> <li>• IND AS 18 specifically deals with the exchange of goods and services of similar and dissimilar nature.</li> <li>• Revenue recognized using percentage of completion method.</li> <li>• Interest is recognized using effective interest rate method.</li> <li>• The standard provides guidelines for free or discounted goods and services and loyalty programs for customers.</li> <li>• Accounting of transfer of property, plant and equipment by the customers to the enterprise and used by the enterprise. In the customers are connected to a network or they also provide the customer with access to a supply of goods or services.</li> <li>• Deals with disclosure of excise duty as deduction from sale transaction revenue.</li> <li>• Disclosure treatments are elaborated in detail.</li> </ul>

(ICAI Educational Material)

The study analyses the nature of the disclosure of quantitative changes of Hindustan Unilever. By disclosing the net effect of changes after the adaptation of IND AS 18. The mode of quantitative disclosures is re-coded on the basis of monetary terms for the June quarterly (JQ), for the years 2015 and 2016.

### HUL Ind AS 18: Key Impact

Particulars	JQ'15			JQ'16
	IGAAP	Ind AS	Change	Ind AS
Net sales (Rs Cr)	7973	7713	-261	7988
PBIT margin (%)	17.95%	18.63%	** +68bps	19.31%
Net Profit margin (%)	13.28%	13.86%	+58bps	14.70%
*A & P % sales	14.47%	11.57%	-289bps	11.07%

(HUL Presentation)

\*Advertising and Promotion

-figures in crore (Cr)

\*\*Basis point (bps)

The above table shows the key impact on the profit percentage for the June quarter 2015 before and after the adaptation of IND AS. It must be noted that the company estimates the stimulants (figures) of JQ'15. However, the figures of JQ'16 are the actual figures after the adaptation of IND AS. When the actual net sales as per IGAAP are compared to expected stimulants of IND AS there is an expected change of Rs. -261 cr. But, the PBIT margin (%) as per IND AS is higher by 68bps, the Net Profit Margin (%) as per IND AS is higher by 58bps this is because the deductions and valuation of revenue recognition as per IND AS is different from IGAAP (fair value method of revenue recognition, excise duty deductions, percentage of completion method in case of services etc.). In reality when the company implemented IND AS in June quarter 2016 the revenue recognised was higher which has much better profit percentage return.

## Conclusion

Based on the analysis of the study, accurate observation could not be made because IND AS is still at the initial stages of implementation, more accurate analysis will be possible only after it has been fully implemented by companies across the country. Only in the coming years can the exact impact of the adaptation be found out.

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## **Annexure**

<https://www.hul.co.in/investor-relations/quarterly-results/>

(For quarterly financial reports of June 2015 and 2016)

## **“CONVERGENCE OF AS-19 TO IND AS-17 – AN ANALYSIS”**

**Mary Shilpa.R, Renuka Devi.R**

### **Abstract**

*This study focuses on the impact of leasing, as per AS-19 and IND AS-17. These accounting standards are applicable for both the lessor and lessee. They follow appropriate accounting policies and disclosures with association to finance lease and operating lease.*

*The use of the accounting standards IND AS-17 has specific provisions dealing with leasing of land and building. The convergence has many accounting policies that have been included and excluded in IND AS-17.*

*The main objective of this study is to observe the convergence of AS-19 to IND AS-17*

**Keywords-** *Lease, Lessee, Lessor*

### **Introduction**

Accounting standards contribute great aspects on leasing for the treatment and disclosure of the accounting principles from the existing accounting standards to new accounting principle. AS 19 defines, the lease of all assets comes mandatory in nature commencing on or before 01.04.2001 and is also mandatory under the guidance note on accounting for lease. Whereas, the new accounting standard reduces and eliminates the diverse practices in leasing. The IND AS is based on the extent of adoption to which risks and rewards are transferred to the ownership of the lessee and the profitable operation of the asset's life is a form of gain appreciation in the residual value.

This also clearly states that there is a no scope for exclusion of deleted existing standard. Thus, making a definite distinction between the inception of lease and commencement of lease.

LEASE: A lease is an agreement where by the Lessor conveys to the lessee in return for a payment or series of payments, the right to use an asset for an agreed period of time

FINANCE LEASE: A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership.

OPERATING LEASE: A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

## **Literature Review**

An overview of various issues related to the study of AS19 to IND AS 17 has been presented as review of literature in this paper. The review of various studies has been of great significance in understanding the in and out of the study. The data gathered from the earlier study has been an instrument in guiding the various possible factors in the study. A number of studies have been conducted on performance of the lease that is:

**(Covaci, Brindusa, 2009)** Discussed in their paper that in recent years, funding operations have taken on meanings of leasing increasingly wider, opening new economic analysts. Leasing is a financing technique that comes to help businesses that want to purchase machinery and equipment, as it is not affordable. This financing technique which involves a high risk is to give economic satisfaction to the ones that cannot obtain loans from banks or unwilling to strike the movable and immovable property through the establishment of mortgages or pledges, dynamic loads affecting specific domain commercial.

**(Quian and Burrirt, 2011)** The author views about the recognition of lease and lease revenue, recognition of intangible assets, costs and impacts associated with leasing process. To date, accounting and finance literature seems to focus exclusively on the economic aspects of leasing strategies. It is expected that the findings and suggestions of this study will facilitate the adoption and diffusion of the “closed loop” lease and service mode in the business world for the benefit of the industry.

**(Vivekanand Pote, 2014)** According to Pote, the basic objective of accounting standards is to remove variation in the treatment of several accounting aspects and to bring about standardization in accounting standards. He also states that residual value appearing in the existing AS19 has been deleted in IND AS17. There is distinction between inspection of lease and commencement of lease in IND AS17 but there is no such distinction in AS19.

**(Guide, 2015)** Published by PwC, Explains the concept of IND AS in a nutshell, where IND AS has specific provision for lease of land and building. Some transactions

that have a legal form of a dependent particular asset can be controlled physically and economically by the lessor.

## **Objective**

- To study the convergence from AS19 to IND AS17
- To analyze disclosures in relation to Lease.

## **Research Methodology**

### **Data collection**

The study is obtained from secondary data. The proposed research work is based on a descriptive and analytical research. The data was collected from various sources such as publication of various corporate bodies, government organization, journals and published websites related to convergences of AS19 to IND AS17.

### **Statement of the Problem**

Lease is a grant on a property. The merging of IFRS with AS 19 has shifted to IND AS 17. This study is on the impact on the convergence of lease. The paper deals with the treatment of disclosures in relation to finance lease and operating lease.

## **Discussion**

Convergence:

### **1) Financial lease:**

- a) Initial recognition: The lessor recognizes assets which are under financial lease in their balance sheet as receivables which is equal to investment of the lease.
- b) The risk and the reward which is incidental to the legal owner is transferred by the lessor and the lease payment receivables is treated by the lessor as repayment of principal and finance income to reimburse and provide benefit for the lessor for its investment and service.
- c) The lessor incurs indirect expenses; it includes amount/values such as commission, legal fees and internal cost, which are directly related for negotiating lease.
- d) Subsequent measurement: The financial income will be recognized based on the periodic rate of return on the net investment. The financial lease gives rise to depreciation expenses for depreciable assets and finance expenses for every accounting term. The depreciation recognized shall be calculated with respect to IND AS 16 property, plant, equipment, and IND AS 38 intangible assets.

**2) Operating lease:**

- a) The payment under operating lease that is recognized is treated as expenses on straight-line basis over the lease period. The lease payment excludes cost of service such as insurance and maintenance.
- b) Initial direct cost which is incurred for negotiating lease in operating lease will be added in leased asset and recognized as expense over the lease period.

**Disclosures**

<b>FINANCIAL LEASE</b>	<b>OPERATING LEASE</b>
<p>1. Under each set of assets, the net carrying amount at the end of reporting period is the reconciliation between the future minimum lease payment and their present value. An enterprise can disclose their lease payment and present value for each of the following periods:</p> <ul style="list-style-type: none"> <li>➤ Not later than one year</li> <li>➤ Later than one year but less than five years</li> <li>➤ Later than five years.</li> </ul>	<p>1. Total future minimum lease payments under non-cancellable operating lease for the following period:</p> <ul style="list-style-type: none"> <li>➤ Not later than one year</li> <li>➤ Later than one year but less than five years</li> <li>➤ Later than five years.</li> </ul>
<p>2. Contingent rent will be treated as expense for the period.</p>	<p>2. Lease and sub-lease payment are treated as an expenses for the period, with separate figures for minimum lease payment, contingent rent and sub-lease payment.</p>
<p>3. All the future minimum sub-lease payments are expected to be received under non-cancellable sub-lease for the reporting period.</p>	
<p>4. A general description of the lessees leasing arrangements is limited to the following:</p> <ul style="list-style-type: none"> <li>➤ The basic determination on which contingent rent is payable</li> <li>➤ Stating the terms of renewal and purchaser options and escalation clauses</li> <li>➤ Certain restriction imposed in lease arrangements like those concerning dividends, additional debts and further leasing.</li> </ul>	

## **ANNEXTURE**

Example: An entity agrees to enter into a new lease arrangement with a new lessor. The lessor agrees to pay the lessee's relocation costs as an incentive to the lessee for entering into the new lease. The lessee's moving costs are Rs. 1000. The new lease has a term of 10 years, at a fixed rate of Rs.2000 per year.

The accounting is:

The lessee recognizes relocation costs of Rs. 1000 as an expense in year one. Net consideration of Rs.19000 consists of Rs. 2000 for each of the 10 years in the lease term, reducing Rs.1000 as incentive for relocation cost. Both the lessor and lessee would recognize the net rental consideration of Rs.19000 over the 10 year lease term using a single amortization method in accordance, the lessee shall recognize the aggregate benefit of incentives as a reduction of rental expenses over the lease term on a straight line basis unless another systematic basis is a representative of the time pattern of the lessee's benefits from use of lease asset.

### **Finding**

Based on the data gathered we draw the following findings.

- 1) As per the existing AS19 leasing of land is completely exempted from its scope, where as in IND AS17 there are specific provisions set for lease of land and building.
- 2) As per IND AS 17 provision under operating lease is measured for property held by lessee is treated as investment property and biological asset held by the lessee, but in AS19 there is no such provision made.
- 3) As per IND AS 17 there a distinction between the inception of lease and commencement of lease. But previously under AS 19 there is no such distinction made.
- 4) In the adoption of IND AS17 the lessee will recognize the finance as assets and liabilities in the balance sheet at the commencement of the lease term. Where as in AS19 finance lease is recognized at the inception of lease.

### **Auditors Perspective**

#### **Impact of lease on unrecorded lease assets/liabilities**

Result of Average Unrecorded Lease Liabilities for 107 sample companies

	Mean \$m	% of Total Assets	% of Total Liabilities
Unrecorded Lease Liabilities	-679.67477	3.63%	4.48%

The results in Table 1 show the amount of the unrecorded lease liabilities for the selected 107 companies as \$679.67 million. The figure is equal to 3.63% of the total assets and 4.48% of the total liabilities. This change in accounting method will create a substantial inflation to the bottom line recorded in the Balance Sheet of companies. It is indicative of the extent of off balance sheet financing that currently exists by way of operating leases.

## **Impact of Lease on Financial Statements**

Comparison of Balance Sheets under the existing and new lease accounting standard

	<b>Existing AS 19</b>	<b>New IND AS 17</b>	<b>Differences</b>	<b>% of the Changes</b>	<b>Significance</b>
Total Assets	18702.57	19351.28	648.715	3.47%	0.00
Total Liabilities	15171.98	15830.27	658.283	4.34%	0.00
Total Equity	3530.58	3521.02	-9.568	-0.27%	0.00

## **Conclusion**

As per the study conducted, it can be inferred that adaptation of IND AS can impact the financial statement of the companies with respect to leasing considering the fact that the balance is one of the mandatory financial statement to be produced by all class of companies. It is important for the entities to consider relevant changes that have been implemented as per IND AS17 and necessary updates should be done on the same.

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## **EVALUATION ON THE IMPACT OF IND AS ON INDIAN TAX**

**Maria Sanjana.S, Akshitha Irene. D**

### **Abstract**

*IFRS is considered as the accounting standard in more than 100 countries. In today's scenario of global business, India cannot afford to shelter itself from the developments and modifications taking place worldwide. In India, the Institute of Chartered Accountants (ICAI) as the accounting standard formulating body of the country has always conceived accounting standards that have proved to withstand the test of time. In the event of globalization the significance of convergence with IFRS has increased. Thus, showing a vital role for IND AS.*

*Till recently, for the purpose of computation of taxes, profits as per books was taken as the starting point to which various adjustments were made for arriving at the taxable income. With introduction of IND AS and its emphasis on its fair value accounting, the book profits as per IND AS and existing GAAP will be substantially different. This would result in higher tax liability of IND AS adopters over IND AS non-adopters under the regular provisions of the Income Tax Act.*

**Key words-***Tax, Global, Impact, Difference.*

### **Introduction**

Different accounting treatment sare adopted by different countries as well as disclosure patterns with regard to the same economic event. This may lead to confusion among various users in the interpretation of financial statements. These statements that are based on a single universally accepted and used standards will help the world to exchange financial information in a more trust worthy and meaningful manner. This will help to accelerate the globalization of finance. The transition from Indian GAAP to IND AS is seen as a historic and landmark change. India is starting with the convergence process to IFRS in a planned manner starting on or after 1 April

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2016 onwards. The IFRS converged standards will be known by the name of Indian Accounting Standards (IND AS) and will hold numerous carve outs from IFRS.

This change from IFRS to IND AS is a positive one that will bring the accounting in India substantially closer to the accounting that is followed by companies globally under IFRS.

In case of companies involved in paying Minimum Alternative Tax (MAT), they may have to pay it at a higher rate as if MAT is based on IND AS profits because under this, profits and constructive revenue are recognized before hand in a service concession agreement. This conversion process will not be a hassle free job. However, at the same time, with an early start and appropriate planning, it may not be a hugely painful exercise.

## **Review of Literature**

**(Income Tax, 1961)** Section 115 JB, states that from the financial year 2016- 17 IND AS are expected to be in place and have a relatively huge impact on the Financial Statement that is, the Net Profit of the entity. Thus, calculation of MAT will depend upon the Net Profit as per the books of accounts after certain adjustments as defined in Section 115 JB.

**(Pravin.R.Patel, 2014)** Studied and analyzed that, India being a key global player, journey to IND AS will enable its entities to have access to international markets without having to go through cumbersome conversions and filing process.

**(Unilever, 2015)** Analyzed the IND AS12 on income taxes and found its differences as for Indian GAAP- Deferred taxes are recognized for the tax effect of timing differences between accounting income and taxable income for the year i.e., income statement approach. While under IND AS- Deferred taxes are recognized for future tax consequences of temporary differences between the carrying value of assets and liabilities in books and their respective tax base i.e., balance sheet approach.

The balance sheet of the company was noted to have income taxes reduction in deferred tax assets of Rs. 47.83 crore with corresponding charge to retained earnings and OCI reserve of Rs. 47.15 crore and Rs. 0.68 crore respectively consequential to IND AS adjustments. While in the Profit and Loss account, it is noted that recognition of additional deferred tax expense of Rs. 4.70 crore in the profit and loss and a credit of Rs. 0.34 crore in OCI consequential to IND AS adjustments in June Q'15.

**(Dave, Ind-AS to raise June quarter tax liabilities by 20%, 2016)** States in his article that Indian entities that have shifted to the new accounting standards with respect to the June quarter have chances of starting out at an increased or higher tax liability of about 20 percent under the MAT.

**(Seth, 2016)** Studied and stated that the impact of taxes can be substantial not only due to changes in the recognition rules for deferred taxes, but more importantly due to implications on MAT, which are based on accounting profits and this can be quite different under IND AS. Recognition of unrealized gains on financial instruments, non-amortization of goodwill, recognition of actuarial losses on defined benefit obligations in other comprehensive income are some examples that might potentially increase the IND AS reported accounting profits and thereby the MAT liabilities. According to his survey, taxes are viewed as the main area to have a significant impact as a result of this conversion.

**(RBI, 2016)** Analyzed and stated that there will be an impact of new accounting norms on profit planning and budgeting, taxation, capital planning and impact on capital adequacy. IND AS implementation is likely to significantly impact the financial reporting systems and processes and as such, these changes need to be planned, managed, tested and executed in advance of the implementation date. Thus, banks are advised to set up a Steering Committee headed by an official of the rank of an Executive Director (or equivalent) comprising members from cross-functional areas of the bank to immediately initiate the implementation process.

## **Statement of problem**

The ICAI body formulated the IND AS in view with the IFRS, which is followed by most of the countries with the objective of uniformity in understanding and the procedure followed. IND AS is implemented in India from April 2016 for companies with turnover of more than 500 crores and its convergence by all entities is expected by the year 2018. This study analysis the impact of this convergence with respect to the treatment of corporate tax in India.

## **Objectives of the study**

- To understand the concept of IND AS and its procedure of convergence.
- To analyze the impact of IND AS on the Indian Corporate Tax System.

## **Scope of Study**

The present study is made to understand IND AS, its convergence and its main impact on the tax system that would be affected as a result of the implementation. In this study we understand how the increase in profit is going to cause a shift in the tax liability that is, resulting in a higher tax liability to be paid by the corporate sectors.

## **Methodology**

This research is an exploratory research.

## **Methods and Materials**

The study is purely based on secondary data, which includes provisions discussed about IND AS and its convergence under various articles in the newspaper, websites and journals.

## **Analysis**

### **Key Features of IND AS**

In a survey that was conducted in late 2007 by the International Federation of Accountants (IFAC), a large majority of accounting leaders from all around the world came to a consensus that a single set of international standards is important for economic growth. Of the 143 leaders from 91 countries who responded, 90% reported that a single set of International Financial Reporting Standards was “very important” or “important” for economic growth in their countries. Having made this impactful decision, India agreed to make the changes to a global language–IND AS, which as stated above is implemented from April 2016. In addition to the formulation of IFRS converged IND AS, the ICAI through its “IND AS(IFRS) Implementation Committee” is making every possible effort to ensure that these standards are implemented in the same spirit in which these have been formulated by ICAI.

### **Applicability of IND AS**

As per the notification released by the Ministry of Corporate Affairs on 16 February 2015, the roadmap for IND AS implementation is as follows:

<b>Financial Year</b>	<b>Mandatorily applicable to</b>
2016-17	Companies (listed and unlisted) whose net worth is equal to or greater than 500 crore INR.
2017-18	Unlisted companies whose net worth is equal to or greater than 250 crore INR and all listed companies.
2018-19 onwards	When a company’s net worth becomes greater than 250 crore INR.
2015-16 or later	Entities, not under the mandatory roadmap, may later voluntarily adopt IND AS.

[Source: <https://www.pwc.in/assets/pdfs/publications/2015/IND AS-pocket-guide-2015.pdf>]

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).

## **The convergence**

IND AS 101 is the standard that provides guidance for the first time adoption of IND AS in the Indian accounting system. It provides a suitable starting point for accounting at a cost that does not exceed the benefits. First IND AS financial statements are the first annual financial statements in which the entity adopts IND AS and makes an unreserved and explicit statement in those financial statements of compliance with it. This Standard grants some mandatory exceptions and voluntary exemptions from retrospective application of some aspects.

## **Procedure for the convergence**

1. This transition begins with the preparation of an opening IND AS balance sheet at the date of transition to IND AS as the initial point of subsequent accounting under IND AS.
2. This is then moved to recognizing all liabilities and assets for whom recognition is required by Indian Accounting Standards.
3. In the transition, it is bound to ignore recognizing items as liabilities or assets that IND AS does not permit for such recognition.
4. It is then focused to reclassifying items that are recognized in accordance with previous Generally Accepted Accounting Principles (GAAP) as one type of liability, asset or component of equity, but are a different type of liability, asset or component of equity in accordance with the new IND AS.
5. The next process is in applying IND AS in measuring all recognized assets and liabilities.
6. The final stage is to present and disclose the same in the entity's first IND AS financial statements as well as Interim Financial Reports.

There are two categories of exceptions that are established to the principle that an entity's opening IND AS balance sheet shall comply with each IND AS:

(a) IND AS 101 prohibits retrospective application of some specific aspects of other IND AS.

(b) INDAS 101 allows voluntary exemptions from certain specific requirements of other IND AS.

## **Effect of the convergence on the corporate tax system**

Taxation plays a very important role and accounting the reports is considered to have a big impact due to this convergence. For this, IND AS 12 which deals with taxes on income which is inclusive of current tax and deferred tax is considered.

Expenses on current tax are measured at the amount expected to be paid or in other words recovered from the taxation authorities by applying the tax rates and the respective tax laws that are substantially enacted by the end of the reporting period which is the balance sheet date. Usually entities recognize liability appearing in balance sheets with regards to expenses of current tax for the particular period as well as prior periods with the extent that is unpaid. It recognizes the asset if current tax has been overpaid. Based on the taxable profits, taxes which are payable rarely, match the tax expense that may be expected based on profit before tax. This difference found, occurs as a result of IND AS recognition norm for those items of expenses and incomes that vary from the general treatment of items under the law. It is in this case where deferred tax accounting primarily comes into existence. Accounting of deferred tax deals with this kind of mismatch. It is usually based on the non-permanent differences between the tax base of a liability or an asset and its amount carried in the financial statements. In order to have a better understanding of this, we take an example of an asset being revalued upwards but not sold. In this scenario, the revaluation creates a temporary difference and the tax consequence is considered to be a deferred tax liability that is, when the carrying amount of the asset in the financial statements is found to be greater than the tax base of the asset. The management usually recognizes a deferred tax asset for deductible temporary difference to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized.

Some key differences that are going to effect the financial statements as a result of the convergence involve the approaches to the statement of liability as under the accounting standards. AS 22 deals with the accounting of taxes on income based on the income statement liability method whereas under IND AS, it deals with accounting for taxes based on the balance sheet liability method. With the convergence, entities will now be required to recognize the deferred tax earned due to the upward valuation of fixed assets and such revolution will be directly credited to the revaluation reserve. Disclosure of the income and expenses also plays an important role. Disclosures regarding explanation of the relationship between the income or tax expense earned and the accounting profits are a necessity according to IND AS. Also, changes in the tax rates being used with respect to the previous financial periods are required to be disclosed. Other areas which would require disclosure involve amount of deductible temporary differences, unused tax losses and unused tax credits for which no deferred tax asset is recognized in the balance sheet. This needs to be disclosed as previously these disclosures were not required as per the old accounting standards.

With regard to MAT, which is a system of making entities or companies pay a certain minimum amount of tax, all companies are expected to abide by this, except

companies that are engaged in infrastructure and power sectors. In other words, all foreign companies that have their sources of income in India are eligible to pay MAT with exceptions to income arising from free trade zones, charitable activities and investments by venture capital companies. This form of tax has the advantage of being carried forward and set off against regular tax that is payable during the five year period subject to certain conditions. The Income Tax Act, 1961 states that profit and loss account for companies for which IND AS is applicable will prepare their books as per the standards of IND AS whereas the remaining companies will have to prepare their profit and loss accounts as per the Companies (Accounting Standards) Rules, 2006.

Companies computing book profits as per IND AS methods will have a higher book profits in comparison to the non-adopters of the IND AS method resulting in higher current tax outflows as it lays more emphasis on the fair value concept.

### **Highlights**

- IND AS deals with accounting for taxes based on the Balance Sheet liability method.
- Entities will now be required to recognize the deferred tax earned due to the upward valuation of fixed assets.
- Disclosure of tax earned and accounting profits are a necessity.
- According to the Income Tax Act, 1961 companies with IND AS should prepare books as per standards of IND AS whereas other companies should follow Companies (Accounting standards) Rules, 2006.
- Higher book profits when compared to non-adopters of IND AS method.
- Results in higher current tax outflows.

### **Results and Discussions**

The application of IND AS in the Indian accounting system has shown its significant difference and is awaited to highlight its impact in the near future. As stated above in the table, all entities are to be following the IND AS system by the end of 2018. This fact postponds the view of the complete picture of the impact of this significant change.

The procedures for the convergence are well explained and show its significance in the changes. It highlights the tasks to be undertaken to make these changes starting from valuation of the accounts to the changes in the balance sheet.

Tax, playing an important role to the Government of India is a factor that is also affected by this transition and is portrayed that under IND AS that the tax liability of the entities will increase due to the increase in the profits, which is again impacted by the treatments of the items in the balance sheet. Thus, corporate tax paid by the entities is inevitably affected with increase in tax liability.

These findings, also focuses on the key features of this convergence. Its impact lies on the valuation of assets, liabilities with their respective IND ASs.

Having a total of 39 IND AS currently, it is expected to be joined with many more IND AS in the future as and when the ICAI body requires to do so.

The new IND AS 12 finds its variations form the AS-22 vastly to an extent that has worried the entities to pay higher taxes on the existing corporate tax rate of 34.608%. The disclosure requirements are more in detailed in IND AS, thus giving rise to a factor for this change.

## **Conclusion**

Even with the latest implementation phase, there are still many noticeable areas with respect to which the convergence is yet to be fully successful. While ICAI may eventually fully attempt to incorporate this convergence into IND AS, it will take a reasonable number of years before all entities abide by this law. It is therefore a matter of significant importance for the foreign entities carrying out operations in India to have a complete understanding of the difference in the existing accounting standards. In a general view, the changes are favourable to the foreign entities. With the need for compliance soon approaching, there is very less time for entities functioning in India to prepare for IND AS implementation. It is important for the business entities to firstly develop a basic framework of how the new accounting standards will replace existing ones and then look into to introducing IND AS into their operational systems, training their financial teams and ensuring that all managers in the company would understand the new accounting principles.

Companies should start early so that they will have significant advantage of being better suited to confront the numerous challenges of tactical and strategic decisions (e.g. impact on existing operations and information systems, impact on other technical or strategic initiatives currently under way at your bank) that would need to be made as the project progresses. Problems such as, need for trained professionals having knowledge about the procedures and functions is also majorly required but as analyzed from various reports and articles, it is found that in our country the training programs for convergence procedure is quiet slow. So this rests as a huge challenge for India, as if trained professionals are required at a large scale, the same may not be available on time. Hence, this is a criterion that is largely to be considered during the process of convergence of the company. The implementation of IND AS 12 would require for the accounting personnel to work effectively with the tax department to calculate and monitor tax bases of liabilities and assets. They are also required to have a close watch on all the tax credits and tax losses of each component. It is also important to determine that deferred tax assets can be recovered. It is important for tax teams to be involved both at the group

and subsidiary level. If at any cost no specialists are available at the subsidiary level, tools tax and accounting manuals including checklists that allow entities to determine the tax bases more accurately are necessary. With all these procedures and functions being followed there is a possibility of IND AS adoption procedure in India to be set smoothly and accurately.

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## **IFRS IS IN CONVERGENCE WITH IND AS - AN EVALUATION**

**Kusuma.C.N, Shradha Anjali**

### **Abstract**

*On January 2nd 2015, the Ministry of Corporate Affairs issued a note outlining the various phases in which Indian accounting standard converged with IFRS is proposed to be implemented in India.*

*This study intends to describe the purpose for adaptation of new Indian Accounting Standard (IND AS) by the Indian companies. The primary objective of the study is to know some of the benefits of this convergence of IFRS with IND AS for the Indian entities, especially for those who aspire to go global. This study will also help us to know how the convergence of IFRS helps economy, industry, investors and also the accounting professionals.*

*Thus IND AS, which is largely aligned with IFRS will be useful in a long run as it extirpates the non-uniformity of financial statements and ensures global acceptability of financial statements of Indian companies worldwide.*

**Keywords - IFRS, IND AS, Convergence**

### **Introduction**

IFRS are those accounting standards which are prepared by IASB (International Accounting Standards Board) mainly followed in UK and other European countries. It has been widely believed that IFRS covers the fair value accounting in the best possible way. Since its disclosure requirements are too many, the account will be clear, transparent, true and fair. So it is believed to be the best in the world. Therefore, almost all the countries are either adopting or converging their accounting system in line with IFRS.

After the Lehman Brother's crisis, there was a big recession, which was spread almost in all the parts of the world, the world started to believe that the accounting system of each country should be the same and IFRS should be the system to follow.

The former Prime Minister, Mr. Manmohan Singh committed in the G20 meeting that India will fall in line with IFRS from 2011, but India could not kick start IND AS at that time.

Therefore, in the first budget speech of the Finance Minister, Arun Jaitley in July 2014, he proposed that IND AS would be a reality soon.

India has chosen a path of IFRS convergence rather than adoption. So, the Indian Accounting Standards (IND AS) are almost similar to IFRS, however there are certain carve outs to make them suitable for Indian environment. IND AS is the statement containing the recognition, presentation and measurement principles on various accounting issues drawn or prepared in parity with IFRS. Globalization has made this economy as one market, different accounting standards can be a barrier for the flow of funds from one country to another. India being a developing nation needs foreign funds for infrastructure hence, it is important that other countries interpret our financial statements.

This convergence of IFRS with IND AS would have an impact on the Indian companies and it would be hard for the companies to adapt and cope up with this revamp. The introduction of IND AS is a way to buy some time to analyze the situation or the change with a view to take necessary action by MCA. This implementation will mark an important milestone in the field of accounting. In a nutshell, IND AS can be referred as- A Desi version of IFRS.

“An international dish with Indian flavour”

## **Review of Literature**

1. **(Agarwal, 2015)** Gives an insight about the convergence of IFRS with IND AS, answers to what led to this convergence and what was the need for this convergence. He talks about the scope of IND AS for the Indian companies. He also gives the roadmap to IND AS. It provides a brief idea about the disclosure policy of existing AS and IND AS. He mainly tells us about the major carve outs of IND AS and presentation of the financials as per the new accounting standards. This video helps in understanding how the existing AS is different, compare to the IND AS.
2. **(Adukia, 2016)** States the need for this convergence of IFRS, with IND AS and how important it is, for a developing country like India, especially for companies who aspire to go global. This book helped in understanding the

various methodologies of IND AS and how it will be useful to corporates, auditors, accountants, academicians and students at large.

3. **(Bhatia, 2016)** Gives an overview on IFRS and the benefits of adopting or convergence to IFRS for India and also it describes the India's roadmap to IFRS convergence.
4. **(Oswal, 2016)** Describes mainly about the opportunities available for the companies implementing IND AS and how it brings the accounting standards in India closer to international standards, as it enhances the transparency and provides detailed disclosure. It also tells about the regulatory framework binding the companies that adopt IND AS. It sheds light on the various areas addressed by IND AS which wasn't covered under the existing Indian GAAP.

It describes the various challenges faced by the companies in training the employees and educating the stakeholders of the companies about IND AS and talks about the difficulties faced due to this transition and how the financials will undergo a shift impacting the earnings, revenue and the net worth of the company. Finally, it gives an overview of an impact of this convergence on the company's financials.

## **Statement of Problem**

The fundamental idea behind this convergence is to eliminate the disparity in accounting standards, to provide better transparency to the shareholders and attract foreign investments. The burden of financial reporting will reduce with this convergence as it simplifies the process of preparing financial statement because it is prepared using a common set of accounting standards. Though, the preparation of financial statement as per IND AS will be a challenge for the preparers both in India and outside at the same time, this transition will help in reducing the time and cost of the finance department. This study intends to evaluate how this convergence would impact our economy in the long run, especially for those companies who aspire to go global.

## **Objective of the study**

1. To understand the necessity behind this convergence.
2. To understand the challenges faced during the implementation of IND AS
3. To examine the impact of IND AS on financials of the companies.

## **Scope of study**

The present study is made, to understand the IND AS and the need behind the convergence of IFRS with IND AS. Its main focus is to analyze the opportunities and

key challenges faced by the companies implementing IND AS. A critical analysis is made on the impact of IND AS on the various aspects.

## **Methodology**

This research is an evaluation research.

## **Methods and Materials**

Primary data for the study includes views of practicing Chartered Accountants about this convergence through the means of personal interview.

Secondary data for the study includes discussions about IND AS under various Articles by CA Paribas Bhatia, CA Vivekananda Pote and a newspaper article by Nabeel Ahmed, Report by Motilal Oswal and a book written by CA Rajkumar Adukia.

Referred to a video by CA Sudarshan Agarwal “Introduction to Indian Accounting Standard (IND AS)” published on 27th July 2015, he gives an overview on IND AS and highlights the major carve outs.

## **Discussion**

The rapid globalization and amalgamation of trade economies and commerce worldwide has developed the need to follow homogeneity in the financial reporting standard in order to ease the comparison worldwide. In rise of changing business models and different accounting policies across the globe, International Financial Reporting Standards (IFRS) have taken birth as a common global language for business affairs. As many Indian corporates have significant overseas presence, current Indian Accounting standards have insufficient or no clear guidance to go global. As it has been widely believed that IFRS covers the fair value accounting in the best possible way, its disclosure requirements are too many and it will result in the clear and transparent accounting system. It ensures that the financial reports are understandable and comparable across the international boundaries. The NACAS (National Advisory Committee on Accounting Standards) have considered and approved the Indian Accounting Standard and it is after their approval, MCA has notified them.

## **Applicability of IND AS**

IND AS is applicable to certain class of companies. Companies can voluntarily adopt IND AS for accounting period beginning from or after 1st April 2015. Once a company adopts or opts in for IND AS it cannot opt out/switch back. If a company voluntarily adopts IND AS, it will be applicable to its subsidiary, associates and holding company as well, irrespective of net worth. For all companies, whether

listed or unlisted, having a net worth of Rs. 500 crores or more, IND AS will be mandatorily applicable for periods beginning on or after 1st April 2016. All the listed companies having net worth less than 500 crores and unlisted companies having net worth more than or equal to 250 crores and less than or equal to 500 crores should mandatorily adopt IND AS beginning on or after 1st April 2017.

## **Impact of IND AS**

The impact of IND AS is not only on the financial reporting but also on the overall business, especially in the areas of tax training, IT systems, internal control and also on accessing the adequacy of the organization structure. An improperly designed process of conversion would expose the company to potentially significant risk areas. IND AS is based on the principle of fair valuation and substance over form, which will present a more contemporary picture of the state of affairs compared to Indian GAAP. Due to the stringent laws laid down by the new standards, it will enhance the transparency and detailed disclosure. IND AS addresses various areas where the current Indian GAAP does not offer any specific guidance. Therefore, corporates follow different policies which make their financials incomparable. Though the IND AS is not the same as IFRS, it will bring the accounting standard in India much closer to the international standards, that the investors are aware of and have confidence in. This will in return improve the appeal of Indian companies to the foreign investors.

## **Challenges of IND AS**

As per the survey conducted by PWC India in Feb 2016, it was highlighted, that 39% of the corporates surveyed are yet to prepare for the implementation of IND AS. The first time adaptation of IND AS gives an opportunity for all the entities to align their accounting policies to best practices and it also offers room for cleaning up of books, the interpretation of which is a challenge for investors. It is required to explain the transition to the shareholders for every change in the estimate, Accounting policy, recognition and de recognition of assets and liabilities. And the companies should also decide how much to disclose in order to meet the regulatory requirement and to maintain the competitive edge. Use of fair value approach will bring in a lot of volatility in accounting. Also, as this concept is new to India, there is lack of knowledge and technical expertise to determine fair value. It is also necessary to educate the lenders, employees, suppliers and investors for the changes. With the implementation of IND AS, the company will have to invest in training, which is not just for the finance department but also for the key users of the financial information.

One of the major things which IND AS does not address is the recognition of exchange difference on intra group balances. While the intra group balances are

eliminated on consolidation of the exchange difference continues to be recognized in the income statement. Due to the use of fair value under IND AS and the enormous size of the underlying information, effective use of technology is imperative. Use of innovative tools, enablers and data analysis will help to gather information and also enhance the quality of corporate reporting.

The ratios that are used by the businesses to measure performance are also closely tied to the financial agreements which a company may have in its contracts. Hence, IND AS implementation will require a complete review and modification of such contracts. By implementing IND AS, the financials will undergo a shift, which will impact EBITDA, earnings, revenue and net worth. Therefore, the matrices on which the companies are being valued may require to be revisited. After applying IND AS the companies may need to review and also amend the dividend distribution policy in light of the changed financial situation.

### **Components of financial statement as per IND AS**

The convergence of IFRS with IND AS has led to the changes in the components of financial statements. Earlier, it had four basic financial statements but after the implementation of IND AS there will be five parts in the financial statements, those are; balance sheet, profit and loss account, cash flow, notes to accounts and statement of changes in equity.

The statement of changes in equity includes reconciliation between the opening and closing amount of each and every item of equity. This is to be prepared in columnar form where each component is placed in a column.

## **Impact of IND AS on Financials**

<b>On Earnings</b>	<b>On Balance Sheet</b>	<b>On Presentation Of Financial Statements</b>
<ul style="list-style-type: none"> <li>• Timing of revenue recognition.</li> <li>• Revenues on multiple component contracts should be recognized separately and at the time of actual rendering of service.</li> <li>• Service revenue to be recognized by percentage completion method.</li> <li>• Joint Ventures will be consolidated by equity method only and hence impacting EBITDA.</li> <li>• Timing of income recognition on financial instruments.</li> <li>• Stock options to be accounted at FairValue.</li> <li>• Fund raising cost to be recognized through the income statements.</li> <li>• For exfluctuations to be charged through income statement only.</li> <li>• Dividend on redeemable preferences hare to be recognized as interest cost.</li> <li>• Actuarial gain/loss on valuation offuture employee benefit expense should be recognized through OCI.</li> <li>• Depreciation on revalued assets to be charged to income statement.</li> <li>• Intangibles can have an indefinite useful life.</li> </ul>	<ul style="list-style-type: none"> <li>• Reclassification of financial instruments Convertible bond as equity and redeemable pref. share as debt.</li> <li>• Accounting for M&amp;As using fair value Approach.</li> <li>• Long term provisions to be carried on present value.</li> <li>• Deferred tax to be recognized using Balance sheet approach.</li> <li>• Asset retirement obligation should factor for both constructive and contractual obligation on present value basis.</li> <li>• Treasury shares to be presented as a reduction from equity.</li> <li>• Trust dealing with ESOPs needs to be Consolidated.</li> <li>• Investments to be recognized at fair value only.</li> <li>• Mandatory use of G-sec yields to determine the actuarial liabilities.</li> </ul>	<ul style="list-style-type: none"> <li>• Revenue to be reported on gross basis, net of incentives and discounts.</li> <li>• Indirect taxes paid to form part of cost line items.</li> <li>• Financial instruments to be carried at fair value/ amortized cost.</li> <li>• No income / expenses can be classified as extraordinary.</li> <li>• Financial statements to be restated retrospectively for prior period errors.</li> <li>• Extensive disclosures on segments are required.</li> <li>• Extensive disclosure on income tax and tax rate reconciliation.</li> <li>• Contingent assets to be disclosed if economic benefit is probable.</li> </ul>

Source: Annex no 4, page 96, India integrating, MotilalOswal March 2016

The above table tells us about the impact of IND AS on the company's financials. The implementation of IND AS will have an impact on earnings as the timing of revenue recognition and income recognition on financial instruments will change. Revenue on multiple component contracts will be recognized separately and also the service revenue should be recognized by percentage completion method. This will also impact the balance sheet as the financial instruments will be reclassified with convertible bond as equity and the redeemable preference share as debt. As per IND AS, financial statements have to be presented in 5 components: Balance sheet, Profit and loss account, cash flow, notes to account and statement of changes in equity.

## **Carve Outs**

India has proposed 13 carve outs or divergence from the IFRS. A carve out means that a few requirements of an accounting standards under IFRS will not be adopted. By initiating the carve outs in the IFRS, the ICAI has come up with few questions on whether the Indian accounting standards will bring about comparability of financial statements of the companies with the international companies. Also, it is not certain if the carve outs will benefit the Indian companies.

IND AS 1 is named as "Presentation of Financial Statement" where as, existing AS1 is named as "Discloser of Accounting Policies". The coverage area under IND AS1 is much wider therefore, line by line comparison is not possible. However, the following points are worth considering:

1. An enterprise has to make it explicit in the financial statement, the compliance of all the rules and all the IND AS. Deviation is allowed only when the management concludes that the compliance with IND AS will be misleading. However, such deviation must not be prohibited by any regulatory framework.
2. IND AS 1 forbids the presentation of any extraordinary items in the profit and loss account or in the notes. While in schedule 3 it requires all the extraordinary items to be presented separately. AS 5 also requires extraordinary items to be presented separately.
3. Expenses are required to be classified on the basis of its nature and not its function. Salary will be called employee benefit expenses and not administrative expenses. Wages will be called employee benefit expenses and not factory expenses.
4. As per IND AS 1 the profit and loss account has to be prepared in two parts:  
Part 1- Comprehensive income part, which includes all the revenue items as it was done earlier.  
Part 2- Other comprehensive income such as revaluation surplus, actuarial gains and losses and fair value changes in certain financial instruments.

## **Findings**

The existing Indian Accounting Standard was based on the historical values which would not give a fair view of the company's positions with regards to the value of its assets and liabilities. Whereas, IND AS stresses on the fair value representation of the assets and liabilities, which will give a true and correct position of financial statements at the end of the year. There are enormous Foreign Direct Investments that have been flowing to India in the recent past. As a result, there is a need to adopt those standards, which are used globally to benefit comparing and consolidating financial statements in order to help boost investments from other countries. All the Indian companies will have to present and disclose its financial statements with fair value of assets. The companies would also have more on compliance and it will facilitate transparent reporting. It benefits mergers and acquisitions, as this will help the foreign companies in deciding the nature of the business and the companies in which they can invest. An investor can aim for investments outside their own country and this will help in the globalization of business.

Indian laws are different in comparison to the laws adopted in other countries. Some standards have been complied keeping Indian laws in mind. The only difference between IFRS and IND AS is in valuation of assets and liabilities. For this reason, the entire accounting standard need not be changed. India needs to adopt only those standards, which are different from IFRS. Hence, India decided to go for convergence rather than adoption. It will be a very tedious task, which will incur a huge cost. One of the major difficulties in the implementation of the new IND AS is the fair valuation of assets and liabilities, as the companies need to get their assets and liabilities valued at every balance sheet date. It needs to provide rigorous training to the employees due to the lack of knowledge about IND AS and this will lead to increase in cost. This convergence will help Indian companies to go for cross listing and encourage foreign companies to invest in India. There is no much impact on the financial position of the company as it is a presentation, which is globally accepted. At the same time, true and fair position of the financials as on balance sheet date will be stated.

## **Recommendations**

Government should set rules and regulations for early and successful implementations of INDAS in the country as delay in this will affect the reputation of Indian accounting process because many mergers and acquisition are dependent on international reporting. If this is delayed, it will impact the international mergers and acquisitions. Internationally, our reputation will also get affected due to postponement of the date of convergence. Government should set rules regarding Fair Value Accounting, which is a challenge for this convergence. Government should clearly mention the

rules of fair valuation in easy and simple form so that laymen can also understand the fair valuation rules. In the initial stage, government should perform as a helping hand for corporates. To give knowledge about IND AS to the existing accounting professional and chartered accountants, ICAI can implement a compulsory certificate course for all the existing accounting professionals and Chartered Accountants. ICAI must conduct more seminars, conferences and workshops to create awareness among the different users. Companies may start the implementation early so that they will get significant advantage of this convergence by using some external advisors for successful implementation.

## **Conclusion**

Indian AS framed by ICAI is a combination of IFRS with the Indian GAAP, which are made with regulatory requirements required by various regulatory bodies. Most of the provisions of IFRS are accepted as it is except for few items. Thus, it is good about IND AS that there are no major changes in Indian GAAP. As Indian Standards remain sensitive to local conditions including the legal and economic environment, Indian Accounting Standards have not kept pace with changes in IFRS. As India is in the process of converging, its accounts with IFRS, it is not well prepared and lacks knowledge due to this the date of transition was shifted forward and was considered to be harmful to implement IFRS with minimal knowledge of this change. The impact on the profitability of a company or the net worth of the company, need not be looked at as favourable or unfavourable because IFRS is an accounting standards which gives a lot of insight into the financial statements of the company, making the financial statements more transparent and the investors will be able to make a well informed decision. This will change the way of presentation and disclosure practices of accounting information because of these changes in accounting treatment, the profitability will be affected. India will receive from this transition, a common set of accounting standards, which will enable better comparability and transparency. As the convergence work is still emerging, the practical application is yet to come up. The problems in the post application periods cannot be denied and also the types of such problems cannot be forecasted at this point of time. Hence, this convergence is a challenge for the preparers, both in India and outside.

## **Annexure**

A Personal Interview with 7 practicing chartered accountants was conducted as part of primary data for the study. Following are the set questions asked.

1. What is the reason behind this convergence?
2. In your opinion, why did India decide to converge, IFRS with Indian GAAP?
3. How will this change in disclosure as per IND AS affect the companies?

4. What are the ways in which corporates will be benefited out of IND AS?
5. How will this convergence impact, the Mergers and acquisitions and Cross border M&A?
6. What is the impact of this convergence on the Investors?
7. How will this convergence help in making a comparative study between two statements?
8. Why do we need this convergence and why not adoption?
9. What are difficulties that we might face in the implementation of new IND AS?
10. How will this convergence reflect on the financial position of the company?
11. Does it actually exhibit the real position of the company or does it over or under state the position of the company?
12. Will this convergence help Indian companies go forward with cross listing?

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## **A STUDY ON THE IMPACT OF IFRS ON INVESTMENT IN REAL ESTATE**

**Aloysius Peter, Monica Janet Clifford**

### **Abstract**

*The following study shows the impact on real estate business according to the standards of IFRS (International Financial Reporting Standard), since there is a steady growth in real estate in India. It is logical to understand the effects of IFRS on the real estate entities. We believe that the investors will gain more profit by understanding the impact of IFRS on this area so as to be easy for them to judge the quality of these entities accordingly. We will be covering the major changes such as the ratios, accounting cycle and the new standards.*

*We hope to inform the users of the financial statements to assess the effects on the real estate entities. We assume this publication fulfils to address the confusion and questions that is generated when applying IFRS to the real estate entities of India. Further, we reveal the pros and cons of the new standard affecting the topic and also discuss the effect on the country.*

**Key words** -IFRS Real Estate Entities, IFRS on investment, Real Estate

### **Introduction**

IFRS is designed as a common global language for business affairs to make it easy to understand and compare the company account across international boundaries. They are particularly important to those companies who have dealings in several other countries. IFRS are basically the rules to be followed by accountants to handle and maintain the books of accounts that are understandable, comparable, reliable and relevant.

IFRS began with an intension to integrate accounting process across European Union but the value of correlating made the concept attractive around the world. IFRS was introduced to provide a global framework as to how public companies prepare and disclose the financial statement.

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It provides general guidance for the preparation of financial statement rather than setting rules for industry reporting. Presently over 100 countries permits or requires IFRS for public company with many more countries expecting a transition by 2015.

Real estate is a business and not a profession. The real estate is classified majorly into two divisions:

1. Residential Real Estate
2. Commercial Real Estate.

The real estate investment is a leveraged investment because at least 80 % – 95 % of the purchase price is financed with debt. Real estate markets are repetitive and can be fraught with danger, if for no other basis the investment is conventionally edged more than five times.

It is an ingrained category of investment and current tax laws. Owning a real estate offers a stupendous tax advantage. The principal severance of the real estate business is investment, operation and agency. These divisions vary from one another according to the aims and objectives of the persons alluring with them and the methods or technique by which those persons expect to make their gains. To perform the divisions of the business, investment or operation, actual money capital is required. Investment in real estate is generally made for two purposes primarily, to derive an income and secondly, to hold for resale in expectance of an increase in value.

To invest is to allocate money in the expectation of some benefits in the future. Real Estate investment involves acquiring, possessing, organizing, rental and sale of immovable property for profit. Improvement of the property as part of a real estate investment strategy is generally considered to be a sub-speciality of real estate investing called Real Estate development.

Real Estate is an asset form with limited liquidity relative to other investments, it is also capital intensive and is highly dependent on cash flow. If these factors are not well apprehended and supervised by the investor, real estate becomes a perilous investment. The primary cause of investment failure for real estate is that the investor goes into pessimistic cash flow for a period of time that is not sustainable, which in turn forces them to resell the property at a loss or go into bankruptcy.

## **Review of literature**

**(John Corgel, 1995)** Real Estate Investment Trusts: “A Review of the Financial Economics Literature.” This paper is a survey of the literature on Real Estate Investment Trusts, commonly known as REITs. The literature is separated into three major research topics: investment decisions, financing decisions and return and risk issues.

**(Simarans, May 2003)** Investing in Real Estate Stocks “Urban Studies”, May 2003. This paper summaries the various findings of studies completed on the benefits of international diversification using real estate stocks. With the increased availability of data and expository tools, the quantity and variety of work over the past decade have increased dramatically in this area.

**(Worzala, May 2003)** International Direct Real Estate Investment “Urban Studies,” May 2003. This paper provides a critical review of research on various findings of studies completed on the benefits of international real estate diversification and international direct real estate investment issues. To date, no review article has explored the sector in various property segments, the challenges faced by the sector and its prospects.

**(PricewaterCoopers, 2006)** IFRS: “The European investors view on Real influence on investment decisions”. - This survey finds that investors are already alert to the new IFRS information reported to them during 2005. They see the change to IFRS as significant and even at this early stage, it has changed some discernment of company’s value and had an impact on the investment decisions of over half the fund managers they spoke to. This underlines the significance of the first IFRS (International Accounting Reporting Standard) year-end accounts that are about to be published.

**(Pohane, 2012)** “Converging with IFRS - Challenges and Opportunities in Real Estate” International Research & Review, ISSN- 2250-2556. This paper presents a comprehensive view of the operations of Indian real estate.

## **Objectives**

1. To study the impact of IFRS(International Financial Reporting Standard) on investment in real estate business.
2. To find out the various challenges and opportunities faced in real estate.

## **The Statement of the Problem**

The real estate industry is highly vulnerable to changing demographics, interest rate and the economy. To maintain a combative fringe, companies need to ensure they are taking calculated risks and subjugating the right opportunities. IFRS in return helps to maintain the competitive edge and finds out the various challenges and opportunities that the company faces and help them to maintain the balance in the economy.

## **Research Methodologyand Tools Used**

Required data has been collected from various secondary resources like articles from journals, magazines, books and other online sources.

## **Discussions and Results**

The main reason behind this study is to analyze and understand how real estate works, the factors influencing them (as an asset) and how IFRS tries to make investment in this sector easier. This is being done in order to attract global investors and local investors by creating standardized financial statements so that the asset can be compared irrespective of the geographical location.

IFRS is used by many companies in the world aiming to gain new investors and also to compare their statements with other companies globally whereas, in real estate market it is of great importance owing to its high volatility rate. By implementing the rules / guidelines of IFRS, the accuracy of the true value of the real estate asset can be found even if there is lack of data to find the fair value of the asset. This standard allows the user to select any one of the model to estimate the value of the asset. However, if any model cannot be used, due to certain factors, it may lead to wrong estimation of the asset.

We have also tried to consider the effects given out by real estate to the banking sectors as well as to the normal population. The banks have seen a good expansion mainly because of real estate growth, which is directly linked to the loans given out by them. Thus, increasing their revenue and their company's advancement. There are many cases where the property/ asset have been repossessed by the bank because of its mortgage policy.

The real estate market is highly delicate and very unstable to have an equal chance to keep informed about the present value of the asset, the IFRS (International Financial Reporting Standards) is proved to be an advantage .As in every coin there are two faces, in this case the implementation of the IFRS has been a burden to small entities and also a problem globally in view of its unproductive growth or transition due to its popularity.

### **1. Impact of IFRS on Real Estate**

Real estate is a piece of land or a property comprising of buildings, which can be owned. The IFRS has certain rules and guidelines to be followed. Due to the new legislation, many countries around the world are implementing the new IFRS standard to simplify the process of comparison between two financial statements of different countries.

IFRS as a new standard addresses the account of investment on real estate, stating to use either fair value model or the cost model to account for such properties.

#1 Fair Value Model: It is a method to value the real estate as suggested by IFRS. According to this model, the real estate assets are valued at fair value meaning, the

expected amount is transferred by two parties on the sale of a real estate at the time of actual sales. Any outcome such as profit or loss arising from the changes of the fair value model must be recorded in the financial statements. Considering net profit or loss for the period is mandatory. In addition, it should also consider the market state and the circumstances of the balance sheet period. The best method being the one to notify the patterns and current prices of the asset, which has been sold on a similar property in the same location of the asset that needs to be valued. On the contrary, this evaluation cannot be done due to certain factors for which the best way to estimate the fair value is to consider current prices of a real estate according to its availability and the type of property going for, in different location.

# 2 Cost model: It is the valuation method taking into consideration the cost of the land and the construction cost if any, being deducted with the depreciation to find the expected market value under IFRS. In case the company or entities, select or implement the cost model under IFRS, they should disclose the fair value of that real estate asset in the statements for information purposes.

The implementation of IFRS has preferred many users to adapt fair value model. In spite of its preferred use, it does not always guarantee the accurate market value. The price of any commodity is dependent on the supply and demand therefore, by using the fair value model the companies gain empty profits or loss without the company's knowledge perse. To conclude on this objective, the IFRS has increased the probability of giving out an accurate value of the asset. It has also helped to compare the values globally in a standardized manner resulting in global expansion by simplifying and standardizing the financial statements prepared in this area.

## **2. Various Challenges and Opportunities Faced in Real Estate**

In the modern world, there is excessive demand for the real estate due to the changing market demographics, evolution of consumers and demand and supply, but this causes a major challenge to the consumers as they have to go through the procedure of buying or selling the real estate. The fair value model proves to be effective but in the other hand, the cost model falls short in the accuracy, in turn, affecting the true value of the asset, which can be valued lower due to many factors.

Another cause for it being challenging is, its distressed inventory, that is, there are few qualified buyers in the market, excess of mortgaged home and so on.

The regulatory environment, the rules of the government has had an effect on the widespread of real estate due to certain limit of encroachment areas and the tax implementation of fair values by IFRS.

Since there is a boom in the real estate global market due to the implementation of IFRS, the private banks have seen a growth in a marvellous way, the reason being the increase in housing loan, which was made simple to understand and to find the value of the asset by the implementation of IFRS. Due to this implementation, there is a sustained growth of GDP (Gross domestic profits) and per capita GDP of the country, which in turn starts a momentum to the demand of assets globally making it easy for the investors for their effective advancement in analyzing the challenges and opportunities. By the uniform ratio followed by its bylaws and as the IFRS states, the accounting year is usually of 12 months of which the global period starts from 1st of January to 31st of December of the same year. According to the FICCI (Federation of Indian Chambers and Commerce) report, there has been a study on accumulative rise of 26% in GDP. With the better rate of life expectancy, reduction in infant demand and a steady birth rate, it gives a good advantage as well as opportunities to this newly booming market desired by the locals as well as foreigners that has made easier for them due to the implementation of IFRS. It is recently estimated that the population of India will extend to 150 crore by the year 2030. Due to the recent trends in family life style, such that, nuclear families that are able to meet their wants through personal savings or loans from bank and stronger investments, in turn, boost the real estate growth.

In addition, investing in real estate is one of the ways to get high returns using very less investment and to pool in money with other investor to get a high volume of hard cash. The same can be invested in the market, share the returns among themselves and can also use these big vacant properties to renovate them and turn into rental units.

The real estate market has its own ups and downs viz. it helps the investors to either gain or lose money. To level the field for foreign investors, the IFRS allows other nationalities to understand the assets value. The valuation method, new ratios and accounting periods are considered to evaluate the depreciation and appreciation of this asset and to bring out the true value for better understanding of the financial statements. Besides this, foreign investors are to be informed about the standardized format in any part of the world for easy comparison regardless of the geographic area.

## **Findings**

In the phase one of the role out, IFRS will impact the companies which have net worth of more than 1000 crores and also companies that issue FCCB (Foreign Currency Convertible Bonds) and GDR (Global Depository Receipts).

One of the major provocations to follow IFRS will be its revenue recognition, which is repudiated even in developed countries. As per the GAAP (Generally Accepted Accounting Principles), the revenue recognition would be done the moment the property is booked, but in case of IFRS revenue recognition will be done only when the ownership rights have been fully transferred.

According to Purvankara projects, the IFRS is appurtenant because of cross-border transactions with Indian firms.

According to Brigade Group of builders, they are well informed that IFRS might have an adverse effect in it's embryonic stages as the revenue will be misrepresented in the year of its completion; therefore, they are preparing themselves for the worst."We have no choice but to begin implementing the proposed new standards," said by KeshavPai, CFO of Brigade Group.

Both these companies, Purvankara projects as well as Brigade Group have applied

IFRS. They have seen numerous complications in doing so but in certain years, in the future, they believe it will help them to propagate and sustain precise financial statements.

## **Conclusions**

The study shows us that some investors are already alert about the new IFRS information and realize that the impact of IFRS is remarkable and crucial. In this paper, we have an overview of five different authors who have already dealt with the investment in real estate. The main epigram of this paper is to find out the impact of IFRS on investment in real estate and we have spoken about it in two methods i.e. Fair value model and cost model. The Fair Value Model is the best method as it talks about finding the fair value of real estate, to see the yardstick and current prices of the assets. The cost model method is a valuation method, which considers the cost of land and construction deducted by depreciation to find out the market value. The subsequent intension of this paper is to ascertain the various challenges and opportunities that real estate faces due to low property appraisal and distressed inventory. The real estate market has its fluctuations but in turn, helps the investors to maintain a balance in the economy. The IFRS helps to attain new investors and analogize their statement with other companies. Thus, the implementation of IFRS has proved to have dominance and an effective impact on the investment in real estate entities.

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## **IMPLEMENTATION OF IFRS, BENEFITS AND CHALLENGES FACED BY INDIA**

**Anirban Gangopadhyay, Chetan Singh B M**

### **Abstract**

*Till 2005, Countries were having their own Financial Reporting System. Business entities, Investors, Financial Institutions who were interested in overseas investment were facing lot of trouble in taking Investment Decision on the basis of these two Financial Reporting Systems. In 2005, member countries of European Union adopted International Financial Reporting Standards. In recent years, other countries either adopted IFRS or converged to IFRS. This study tries to analyze the information available on IFRS adoption process in India. It also discusses the IFRS adoption process in India and the utility for India in adopting IFRS.*

**KEYWORDS-** *IFRS, accounting, implementation, challenges, benefits, convergence*

### **Introduction**

Globalization has changed the closed economy into open economy. Today the economy is integrating in international market with other countries by spreading their trade and business outside their home country. FDI (foreign Direct Investment), FII (Foreign Institutional Investors), Mergers and Acquisitions are some of the examples of international transaction in global market. Therefore, in the year 1973 the accounting fraternity of 10 countries formed IASC (International Accounting Standards Committee) and it issued International Accounting Standards. Then in 2001, the responsibility got transferred to IASB whereby standards were restructured and are known as IFRS.

International Financial Reporting Standards Consist of:

- International Financial Reporting Standard
- International Accounting Standard
- Interpretation developed by the International Financial Reporting Interpretation Committee (IFRIC) or the formerly Standing Interpretation Committee (SIC).

The use of common set of accounting standards throughout the world provides an easy way of transparency and comparability of financial information.

A constant use of accounting standards provide higher quality information which enables the investors to make a better decision, indirectly funds will be allocated in a more effective manner in the market and the company can reduce its overall cost of capital.

## **Literature Review**

**(Jain), IFRS implementation in India:** Opportunities and Challenges, 2011 Suggests that the study ensures a high quality corporate financial reporting environment depends on effective control & enforcement mechanism. Merely adopting the International Financial Reporting Standards is not enough. Each interested party, namely Directors and Management of the Firms, Independent Auditors, Accountants, Regulators and Law Makers will have to come together and work as a team for a smooth IFRS adoption procedure.

**(Vinayagamoorthy, 2014)** Examines many aspects relating to IFRS convergence which would need to be clarified, such as challenges and opportunities in IFRS adoption, compliance of comparative previous period figures with IFRS, current situation of implanting IFRS in India, etc.

**(Gupta, 2014)** Discusses about the overview of IFRS, other European countries who have adopted IFRS, the various steps involved in its adoption, the benefits and need of implementation of IFRS in India. He says that mere adoption of it will not be enough; professionals have to keep on updating themselves about IFRS/ IND AS.

## **Objectives of this Study**

1. To discuss the need for IFRS;
2. To adopt the IFRS procedure and its implementation in India;
3. To discuss the challenges faced in the process of adoption and benefits of IFRS in India;

## **Discussions**

### **1. Need for IFRS**

Every country has its own set of rules and regulations for financial and accounting reporting, therefore, when an organization decides to raise funds from the market other than the home country, this in turn will require the organization to understand the differences between the rules governing financial reporting in the foreign country as compared to its home country.

In India, accountants and businessmen feel the need for convergence with IFRS, Some Indian companies which are already listed on overseas stock exchanges and many emerging companies who will be listed in the future will need the requirement to comply with IFRS. Internationally acceptable accounting standards are becoming the language of communication for Indian companies, In order to bring in the Indian Standards at par with IFRS. However, at present, the Accounting Standard Board in consultation with the group, constituted by the Ministry of Corporate Affairs (MCA) for convergence of Indian Accounting Standards (IFRS), has decided that there will be two separate sets of Accounting Standards, they are:

- Indian Accounting Standards converged with the IFRS (also known as IND AS) - The MCA has hosted 35 converged Indian Accounting Standards (IND AS) announcing the applicability date. These standards are been converged by eliminating the differences between the IGAAP.
- Existing Accounting Standards - The entities not falling within the threshold limits prescribed for IFRS compliance in the respective phases shall continue to use these standards in the preparation and presentation of financial statements.

Various Accounting Bodies and Accounting Standard Setting Bodies are looking to eliminate the differences as for treatment in the accounts in respect of liabilities, assets, incomes, expenditure, etc. The main motive behind implementing IFRS is to create uniformity of Financial Statements of any organization, which can be easily understood by various users of the statements residing in various parts of the world.

### **2. Adoption procedure of IFRS in India**

ICAI was established by Government of India to rationalize accounting practices in the country by passing ICAI Act, 1949. Accounting Standard Board was constituted by ICAI in 1977 in order to create harmony among the diversified accounting policies and practices in India. Three step processes was laid down by the accounting professionals in India, which are summarized as follows:

IFRS Impact Assessment, the firm will assess the impact of IFRS adoption on Accounting and Reporting issues, on procedures and systems, and on core business of the organization. Then the organization will find the key conversion dates according to IFRS training plan. As and when the training plan is in place, the organization will have to identify the important Financial Reporting Standards, which will apply to the firm and the variations among the present financial reporting standards being followed by the organization and IFRS.

The preparation for IFRS implementation is the second step of the process, which will carry out such activities required for IFRS implementation process. Then the organization will reform the internal reporting systems and processes. IFRS first deals with the implementation of first time adoption process.

Implementation is the final step of the process, which deals with the actual implementation of IFRS. The initial phase of this step is to prepare an opening Balance Sheet at the date of transition to IFRS. Understanding the actual impact of the transition from the Indian Accounting Standards to IFRS is to be developed. This will follow the full application of IFRS when it is required. At the initial stage of implementation of IFRS it requires lot of training and various technical difficulties may be experienced. The transition from Indian Accounting Standards to IFRS requires regular training to personals and identifies the problems while carrying out the implementation.

## **2. Implementation of IFRS in India**

### **Background**

The MCA through notification dated 16 February 2015 has issued the Companies (Indian Accounting Standards) Rules, 2015, which lay down a roadmap for companies other than insurance companies, banking companies and non-banking finance companies (NBFC) for implementation of IND AS converged with IFRS. The Rules will come into force from the date of its publication in the Official Gazette. The IND AS shall be applicable to companies as follows:

**Table 1**

	<b>Voluntary adoption</b>	<b>Phase-1</b>	<b>Phase-2</b>
Year of adoption	FY 2015-16 or thereafter	FY 2016-17	FY 2017-18
Comparative year	FY 2014-15 or thereafter	FY 2015-16	FY 2016-17
Covered Companies			
(a) Listed Companies		All companies with net worth is more or equal to INR 500 crores	All companies listed or in the process of being listed
(b) Unlisted companies	Any company could voluntarily adopt IND AS (a, b, c)	All companies with net worth is more or equal to INR 500 Crores	Companies having a net worth more or equal to INR 250 Crores
(c) Group companies		Applicable to holding, subsidiaries, joint venture, or associates of companies covered in (a) and (b) above. This may also impact fellow subsidiary companies while preparing CFS of the holding company. (phase 1 & 2)	

Source: <https://www.kpmg.com/IN/en/IssuesAndInsights/ArticlesPublications/IFRS-Notes/Documents/KPMG-IFRS-Notes-IndAS.pdf>

## **Exceptions**

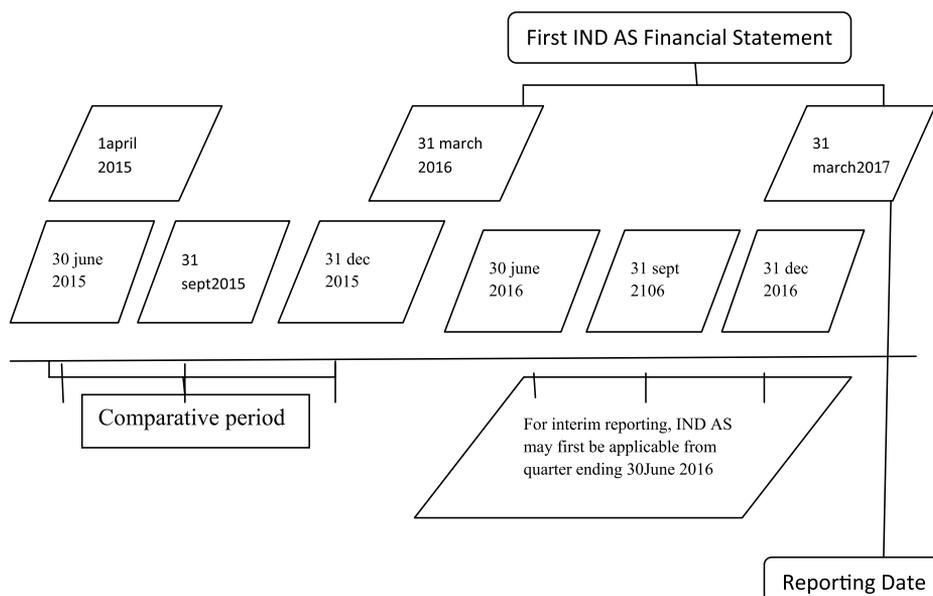
Companies whose securities are listed or in the process of listing on the Small and Medium Enterprises (SME) exchanges will not be required to apply IND AS and can continue to comply with the existing accounting standards unless they choose otherwise.

## **Other significant matters**

- The Indian AS would apply to stand-alone and consolidated financial statements (CFS).
- The rules clarify that an Indian company having an overseas subsidiary, joint venture, associate and other similar entities, or which is a subsidiary, associate, joint venture and other similar entities of a foreign company is needed to prepare its financial statements, including CFS, where applicable, in accordance with the Rules.

- The net worth for the implementation of IND AS should be calculated based on the stand-alone financial statements of the organization as on 31 March 2014 or the first audited financial statements for accounting period ending subsequently.
- The net worth of companies, which are not existing on 31 March 2014 or an existing company falling under any of these thresholds for the first time after 31 March 2014 should be calculated based on the first audited financial statements ending after 31 March 2014.
- Net worth of the companies is to be calculated as defined in the Companies Act, 2013 and does not include reserves created out of revaluation of assets, write back of depreciation and amalgamation.
- Once a company applies IND AS voluntarily, it will be required to follow the IND AS for all the subsequent financial statements.
- The above companies would not be required to prepare another set of financial statements in accordance with the accounting standards prescribed in the Companies (Accounting Standards) Rules, 2006 prescribed under the Companies Act, 1956. Words and expressions used in the rules but not defined in the rules would have the same meaning as assigned in the Companies Act, 2013.

## **Mandatory implementation of Phase-1**



Source: <https://www.kpmg.com/IN/en/IssuesAndInsights/ArticlesPublications/IFRS-Notes/Documents/KPMG-IFRS-Notes-IndAS.pdf>

## **Mandatory implementation of Phase-2**

The above implementation timeline for Phase 2 companies will have comparative period ending 31 March 2017 and annual reporting period ending 31 March 2018.

### **3. Challenges faced by India**

The main role of convergence with IFRS sticks with the government and accounting regulatory bodies such as ICAI in India. Therefore, India has several challenges to adopt for the convergence with IFRS and need to change some laws and regulate governing financial and accounting reporting in India. Some legal requirements are needed which will determine the manner of financial information presented in the financial statements. For example, the Company's Act, 1956 shows the accounting treatment for redeemable shares as equity instruments of a company so these may be considered to be a financial liability under IFRS.

#### **Some of the challenges that will be faced are discussed below**

- Implementation of IFRS will not be an easy task. Indian companies have to shell out a lot of money from their pockets especially for Small and Medium Scale Enterprises (SME's) as adoption of IFRS is a costly affair and only the large organizations will be able to afford it.
- There is a crisis of adequate professionals of practical IFRS conversion experience. Therefore, many companies will have to depend on external auditors and advisors and that shows lack of preparations of Indian corporate.
- It is very important to provide education and training on the operations of IFRS because lack of it will raise the challenges in India.
- From taxation point of view, the adoption will lead to changes in the tax liabilities as well, therefore this conversion will lead to basic changes to the business financial reporting system and process.
- Indian audit firms who audit for fair value accounting as per IFRS without adequate guidelines at present moment are still carrying audit as per cost concept accounting. As per new Companies Act, 2013 it will not be possible for them to expel their duties.
- After enactment of Companies Act 2013, the Ministry of Corporate Affairs has focus to implement IFRS from April 1, 2011. According to the draft, plan the ministry announced to implement IFRS in the companies having turnover over Rs. 1000 Crore from April 1, 2015 and from April 1, 2016 for those whose turnover is between Rs. 500 Crore to Rs. 1000 Crore but the professionals are still having difference on how to get fair value of assets and liabilities.

#### **4. Benefits of IFRS:**

There are several benefits to convergence with IFRS in India. Few of them are listed below:

1. To the Corporate World: Indian corporate world would build a strong relationship and reputation with the international financial entities with the convergence of IFRS. It will make the corporate world more competitive as their competition with the global companies will increase. It will increase quality and transparency of financial reporting and building up trust among the investors both in foreign countries and in India.
2. To the Investors: Due to convergence with IFRS, the financial statements will be prepared with common set of accounting standards. Hence resulting in high degree of relevance and reliability globally. This in turn will help the investors to understand the financial statements better. Therefore, it will help in saving time and cost of investors in comparing investment opportunities.
3. To the Industry: It would increase the confidence in the minds of foreign investors as it would decrease the burden of financial reporting and make the process of preparing financial reports easier and simpler for individual and group financial statements.
4. To the Accounting professionals: Accounting professionals will be benefited to sell their talent and creativity across the world.
5. To the Economy: Due to different accounting framework in different countries creates confusion which leads to inefficiency in the capital markets across the globe. Therefore the convergence will lead them to pursue same set of accounting principles and do international trade efficiently which will help in capital formation and growth of economy.

#### **Conclusion**

From the above discussion, it is very much clear that the convergence with IFRS will face many difficulties but on the other hand, the advantages of its adoption will confer. The convergence with IFRS is highly recommended because the measures taken by ICAI and the other regulatory bodies to facilitate the smooth convergence to IFRS and give a positive idea that India is ready for convergence. As IFRS is more of a principle based approach with limited implementation and application guidance, all accountants whether practicing or non-practicing have to participate and contribute effectively to the convergence process. So, the need is to have a systematic approach to make the organization and the investors ready for the change and the standards ready for renovation. Moreover, corporates need

to keep updating themselves in accordance with the new guidelines regularly. This would lead to subsequent revisions from time to time arising from its global implementation and would help in formulation of future international accounting standards. Continuous research is in fact needed to co-ordinate and converge with the international standards and this in fact can be procured only through mutual international understanding both of corporate objectives and rankings attached to it.

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## **IMPLEMENTATION OF IFRS: OPPORTUNITIES AND CHALLENGES FOR CHARTERED ACCOUNTANTS**

**Christeen Mary Sanju, Sneha Rappai A & Archana V**

### **Abstract**

*With IFRS increasingly being recognized as Global Reporting Standards, the Institute of Chartered Accountants of India has propagated the need to converge with IFRS at the earliest to bring the financial practices of Indian corporate at par with the global standards which are used in more than one hundred countries. Adoption of IFRS is perceived to enhance the credibility and comparability of financial statements of Indian companies with their global peers and it provides easier access to capital. The switching over to IFRS is a major challenge but it is also an opportunity for audit firms to review their programs, procedures and practices to make them more effective and efficient. Like any major shift, the changeover will not be easy and will require considerable resources and time. Though the adoption of IFRS has created certain complexities, in the long run, this major regulatory reform will help them catapult into the global league by having a financial reporting structure that is not only comparable with the best in the world but also more acceptable amongst global stakeholders thereby providing a more transparent view of their financial results. This research aims to gauge the opportunities for Chartered Accountants in the new accounting system. The study also aims at identifying the Challenges that the new system has paved way for Accountants.*

**Keywords:** *IFRS, Chartered Accountants*

### **Introduction**

In this globalized era, all the regional accounting policies and standards are moving out and IFRS is gaining prominence across the world. These are accepted as one common accounting language for the preparation of financial statements around the globe. This universal recognition of IFRS has established a general platform

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for accounting profession in the whole world. This leads to a need for all finance and accounting professionals to extend their knowledge and experience on these new standards. It is globally accepted, these international standards has created a high demand for the IFRS professionals. All the companies will prefer to recruit such professionals who have knowledge in IFRS in addition to their specialization in finance and accounting. As there are very few experts who are well versed with IFRS, the relevance of accounting profession becomes more important. These professionals can also render consultancy and advisory services to those companies, which compulsorily have to adopt these standards and are in the process of this. The aspiring accountants may have a very good future by specializing in these standards. In India, there is a very high demand for chartered accountants, who have high level of knowledge in IFRS. The reason for such high demand is because the number of IFRS professionals in India is less. The IFRS experts can make maximum use of this opportunity by offering consultancy services to those companies that are in the process of adoption IFRS. These professionals can give assistance to such companies who have to migrate older accounts to newer accounting structures.

## **Review of Literature**

**(Rajguru, 2014)** Commented that there would be initially many problems but convergence with IFRS would surely benefit the chartered accountants and it will be helpful to them to sell their talent and expertise across the globe.

**(Olaolu, 2014)** Shared the idea that Chartered Accountants may play a huge role in business by providing reliable financial information upon which critical business decisions are made. Increasingly, accountants are moving from being just ‘number crunchers’ to ‘wealth creators’ and financial/business partners.

**(Vinayaka Moorthy A., 2014)** Pointed out that lack of training facilities and academic courses on IFRS will also pose challenge in India. A key challenge is to ensure companies, auditors, regulators, chartered accountants and the investment community is appropriately skilled to apply and interpret IFRS.

**(Jain),** studied that in order to ensure timely adoption of IFRS in India, trained accountants and auditors in IFRS are required in large number. India currently does not have the sufficient number of IFRS trained accountants and auditors. The Institute of Chartered Accountants of India (ICAI) has started IFRS Training programmes for its members and other interested parties. Yet, there exists a large gap in the trained professionals required and trained professional available.

## **Statement of the Problem**

IFRS has become the global accounting icon and almost all career avenues related to finance and accounting are affected by these accounting reforms. The accounting

standards are the principle and practices which is the framework on which financial statements of companies are prepared. This study analyzes the opportunities and challenges of Chartered accountants in the implementation of IFRS.

## **Objectives of the Study**

The objectives of this study can be listed as below:

1. To discuss the opportunities that has paved way for Accountants with the implementation of IFRS.
2. To discuss the problems faced by the Chartered Accountants in the process of adoption of IFRS in India.

## **Research Methodology**

This research is an exploratory research.

## **Methods of Data Collection**

The study is qualitative in nature and has used secondary sources of data. It has been conducted mainly on the basis of literature, survey and secondary information. Various journals, newspaper, research articles and magazines have been referred to in writing this paper.

## **Interpretation**

IFRS has become mandatory for the companies who want to play in the global financial markets. This will help in listing of such companies on international stock exchanges which intend to going in for joint ventures or by any other mode. The implementation of IFRS with certain essential norm for performing business in global markets has turned it into a mandatory requirement for the companies. The companies are in search of expertise in IFRS as one of the criteria to be an accounting professional and also are in great need of practicing chartered accountants to study these new standards. Chief Accountant, Chief Financial Officer, Finance Managers, Bank Managers, Finance Controllers, Accountants, Financial Analyst, Auditors and Portfolio Managers are recommended to be proficient in these international standards.

The conversion of existing standards with the international standards has happened in India in the recent times. The converged reporting standards are named as Indian Accounting Standards (IND-AS). These standards are implemented in India in a phased manner from April 1, 2011 in companies other than banking, insurance and non-banking financial companies up to a specified limit. From April 1, 2012 in insurance companies up-to a specified limit and from April 1, 2013 in banking and NBFC up-to a specified limit. The IFRS professionals are in great demand in

many Indian companies in different industries, which are converting their financial statements as per these international standards.

The below are few reasons, which explain the significance of IFRS professionals:

- There is a lack of IFRS professionals in India, who have practical knowledge about these standards and can give expert advices on this area.
- The implementation of IFRS in India will increase the demand of IFRS professionals in the following years.
- The practical knowledge of these international standards will open doors across the globe since it has already been adopted in various countries and is universal.
- The first phase covers all the companies which are part of NSE-NIFTY 50, BSE-SENSEX 50 companies whose shares or other securities are listed on stock exchanges outside India and companies whether listed or not, which have a net worth in excess of Rs.1000crores. The approximate total number of these companies is 200-300. The number of companies will increase in second and third phase as banking, insurance and NBFC will also adopt these standards.
- The application of these standards is very complex and time consuming which requires the significance of IFRS professionals.
- There will be continuous changes and amendments by the regulators. This will thereby increase the demand for such professionals.

## **Opportunities for Chartered Accountants**

The implementation of IFRS has created a number of job avenues for the chartered accountants. Some of these avenues are given below:

- A number of IFRS professionals will be required by all the Indian companies that are covered under the first phase for effective and efficient implementation of the standards.
- The audit firms that provide assistance and support to companies in the implementation will have a need for IFRS professionals.
- The professional advisory firms, who provide consultancy services in finance and accounting to various companies, will need accounting professionals who have expertise in IFRS.
- With the implementation of IFRS, one of the most affected industries is

banking. Banks will need to recruit a number of IFRS professionals in order to prepare their financial statements in compliance with these standards.

- Like banks, insurance companies are also adopting these standards. This will lead to increase in demand for IFRS professionals in the insurance industry.
- As IFRS is implemented across the globe, chartered accountants in India can go global with their in depth knowledge and abilities.
- In accordance with IFRS, all the assets and liabilities should be recognized at fair values. Therefore, companies would require evaluator for valuing their assets and liabilities. This is one of the new avenues that Chartered Accountants can explore.
- Companies would require Chartered Accountants to interpret all the complex issues that can arise while preparing its financial statements according to IFRS.
- As the convergence is happening, there would a lot of demand for courses and training for specializing in IFRS. Chartered accountants who have expertise in these standards can offer to conduct such certificate diplomas and training programs in collaboration with educational institutions.
- In addition to all these new avenues, a very good career option for IFRS professionals is self-employment. This can be starting one's own advisory or consultancy firms.

## **Challenges for Chartered Accountants**

The several career opportunities for Chartered Accountants also pose equivalent challenges to both individuals and to the profession as a whole. Some of these challenges include:

- First time adoption has its own challenges. First phase of reporting of financial statements as per IFRS will be a critical factor. IND AS 101 has been issued by ICAI in this regard for the preparation of opening balance sheet, which requires recognition and reclassification of certain items of assets and liabilities. We need to change the previous policies and adopt quite a few new policies. The entities are required to evaluate the impact of all these changes on its financials on long term basis.
- Current items shall have to be regrouped or reclassified to confirm to the new method of preparation. Any reclassification under IND-AS needs to be disclosed separately.

- The changeover to IFRS poses a drastic shift in financial reporting. Changes in the application of new policies, the configuration of systems and maintenance of internal controls will all have an effect on audit risk, significantly increasing the risk of misstatements and fraud. Thereby this will have a major change on how audits are conducted. For this, we need to properly plan the engagement which will successfully help in the transition. Planning should focus on two major areas: assessing and updating the knowledge of professionals and participating in the company's conversion process.
- It is sure that the first IFRS financial statements will be closely scrutinized by the various stakeholders, including financial bankers, investors, market analysts and regulators. Therefore, all the stakeholders will be concerned about the changes, how it will affect this issue and its impact on audit engagements. Hence this has to be addressed.
- Auditors should also consider the possibility of figures being manipulated by management in their risk assessment. The changeover is a convenient opportunity to furnish the results and financial position or to prevent previously undetected errors in the opening balance adjustment. During the planning process, auditors should identify the files that present a greater risk, either because of their complexity, major differences between GAAP and IFRS. This will enable them to take the necessary precautions to ensure the audit is properly performed; vigilance and professional skepticism should be the key objectives of auditor.
- Auditor should be free from any bias and prejudice as a matter of his moral code of conduct. The company and the audit committee have to define the extent of the auditor's involvement and collaboration with the management team and have to enforce the rules so as to place the auditors in a real or perceived conflict of interest.
- The active involvement of auditors in all stages of the planning, development and implementation of the company's conversion process is critical to the engagement and essential to their work and conclusions, given the extent of the change, the high level of professional risk and the potential adverse effects inherent in the process.

## **Results and Discussion**

Since then, for global investing we now need a global accounting language. The conversion of IFRS into IND AS has been implemented in India in a phased process. Complying with this adoption will help business houses and professionals alike. The application of IFRS in business houses will help the investors put faith in the

companies, which had diminished due to global economic crisis. For Chartered accountants, it will help by opening new avenues where they can discover more skills and step out of one's comfort zone. An existing professional has to hence certain skills with right amount of efforts and a reasonable degree of patience and the work is bound to follow. Like how there is going concern as one of the fundamental assumptions of accounting even the chartered accountants who provide services to such entities will also be assumed to be going a long way. The profession is considered evergreen and change is bound to happen. This paper has discussed some of the avenues that can be explored by them and few challenges are touched upon and the ways of overcoming the same. The idea is not only to adapt to the changing accounting standards, but also prepare oneself to face the situation that we might surely face. There is tremendous scope for the accounting profession to grow, expand and excel. This growth would be in terms of new services as well as new markets.

## **Conclusion**

We know that the conversion from Indian GAAP to IFRS will face initial difficulties. The convergence with IFRS is strongly recommended, when we have a look at the benefits of this adoption. The ICAI and other regulatory bodies have undertaken many measures for the smooth process of conversion and also given hope that the country is ready to adopt these universal standards. IFRS is more of a principle-based approach with limited implementation. We have observed that the accountants both practicing and non-practicing contribute effectively to this migration process thereby the organization and all other corporate put their hope on these professionals to have a systematic approach on the new standards. However, all companies have to help themselves for the frequent changes and updates which come consequently and not only rely for the first phase adoption. They also need to be prepared for the formulation of international standards in future due to the subsequent revision that takes place from passage of time. It is noted that the opportunities and challenges mentioned above doesn't consider all elements or aspects of accounting or it is not a fully comprehended view of the study. It outlines some of the important job prospects and challenges faced by the chartered accountants. As every profession, chartered accountancy also demands constant learning and updating ones knowledge. Chartered accountant having a bird's eye view will help him observe what others can only see and see the invisible. Different training processes will help build adequate IFRS professionals to face the challenges coming ahead. This will also help Indian accountants to manage the conversion process more effectively and cover almost all the Indian corporate. By conducting research on effect of IFRS conversion in different countries will help as an added advantage for the professional courses with examples around the world. There is endless learning and earning opportunities in

the field of finance. Learning IFRS reporting will elevate the accountant professional to a globally acceptable standard of accounting professionals. The knowledge of IFRS opens employment opportunities around the world.

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## **Indian Accounting Standard (IND AS) 115: Revenue from Contracts with Customers –Impact on Financial Statement of Telecom Sector**

**Dr.V.Babu, Mrs. Madhumalathi R**

### **Abstract**

*IND AS implementation is likely to create a significant impact on the financial reporting systems processes. As such, these changes need to be planned, managed, tested and executed in advance to the date of implementation. IND AS is a principle-based standard reporting to reflect the underlying economic substance of business transactions. Also, there is increased emphasis on fair-value accounting. Its adoption will have a significant impact on both, net worth and net income. In certain cases the 'net' impact would be small due to offsetting adjustments. However, the changes to specific line items within the financial statements can be quite large.*

**Key words:** *convergence, revenue recognition, Fair price, substance- over-form, IND AS*

### **INTRODUCTION**

IFRS is increasingly becoming the set of globally accepted accounting standards that meet the needs of the world's increasingly integrated global capital markets. The adoption of these standards require high quality, transparent and comparable information is welcomed by investors, creditors, financial analysts and other users of financial statements, to enable comparability of financial information prepared by entities located in different parts of the world. A use of single set of accounting standards facilitates investments and other economic decisions across borders increases market efficiency and reduces the cost of raising capital.

## **Accounting Standards in India**

The ICAI, established Accounting Standards Board (ASB) in 1977, to issue Accounting Standards (AS) in India. Initially, AS were mandatory for members of the ICAI acting as auditors. In the year 1999, the Companies Act 1956, was amended to make AS mandatory to companies. In 2006, Central Government notified 28 Accounting Standards, as recommended by ICAI under Companies (Accounting Standards) Rules 2006 with recommendation of NACAS.

## **Need for convergence towards Global Standards**

International Accounting Standards (IAS)/International Financial Reporting Standards (IFRS) (collectively referred to as IFRS), issued by International Accounting Standards Board (IASB) in 1973 are now widely recognized as Global Accounting Standards. More than 130 countries and reporting jurisdictions currently require or permit the use of or have a policy of convergence/adoption of IFRS.

## **Convergence Process**

The Ministry of Corporate Affairs, Government of India, in consultation with the ICAI, decided to converge and not to adopt IFRS issued by the IASB. The ICAI has formulated IFRS-converged standards, known as Indian Accounting Standards (IND AS), which have been notified by the MCA under Companies (Indian Accounting Standards) Rules, 2015 vide Notification dated February 16, 2015, after recommendation of the National Advisory Committee on Accounting Standards (NACAS).

## **Salient Features of IFRS-converged IND AS**

- Principle-based Standards
- Applicable on separate as well as consolidated financial statements.
- Give more importance to concept of ‘substance over form’, i.e., economic reality of a transaction.
- Rely more on fair valuation approach, and measurements based on time value of money.
- Require more disclosures of all the relevant information and assumptions used.
- Require higher degree of judgment and estimates.

## **Reasons for converged IND AS**

- A single set of accounting standards would enable to standardize training and assure better quality on a global screen.
- It would also permit international capital to flow more freely, enabling companies to develop consistent global practices on accounting problems.
- It would be beneficial to regulators, as complexity associated with understanding various reporting regimes would be reduced.

Note: Convergence doesn't mean that IFRS should be adopted word by word, e.g., replacing the term 'true & fair' for 'present fairly', in IAS 1, 'Presentation of Financial Statements'. Such changes do not lead to non-convergence with IFRS.

### **IND AS 115 (IFRS 15) – REVENUE RECOGNITION**

AS 9	Revenue Recognition	IAS 18	IND AS 115	Revenue
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## **RESEARCH PROBLEM**

IND AS shall be implemented in India with a view to bring uniformity and balanced economic development. In practical situation, calculating fair value assets, principle of substance over form and time value money are the most challenging areas where chartered accountants are spending ample amount of time to record the business transaction. Therefore my area study is based on conceptual research in understanding above mentioned principles by showing detailed analysis of one particular Accounting Standard (IND AS 115) –Revenue from Contracts with Customers and its Impact of Telecom sectors.

## **Objectives of the Study**

To understand the basic concepts of IND AS

To study the impact of IND AS on one particular sector i.e. Telecom sector by selecting IND AS 115

## **METHODOLOGY**

**Sources of data:** Secondary data from various magazine, journals etc.

**Type of research:** Conceptual research paper

**Area of study:** Impact on telecom sector

## **CONCEPTUAL ANALYSIS AND INTERPRETATION**

Core principle of IND AS 115 (IFRS 15) is that an entity will recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration (payment) to which the entity expects to be entitled in

exchange for those goods and services. To apply this principle, a five-step model framework as described below is required to be followed.

**Five step model framework**

Step 1: identify the contract(s) with a customer

Step 2: identify the performance obligations in the contract

Step 3: determine the transaction price

Step 4: allocate the transaction price to the performance obligations in the contract

Step 5: recognize revenue when (or as) the entity satisfies a performance obligation

**Illustrating the impact of IND AS 115 (IFRS 15)**

Let's thread the IND AS 115 (IFRS 15) ethics by referring to an entity in telecommunication sector, where customers usually buy a prepayment plans with handset. Under the new model of revenue recognition under IND AS 115 (IFRS 15), companies in telecom will probably recognize revenue earlier than the older versions of revenue recognition principles.

<b>IND AS</b>	<b>IAS 18</b>
It is so because under new IND AS 115, the transaction price must be allocated to the individual performance obligations in the contract and recognized when these obligations are delivered or fulfilled. It means that under IND AS 115, telecom operator must allocate a part of the revenue from prepayment plan with free handset to the sale of handset, too.	Under IAS 18, the revenue is defined as a gross inflow of economic benefits arising from ordinary operating activities of an entity. It means that if the operator gives a handset for free with the prepayment plan, then the revenue from handset in Nil (i.e Zero)

**Example:**

Mr. Ram enters into a 12 month telecom plan with the local mobile operator ABC. The terms of plan are as follows:

- a) Mr. Ram monthly fixed fee is Rs.100
- b) Mr. Ram receives a free handset at the inception of the plan

ABC sells the same handsets for Rs.300 and the same monthly prepayment plans without handset for Rs.81 per month. A question now arises as to how should ABC recognize the revenues from this plan in line with IAS 18 and IND AS115 (IFRS 15).

## **Revenue recognition under IAS 18:**

Extant principles of IAS 18 states that ABC should apply the recognition criteria to the separately identifiable components of a single transaction (handset+monthly plan). IAS 18 does not give any guidance on how to identify these components and how to allocate selling price and as a result, there were different practices applied.

For instance, telecom companies recognized revenue from the sale of monthly plans in full as the service was provided, and no revenue for handset –they treated the cost of the handset as the cost of acquiring the customer.

## **Revenue under IND AS 115: (Five step model must be followed)**

Under new principles of IND AS 115,

Step 1: ABC needs to identify the contract first – 12 month plan

Step 2: identify the performance obligation from the contract

a)Obligation to deliver a handset

b)Obligation to deliver network services over 1 year

Step 3: transaction price is Rs. 1200 (Rs.100 per month X 12month)

Step 4: allocate the transaction price to the performance obligations in the contract

Now ABC need to allocate that transaction price of Rs.1200 to individual performance obligations under the contract based on their relative stand alone selling prices

<b>Performance obligations</b>	<b>Stand alone selling price</b>	<b>% on total</b>	<b>Revenue (relative selling price = 1200x%)</b>
Handset	300.00	23.80	285.60
Network services	960 (80*12)	76.20	914.40
Total	1260.00	100.00	1200.00

Step 5: recognize revenue when (or as) the entity satisfies a performance obligation

a) When ABC gives a handset to Mr.Ram, it needs to recognize the revenue of Rs.285.60

b) When ABC provides network services to Mr.Ram, it needs to recognize the total revenue of Rs.914.40

Journal entries are summarized in the following table

Description	Amount	Debit	Credit	When
Sale of handset	825.60	FP-unbilled revenue	P/L-Revenue from sale of goods	When handset is given to Mr. Ram
Network services	100.00 (monthly billing to Ram)	FP – Receivable to Ram		When network services are provided; on a monthly basis according to contract with Mr. Ram
	76.20 (914.40/12)	P/L-Revenue from network services		
	23.80 (285.60/12)		FP-unbilled revenue	

So it can be observed that Mr. Ram effectively pays not only for network services, but also for his handset.

## **Results and Discussions**

The biggest impact of a new standard is that the companies will report profits in a different way and profit-reporting patterns will change.

- In our telecom example, ABC reported loss in the beginning of the contract and then steady profit under IAS 18, because they recognized the revenue in line with the invoicing to customers. Under IND AS 115, ABC's reported profits are the same in total, but their pattern over time is different.
- Some contracts surpass one accounting period. They are long term and reporting revenues in incorrect accounting periods might cause wrong taxation, different reporting to stock exchange and other things, too.

Example: let's say that contract started on 1st July 2014 and ABC's financial year-end is 31st December, 2014. Just look how much profit ABC reports from the same contract with Mr. Ram under IAS 18 and IND AS 115 in the next year 2015 (for six month period)

P/L-Revenue from network services	Under IAS 18	Under IND AS 115
Handset	0.00	285.00
Network services	600.00 (100*6)	457.20 (76.2*6)
Total	600.00	742.80

## **CONCLUSION**

An entity shall consider the terms of the contract and all relevant facts and circumstances when applying this Standard. An entity shall apply this Standard, including the use of any practical expedients, consistently to contracts with similar characteristics and in similar circumstances.

This Standard specifies the accounting for an individual contract with a customer. However, as a practical expedient, an entity may apply this Standard to a portfolio of contracts (or performance obligations) with similar characteristics if the entity reasonably expects that the effects on the financial statements of applying this Standard to the portfolio would not differ materially from applying this Standard to the individual contracts (or performance obligations) within that portfolio.

From the above-mentioned study, we could understand that IND AS emphasis substance over form and clarity in recording, time value of money, assumption on revenue recognition and reasons behind the assumptions. I could conclude that these guidelines from IND AS may improve the understanding of investors and various stakeholders of a particular firm.

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## **ADOPTION OF IND AS AND ITS EFFECT ON MAT PROVISIONS**

**Sherin Mathew, Lintu Mary Chacko**

### **Abstract**

*The concept of Minimum Alternative Tax (MAT) was introduced in the direct tax system to make sure that companies have large profits and declaring substantial dividend to shareholders but not paying tax to government by taking advantage of various incentives and exemptions provided in Income Tax Act, pay a fixed percentage of book profits as Minimum Alternate Tax (MAT). India has chosen a path of International Financial Reporting Standards (IFRS) convergence rather than adoption. The IND AS are named and numbered the same way as corresponding to International Financial Reporting Standards. The study leads to find out the implementation of IND AS and its effect on Minimum Alternative Tax (MAT). From FY 2016-17 IND AS will be in place and have a big impact on net profit of the companies. It can be derived that the adoption of IND AS has a major effect on the MAT liability of company. As Indian companies are moving to improve the transparency and quality of financial reporting, they are likely to incur additional tax outflows on account of MAT on several items of unrealised fair value changes routed through the statement of profit and loss and also on adjustments made to reserves on the transition date.*

**Keywords-***Indian Accounting Standards (IND-AS), Minimum Alteration Tax (MAT), International Financial Reporting Standards (IFRS)*

### **INTRODUCTION**

International Financial Reporting Standards(IFRS) is a set of accounting standards developed by an independent, not for profit organisation call the International Accounting Standards Board. International Financial Reporting Standards (IFRS)

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are designed as a familiar language for business affairs so that company accounts are understandable and comparable across international boundaries. They are an end result of growing international shareholding and trade and particularly important for companies that are dealing in several countries. The IND AS are named and numbered in the same way as a corresponding International Financial Reporting Standards (IFRS) National Advisory Committee on Accounting Standards (NACAS) recommended these standards to the Ministry of Corporate Affairs (MCA).

The IND AS prescribed under section 133 of Companies' Act 2013, as notified in the Companies Rules, 2015, is simple and to the point. It focuses on the current fundamental concept and principles of IND AS in a nutshell. It provides the high level thoughtful of IND AS rather than a set of detailed perfect interpretations of standards. The MCA as issued a notification dated 16th February 2015 announcing the Companies (Indian Accounting standards) Rules, 2015 for applicability of IND AS. The application of IND AS is based on the listing position and net worth of a company. All listed companies (except companies listed on SME exchanges) and companies having a net worth of 250 Crores INR or extra will be required to adopt IND AS. Companies not enclosed by the rules will carry on applying the existing accounting standards. The requirement to present comparatives implies that company impacted by stage one will require an IND AS compliant opening balance sheet as of 1st April 2015.

MAT provision section 115JB provides that, where in case of an assessee, being a company, if income tax payable by a company on its total income for any assessment year beginning on or after 1st April 2012 is less than eighteen and a half percent of its 'book profit' then such 'book profit' shall be deemed to be the total income of that company, hence that company shall pay eighteen and a half percent (plus surcharge and education cess) of such 'book profit' as income tax. As per section 115JB, every taxpayer being a company is liable to pay Minimum Alternate Tax (MAT) could raise its head as companies move to IND AS the new International Financial Reporting Standards compliant Indian accounting standards.

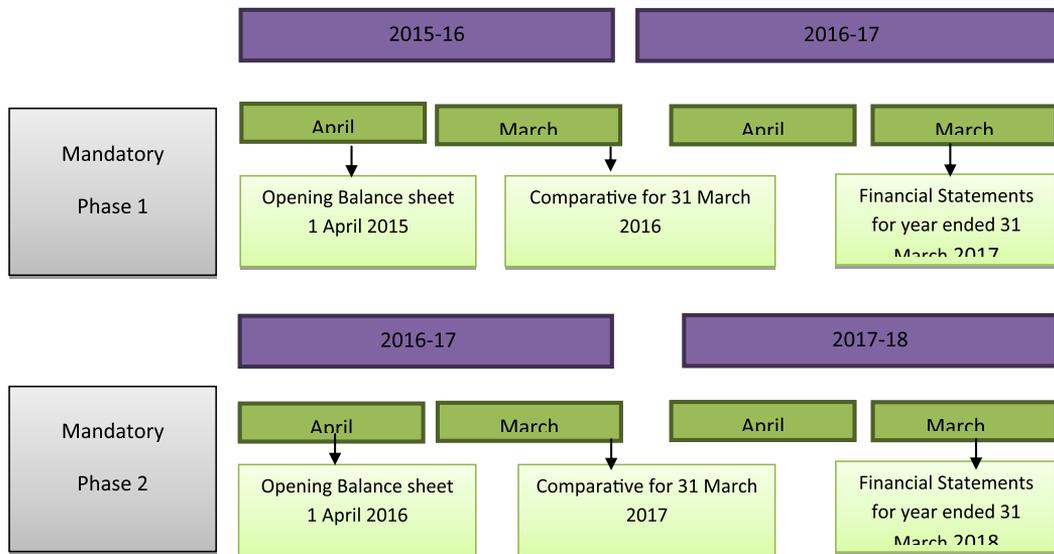
The Ministry of Corporate Affairs (MCA) notified the Companies (Indian accounting standards) Rules, 2015 to lay down the functions of IFRS converged standards (IND AS) to Indian companies other than banking companies, insurance companies and NBFCs. The Government by now notifies IND AS application by these companies.

It specifically divided as follows:

- Voluntary phase- In the early hour's adoption of IND AS is endorsed from financial year commencement on or after 1 April 2015.

- Mandatory phase 1- Application of IND AS is obligatory from financial year on or after 1 April 2016 (for listed or non-listed companies net worth INR 500 Crores or more, holding, subsidiaries, joint ventures)
- Mandatory phase 2- Application of IND AS is obligatory from financial year commencement on or after 1 April 2017( the entire listed companies not covered under stage 1, non-listed companies net worth of INR 250 Crores)

The adoption of IND AS framework will take Indian accounting closer to the world at huge if it is converged with IFRS. Frame work of IND AS is as follows:



Source: [www.ey.com](http://www.ey.com)

## **REVIEW OF LITERATURE**

**Sumithseth (2015)**, written article in economic times on “How Implementation Of Indian Accounting Standards Will Impact Income Tax Expense Of Corporate India”, it specifically states how IND AS will impact on MAT calculations. Companies that will adopt IND AS and which covered under MAT will use IND AS income for computing MAT liability. He states that due to increased use of fair value accounting under IND AS, the unrealised gains such as derivatives and investments will get recognised income statements, which is presently not done in Indian GAAP. This will leads to increase in the accounting profits, it could also cause higher MAT outflow. He suggest the changes arising from both IND AS and ICDS, company should carefully evaluate the accounting implications of IND AS and more importantly its tax consequences and plan ahead their tax strategies.

**Sudiptodey (2015)**, written article in Business Standard “Assess MAT Impact Before Adopting IND AS”. In this article he states that when companies assess the impact of transition to IND AS they should also specifically assess how some of accounting changes will impact MAT calculations. He says companies who adopt IND AS early may be forced to pay MAT based on existing formula for determination of book profits, which may result in higher tax payments on account of MAT. Till CBDT comes out with revised formula they should assess book profit based on existing Income Tax law. This article also states that the company should also deal with all challenges that are associated with dual-GAAP reporting. As companies adopt IND AS the net profit calculated as per financial statements could be very different to what was reported earlier under old accounting standards and this would bring some practical challenges, therefore CBDT needs to state what additional adjustment should be considered for determining book profits for companies that report net profit as per IND AS.

**Rakesh Agarwal (2016)**, has written an article on “Key Difference Between IND AS And Existing AS”. He mainly states how adoption and impact of IND AS and he divided understanding of IND AS in two ways, mainly basic level understanding and proficiency level understanding of IND AS. He gives a summary of differences between existing Indian GAAP and IND AS, categorised into high, medium and low impacting areas. Investments in subsidiaries, branches and associates and interest in joint venture and deferred tax on unrealised intra group profits come under high impacting area. Recognition of assets on MAT credit carry forward will be covered under medium impacting area and lastly deferred tax in respect of business combinations, recovery of revalued non-depreciable assets under low impacting area.

## **OBJECTIVES OF STUDY**

- To study framework of IND AS
- To study effect on adoption of IND AS in MAT provisions

## **PROBLEM STATEMENT**

This paper gives an attempt to study impact of adoption of IND AS on Minimum Alternative Tax (MAT). When companies adopt IND AS there will be an immense impact on the financial statements (net profits). The calculation of MAT depends upon net profit as per book of accounts, so adoption of IND AS, MAT liability of a company can go for a complete change. Earlier companies computed their taxable income by using profits as per financial statements and making additions on deductions, as required by the provisions of Income Tax Act. However, when companies adopt IND AS there are two accounting framework co-exists in India.

Most of companies follow existing GAAP while other companies follow IND AS, as a result they would be no side by side playing field from tax perspectives.

## **RESEARCH METHODOLOGY**

Secondary data obtained from all the sources were used for this study. The secondary data that is present in this paper have been collected from internet, various journals, newspapers and articles. Based on the data collected the paper highlights the impact of IND AS on MAT.

## **DISCUSSIONS**

The IND AS framework provides a clear idea of adoption of IND AS and Companies who will get affected from such adoption in financial year. The adoption of IND AS will impact a company's all functional areas and computations. The report of adoption of IND AS is as follows:

- It draws an embedded relation between the distributable profit which is existing for payment of dividend under the Companies Act, 2013 and tax base for impose of MAT.
- It appears that there would be certain gain/losses which would be recorded in the statement of profit and losses which may impact MAT liability.
- For many companies the MAT liability will increase due to fair value accounting changes.
- The statutory financial statement for year ended 31st March 2016 is under existing Indian GAAP. However, these will be converted into IND AS for the first time adoption; it should be considered for MAT purposes.

While adopting IND AS, one of the major challenges faced by corporate sector is how these alterations in financial reporting would impact taxable income. The Ministry Of Finance(MOF) issued 10 Income Computation and Disclosure Standards (ICDS), preparing a fresh outline for computation of taxable income by all assesses in relation to their income under the heads 'Income From Other Sources' and 'Profits And Gains Of Business Or Profession'. So they are trying to fill the gap which exists in the current taxation, by bringing clarity in computing taxable income and various items of tax treatments. There are still some uncertainties on the levy of MAT for companies that would compute their book profits under IND AS. On 8th June 2015, the CBDT formed the MAT-IND AS committee to propose a structure for working out of book profit for the purpose of levy of MAT under section 115JB of the Income Tax Act for IND AS compliant companies in the year of adoption and thereafter.

In view of different requirements, the committee recommends an outline for computation of bookprofits for the purpose of impose of MAT and they are as follows:

- The primary principles for diverse dealing for unrealised gains and losses incorporated in net profits in earlier year, and those incorporated in accumulated reserves.
- Regulation for computing distributable surplus or computing the profit base for managerial remuneration under the Companies Act, 2013 by excluding notional/unrealised gains to ensure consistency in application by IND AS compliant companies.
- The handling of notional/unrealised losses for the calculation of free reserves, as the current definition provides for elimination of notional/unrealised gains.
- Avoid difficult calculations involved in finding profits after excluding notional/unrealised gain or losses.

## **RECOMMENDATIONS OF COMMITTEE**

The committee has made the subsequent recommendations:

- Since current year profits are available for distribution as dividends and in view of the embedded connection between distributable profits in the Companies Act, 2013 and tax base for levy of MAT, no additional adjustments should be made to the net profits of IND AS compliant companies, other than those previously mentioned in section 115JB of the Income Tax Act.
- The present year's net profits under IND AS may include a major amount of notional/unrealised gain/losses. The committee recommended that the needs for additional adjustments under section 115JB may be considered at a later phase if the Ministry of Corporate Affairs (MCA) prescribes any further adjustments to current year's profits for calculating distributable profits.
- The net profit and other comprehensive income includes certain things that would be permanently recorded in reserves, and cannot be reclassified to statement of profit/loss account or included in book profits, list of such items along with recommended treatments of MAT are as follows:

<b>No</b>	<b>Items</b>	<b>Recommended treatment</b>
1	Changes in revaluation surplus(IND AS 16 &38)	Enclosure in book profits at the time of realisation/disposal
2	Re-Measurement of defined benefit plans(IND AS19)	Enclosure in book profits yearly as the re-measurement gains/losses arise

3	Profits and losses from investment in equity instruments designated at fair value through other comprehensive income(IND AS 109)	Enclosure in book profits when realised
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Source: www.pwc.com

- The accounting policies followed in the opening IND AS balance sheet on first time adoption may be different from those previously used in the Indian General Accepted Accounting Principles (GAAP) financial statements. Therefore when a company transitions from Indian GAAP to IND AS, it has to record these adjustments directly in the retained earnings/reserves on date of conversion. The committee recommended the following:

No	Accounting treatment in IND AS	Year of Taxability
1	Adjustments recorded in reserves which consequently would be reclassified to profit/ loss account.	Enclosure in book profits at the time of reclassification.
2	Adjustments recorded in net comprehensive income which would never be subsequently reclassified to profit or loss account.	Enclosure in book profits at appropriate point of time.
3	Adjustments recorded in retained earnings which would never be subsequently reclassified to profit or loss account.	Enclosure in book profits in the year of first time adoption of IND AS.

Source: www.pwc.com

## **FINDINGS**

- The recommendations of the MAT-IND AS committee report of Income Tax Department gives the corporate sector much needed visibility on the MAT computations for the companies reporting under IND AS.
- IND AS framework with a view to improve the transparency and quality of financial reporting.
- It incurs added tax outflows on account of MAT on numerous items of unrealised fair value changes routed through the statement of profit / losses and also adjustments made to reserves on transition date.
- The application of IND AS will impact the calculation of book profits, adopting IND AS considering book profits as a starting point for computing MAT may have a significant impact on the MAT liability.
- IND AS gives more emphasis on fair value accounting and has a significant impact on MAT and cash outflows on adoption of IND AS.

- Change in the accounting for actuarial gains and losses on defined benefit plans such as gratuity, compensated absences, etc increase the accounting income and therefore even the MAT liability.

## **CONCLUSION**

The relevance of IND AS is more than accounting or technical effect. The IND AS has a wider effect on the financial statement issues and it goes beyond business and regulatory matters. They may have to pay high Minimum Alternative Tax (MAT) if it is based on IND AS profits, because in IND AS - structured revenue and profits are acknowledged in a service recognised arrangement. In order to resolve the issues the tax authorities has to make certain adjustments that have to be made in consideration of MAT provisions, while considering various accounting provisions of IND AS. Therefore, it is very important for all stakeholders to make a detailed understanding of the IND AS 39 currently issued. And also the companies have to make an effective IND AS adoption plan by including flexible policy and implications mentioned above on timely bases. So it helps companies to resolve the problems by bringing IND AS adoption.

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## **REVIEW OF CASH FLOW STATEMENT WITH RESPECT TO IND AS**

**Dinesh Prabhu.M.V, Anthony Pradeep.T & Irudaya Raj.R**

### **Abstract**

*Financial statements are a formal record of the financial activities and current position of a business. Relevant financial information is presented in a structured manner and in a form easy to understand. They play a vital role in the decision making process in an entity. Cash flow statement (CFS) is one of the financial statements that show how changes in balance sheet and income statements affect cash and cash equivalents, and breaks the analysis down to operating, investing and financing activities.*

*With MCA's announcement for the adoption of IND-AS w.e.f April 2016, companies will have to make relevant changes in the preparation and the disclosure of cash flow statement as per the new accounting standard i.e. IND-AS 7, which deals with statement of cash flows. New changes have been implemented with respect to disclosures of specific items such as bank overdraft, undistributed profits of associates and non-controlling interests and so on.*

*Therefore, the core objective of this study is to understand the new changes that have been brought in due to the adoption of IND-AS when compared to the previously used Indian GAAP and also to explore the relevant disclosures to be made regarding the same.*

**Keywords:** *Financial statement, Disclosure, Changes.*

### **Introduction**

Accounting Standards are a guiding tool in the preparation of financial statements of an entity. They are epitome of various principles, conventions, concepts and practices to be followed in presentation of financial affairs to reflect a true and

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fair view. The Institute of Chartered Accountants of India (ICAI) is the legal body, which has the authority to formulate and implement the accounting standards as per the requirements.

With Ministry of corporate affairs announcement dated on 16th February 2016, 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 non-banking finance companies (NBFC). The Government has also notified IND AS standards for the applicability by these companies. Earlier companies had to prepare their cash flow statement as per AS 3 of Indian GAAP. Now, with the implementation of IND AS, companies will have to prepare their statements as per IND AS7

Information about the cash flows of an entity is important in providing users of financial statements with knowledge to assess the ability of the firm to generate adequate cash and cash equivalents and the necessities of the entity to utilize the cash flows effectively. All the economic decisions that are taken by users require adequate and accurate data on the financials of the entity to evaluate the ability of an entity to generate cash and cash equivalents, the timing and certainty of their generation. When compared to the accounting standards that was followed earlier by all the entities, the new accounting standards require more disclosures in the preparation of cash flow statement.

## **Review of Literature**

**(Kumar, 2016)** ‘First lesson in Accounting Standard’, has highlighted the overview of AS 3 as per Indian GAAP. The author has explained the background and the scopes of Accounting Standards in detail.

**(Rawat.D.S, 2016)** “Student’s guide to Accounting Standard”, has explained the previously existing accounting standard, i.e., AS 3. The author has also incorporated the knowledge of IND AS in comparison with AS and IFRS.

**(N.K.Ranjan, Dhanashree Deka, Nimisha Singh, 2016)** The Chartered Accountant’s journal published by Institute of Chartered Accountants of India, deals with significant impact on IND AS financial statements compared to the previous GAAP financial statements. The journal also deals with the issues to be dealt with the new AS, it has also been incorporated with adequate responses on the same.

**(N.K.Ranjan, Dhanashree Deka, Nimisha Singh, 2016)** The Chartered Accountant journal published by Institute of Chartered Accountants of India covers the financial instruments to be considered during the adoption to IND AS, these financial instruments may form a part of the financing activities of the entity.

**(Committee, First edition february 2014, Second edition February 2016)** An educational material published by Institute of Chartered Accounts Of India. This Educational Material has been formulated in accordance with the IND AS notified by the Ministry of Corporate Affairs (MCA) as Companies (Indian Accounting Standards) Rules, 2015 vide Notification dated February 16, 2015 and other amendments finalized subsequent to the notification. This is a revised material particularly focusing on IND AS 7. The material also contains FAQ's and case studies on the same.

**(Dolphy D'souza, Vishal Bansal, Santosh Maller, Ravikanth Kamath, Asgar Khan, 2015)**, published by Ernst and Young, deals with an overview on adoption on IND AS and also the key differences between IND AS and Indian GAAP, key impact areas due to adoption of IND AS.

## **Statement of the Problem**

Cash flow statement is one of the mandatory financial statements that have to be disclosed in the annual report of the company. It helps to determine the liquidity position of the firm. Since cash flow statement includes operating, investing and financing operations of the entity, it can be considered as the life-blood of the financial statement of the business. With the MCA notification for the adoption of IND-AS, there will be major changes in the preparation and reporting's in the cash flow statement. The current study intends to understand the changes and disclosure as per the current Accounting standard.

## **Objectives**

1. To understand the changes in the CFS after to the adoption of IND AS.
2. To understand the differences in the CFS as per AS 3 and IND AS 7.

## **Research Methodology**

This study is mainly based on secondary data and is conceptual in nature. The necessary literature review data have been collected from the various websites, company publications, and expert's reviews and also from recent publications of MCA and ICAI.

## **Discussions**

The CFS is one of the preliminary statements in financial reporting along with the balance sheet, statement of profit and loss and the statement of changes in equity of the firm. It represents the generation and use of 'cash and cash equivalents' under different category namely operating, investing and financing over a specific period of time. It also facilitates the users a platform to assess the entity's efficiency in generating and utilizing its cash.

## **1. Changes in the CFS as per IND AS 7**

### **Changes in operating activities:**

Operating activities are the entity's day-to-day revenue-producing activities; they play a vital role in determining the liquidity position of the firm.

The amount of receivables arising from operating activities is a key pointer of the extent to which the operations of the unit have generated enough cash flows to maintain the operating ability of the entity, to pay back short term and long term debts, to pay timely dividends to the shareholders and make new investments in various assets and securities without an alternate to outdoor sources of financing. Information about the specific components of past operating cash flows is useful, in combination with other information, in forecasting upcoming operating cash flows.

Cash flows relating to taxes on income are segregated and autonomously disclosed under operating activities unless they can be specifically attributed to investing or financing activities.

Flow of cash from operating activities is usually derived from the principal revenue generating activities of the business. As a result they generally arise from the transactions and other events that enter into the determination of profit or loss. Examples as per IND AS 7 the cash flows from operating activities will include the following:

- A. Cash receivables from royalties, fees, commissions and other revenue.
- B. Payables to suppliers and staffs.
- C. Inflows from rendering of services and sale of commodities.
- D. Cash receivables and cash payables of an insurance unit for annuities, premiums and claims and other policy remuneration.
- E. Cash expenditure or refunds of income taxes unless they can be purposely identified with financial and investment activities.
- F. Income and costs from contracts held for production or trade purposes.

### **Changes in investing activities**

The separate disclosures of cash flows arising from investing activities is important because these inflows from investing operations represent the extent to which expenditures have been made for resources that are considered to generate future income and also to benefit the entity for a long period of time. Only expenditures

that result in a recognized asset in the balance sheets are eligible for classification as investing activities. Examples of cash flows arising from investing activities are as follows:

- A. Payment of cash made to acquire property, intangibles, equipment's and plants and other long-term assets. As per AS 7 such payments should include the capitalized development costs and self-constructed properties, equipment's and plants, furniture and fixtures etc.
- B. Cash received from sales of property, intangibles, other long-term assets and plant and equipment.
- C. Cash payments made to obtain equity shares or bonds, securities and debentures of other entities and interests in joint ventures (other than payments for those instruments which are considered to be cash equivalents or those instruments held for dealing or trading purposes).
- D. Cash inflows from sale of equity shares or debt instrument of other entities and interests in joint ventures (other than receipts for those instruments considered to be cash equivalents and those instruments held for dealing or trading purposes).
- E. Loans and cash advances made to other parties (other than loans and advances made by financial institutions).
- F. Cash received from the repayment of loans and advances made to other parties (other than loans and advances of a financial institution).
- G. Cash payments made for forward contracts, futures contracts, swap contracts and option contracts (other than those contracts which are held for trading or dealing purposes, or the payments are classified as financing activities).

### **Changes in financing activities:**

Financing activities are one of the core activities to attain the long term objectives of the entity, they are a part of entities cash flow statement that record all relevant transactions related to the external activities of the firm that helps in raise capital for the business and also repay investors and other outside parties connected with the business. Cash flow from financing activities shows investors an overview of the of the company's financial strength.

New disclosure of cash flows arising from financing activities is required as per IND AS 7, as it is important in forecasting the future cash flows by providers of capital to the entity. The new examples that form a part of financial activities under IND AS 7 are as follows:

- A. Cash payables made by the entrepreneurs to obtain or redeem the entity shares of the firm.
- B. Cash inflows from the issue of shares and other equity related instruments.
- C. Payments made by a lessee for the reduction of the outstanding liability in finance lease.
- D. Cash received from the issue debentures, bonds, notes, loans, mortgages and other short and long-term borrowings.
- E. Repayments of debts.

**2. Differences in the CFS as per AS 3 and IND AS 7:**

<b>TOPIC</b>	<b>AS 3</b>	<b>IND AS 7</b>
Name	Cash flow statement	Statement of cash flows
Extraordinary Items	Disclosed separately under operating, investing and financing activities based on the items.	Cash flows from any item are not treated separately as extraordinary, as IND AS 1 does not permit representation of an item as extraordinary in the financial statements.
Currency	The term “Reporting Currency” was used to define the locally trading currency when dealing with FOREx transactions.	The term “Financial Currency” is used for the same.
Over drafts	Considered under financing activities.	Repayable over drafts are considered under cash and cash equivalents if they are a important part of the firm’s equity cash management.
Interest and dividend	All the inflows in the form of interest and dividend were classified under investing. And all the outflows in the form of interest and dividend were classified under financing activities.	Interest and dividend may be classified under operating, investing of financing activities in a manner consistent from period to period.
Change in the interest of ownership	No specific guidance in this aspect.	Changes in shareholding of a subsidiary company without any loss of control for the parent company are treated as financing activities in the books of subsidiary company.
Acquisition and disposal of properties held for rental purpose	No specific guidance in this aspect.	Companies might routinely sell items of property, plant and equipment that they have previously held for rental to others. Cash payments/receipts in respect of acquisition/ disposal of such assets are classified as operating activities.

## **Findings**

Based on the data collected we can infer the following:

1. The adoption of IND AS has brought in changes in all the activities of the cash flow statement, i.e., operating, investing and financing activities, and relevant disclosures should also be made on the same. The statement of cash flows is required to report flow of cash classified by financing, operating and investing activities along with the components of cash and cash equivalents at the opening and closing of the reporting period.
2. IND AS 1 prohibits the representation of extraordinary items in the statement of profit and loss, due to which IND AS 7 requires no disclosure of any extraordinary items in the statement of cash flow. Examples of items that can be classified under extraordinary were the destruction of facilities by an earthquake, or the destruction of a vineyard by a hailstorm in a region where hailstorm damage was rare. On the contrary, an example of an item that did not qualify as extraordinary was weather-related crop damage in a region where such crop damage was relatively frequent. The objective behind reporting extraordinary items within different line items in the income statement was to clarify for the reader which items were totally unrelated to the operational and financial results of a business.
3. IND AS 7 contains necessary provisions for the adjustment of the profit or loss for the effects of undistributed profits of associates and non-controlling interests under operating activities such as depreciation, provisions, deferred taxes, unrealized foreign currency gains and losses, and undistributed profits of associates
4. IND AS 7 is mandatory for small and medium sized companies also, when compared to AS 3 which was not mandatory for small and medium entities. Small Enterprise is where the investment in plant and machinery is more than Twenty Five Lakh rupees but does not exceed Five Crore rupees and Medium Enterprise is where the investment in plant and machinery is more than Five Crore rupees but does not exceed Ten Crore rupees and Large Enterprise has more than Ten Crores investment in plant and machinery.

## **Conclusion**

As per the study conducted it can be concluded that adaptation of IND AS has made impacts in the preparation and reporting of cash flow statements. Since cash flow statements is one of the mandatory financial statements to be disclosed in the annual report of the company, it is necessary for all the companies to take into consideration the necessary changes that has to be implemented as per IND AS 7.

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## **TRANSITION FROM AS 6, AS 10 TO IND AS 16 – AN ANALYSIS**

**Sunil Dennis Kumar R, Cynthia Loyalo**

### **Abstract**

*India has changed its accounting standard from Indian GAAP to IND AS, which is at par with IFRS. Depreciation is an accounting method of allocating the cost of tangible assets over its useful life. IND AS 16 deals with accounting for Property, Plant and Equipment along with depreciation, which is presently covered by existing AS 10, Accounting for fixed assets and AS 6 depreciation accounting.*

*With the world growing at a faster pace, every company wants to expand itself. One of the easiest forms of expanding oneself is by mergers and acquisitions. But one of the biggest challenges the companies face is to handle their financials and to merge with the holding company. The stage of convergence will help uniform the financial statements. The ideas of converging AS6 and AS10 to IND AS 16 is to overcome the unforeseeable challenges and to harmonize with financial reporting worldwide. This paper provides an insight into the revised framework of AS 16 - Depreciation and AS 10- Fixed asset with formation of IND AS 16- Property, Plant and Equipment. The objective of this paper is to examine the relationship between AS and IND AS with reference to depreciation and its treatment through different models of measurement, accounting treatment of revaluation and its charges on the assets.*

**Keywords-***Depreciation, Fixed Assets, Property Plant Equipment (PPE), IND AS.*

### **Introduction**

The Council of Indian Institute of Chartered Accountants is in the process of making changes in the Indian accounting standards in order to converge with international norms. If this convergence takes place then it will enhance the transparency and help improve the quality of reporting the financials by Indian companies, which in turn helps attract foreign capital into the country.

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Companies with net worth of Rs.500 Crore and above will have to follow the new accounting standard (IND AS) from April 1st 2016. IND AS administers the accounting and financial transactions and presentation of statements of the company. IND AS requires the segments reported to investors are the same as the firm, which uses for the purpose of appraising performance and for the allocation of resources. This roadmap will thrive to achieve the objectives set by the government regarding the G20 nations. This paper deals with the impact on treating depreciation and recognition of fixed assets under IND AS 16. IND AS 16 deals with property, plant and equipment, which were covered under AS 10, accounting for fixed assets. IND AS 16 also deals with depreciation for plant, property and equipment, which was presently dealt with AS6, depreciation accounting.

## **Review of Literature**

**(Lavi, 2011)** Stated that, the enterprises with large Property, Plant and Equipment can aim in taking maximum advantage of IND AS 16, which forces the enterprises to depreciate assets, component-wise on their expected useful lives and does not embargo revaluing these assets at regular intervals.

**(Irrinki, 2012)** The report, “A study on fixed assets management at Kesoram Cement” enumerates the method of adaptation of depreciation is decided by management in consideration to the peculiarity of the business, prevailing economic condition of the assets and existing accounting guideline and principles as implied in the policies of an organization.

**(Goel, 2014)** States that any tangible item which held for use in relation to production of goods and services or given to rental or for any admin purposes it should be held for more than one period.

## **Objectives**

- To study the convergence of AS6 and AS10 to IND AS 16
- To study the differences between AS6 and AS10 to IND AS 16

## **Statement of Problem**

Depreciation is a non-cash item for a company. We have been treating depreciation under AS 6 and fixed assets under AS 10. Due to convergence to IND AS this has found its place in IND AS 16. The fixed assets need be managed and recognized by the entity efficiently and effectively. The researcher aims to study the convergence and difference on the same.

## **Methodology**

This research is an exploratory research.

## **Analysis**

### **Recognition Criteria**

As per converged IND AS 16, the cost of an item of property, plant and equipment shall be recognized as an asset if it fulfills the following recognition criteria:

- a. If there is a future economic benefits associated with the item which flows to the entity.
- b. If the cost of the item can be measured reliably.

Existing AS 10 does not provide any standard recognition for fixed asset. As per the standard, any item, which is there for more than one year is recognized as a fixed asset.

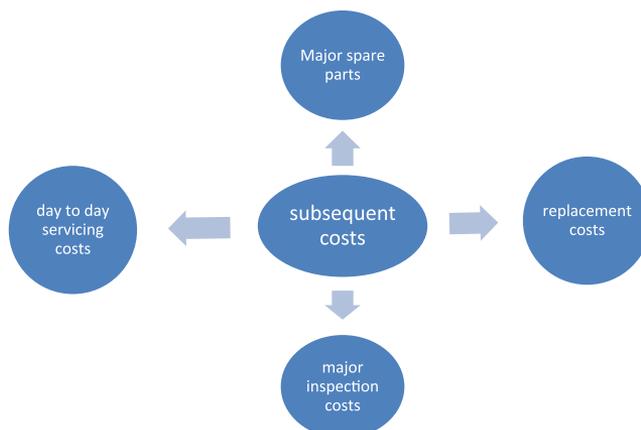
### **1. Initial Costs**

These costs are incurred by an entity initially to obtain or construct an item of property, plant and equipment. Certain items of PPE are obtained for safety or environmental reasons, which may indirectly increase future advantages for economic growth of any existing item of PPE.

For example, a manufacturing company may install or setup machinery. The handling and storing costs are referred as initial costs.

A few risky materials would follow with environmental requirements without which the company cannot carry out the manufacturing process of the final product. The new setup would be authorized for recognition of such assets because it enables the entity to gain future economic benefits from related assets of what could be obtained had those items not been acquired.

### **2. Subsequent Costs**



## **1. Major Spare Parts**

The spare parts and servicing equipments are mostly considered as inventory and are recorded in profit or loss as consumed. However, IND AS 16 recognizes these major spare parts, stand-by equipments and servicing equipments, which qualify as PPE when an entity anticipates to use them during more than one period and when they can be used only in connection with an item of PPE.

## **2. Replacement costs:**

As per IND AS 16, items acquired under PPE may require to be replaced at regular intervals. Every company must undergo this procedure in order to make useful the changes when acquiring machinery.

For example:

If a company replaces its assets during the useful life, then cost incurred will be recognized in performing such action and the part of the item is added to PPE. Carrying costs incurred in these amounts will not be recognized.

The existing AS 10 concentrates the recognition principals for subsequent costs separately. It was assessed based on its standard of performance and capitalized accordingly to the future benefit from the existing assets.

## **3. Major inspection costs:**

For the purpose of discovering any frauds, regular inspections should be done by the company. These costs incurred for major inspections will be capitalized under carrying amount of PPE as a replacement. Any previous year's recognition will not be recognized. AS 10 did not have any provision for major inspections.

## **4. Day To Day servicing:**

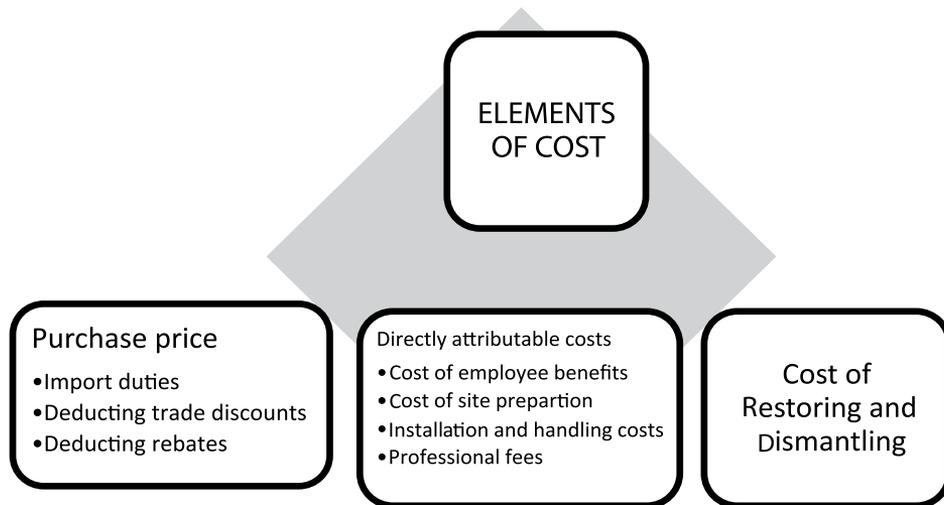
These items under PPE are incurred for preserving an asset rather than improving the potential of an asset. These costs are not recorded under carrying cost. These are recognized under the profit and loss statements.

## **Measurement at recognition**

An item which is recognized as PPE will be measured in cost.

A. Elements of cost: The cost of an item under PPE will comprise of three major elements. They are:

- Purchase price
- Directly attributable costs
- Cost of restoring and dismantling the item.



## **Measurement after recognition**

An Entity/ Organization/ Institutions shall choose either the cost model or the revaluation model as its accounting policy and will apply that policy to an entire class of property, plant and equipment.

### **Cost Model**

After asset recognition, an item of property, plant and equipment shall be carried at its cost less any accumulated depreciation and any accumulated impairment losses.  
Cost (-) Accumulated Depreciation (-) Accumulated Impairment Losses

### **Revaluation Model**

After recognition as an asset, an item of property, plant and equipment whose fair value can be measured reliably shall be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

Revalued Amount (-) Subsequent Accumulated Depreciation (-) Subsequent Accumulated Impairment Losses

Revaluations are done regularly in order to find carrying costs which do not materially differ from the fair value on the balance sheet date. Existing AS 10, fixed assets are carried at cost less accumulated depreciation. However, there is no requirement to perform any revaluations on regular intervals.

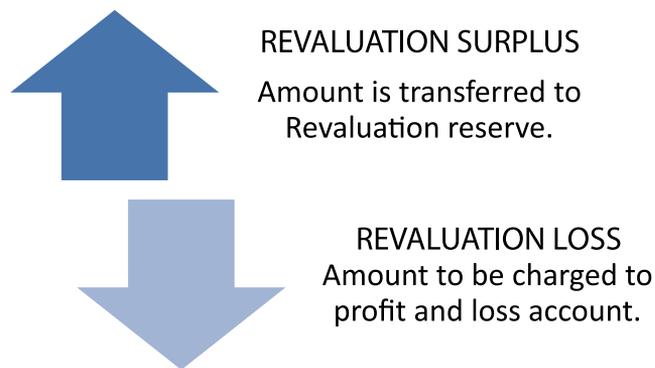
## **Treating of revaluation**

### **Revaluation surplus**

Due to the revaluation, the asset's carrying amounts are increased. This increase should be recorded under a comprehensive income statement and is incorporated in equity under revaluation surplus. The increase is recorded in profit and loss account in order to reverse the previous year's decrease.

### **Revaluation loss**

The asset's carrying amount is decreased due to revaluation. The decrease is recorded in other comprehensive income only to the extent of any credit balances. This decrease is recorded under comprehensive income statement and is incorporated in equity under revaluation surplus.



## **Depreciation**

Each item under the PPE with a cost related to total cost of the item shall be depreciated separately. An entity allocates the amount to the recognized property, plant and equipment to its significant parts and depreciated accordingly. The significant parts of the PPE are grouped together and the method of depreciation and rate of depreciation is calculated accordingly. The depreciation is charged in the profit and loss account unless it contains any carrying costs added to the depreciation.

### **Depreciation amount and period**

Depreciation amount is allocated and discharged throughout the useful life of an asset. The depreciation is recorded if the fair value of an asset surpasses carrying costs. The amount of depreciation is obtained after deducting the residual value from asset. When an asset is installed in the location and operating in a manner predetermined by the management, the useful life of assets is determined by the usage of the same.

## **Depreciation Methods**

The method of depreciation implemented by entities shows a pattern in which the asset's future economic benefits are assumed to be consumed. The application of depreciation to an asset shall be reviewed at least at the end of the each financial year. If there has been a change in the consumption pattern of the future economic benefits incorporated in the asset, the method shall be changed to reflect the changed pattern. Such change can be accounted for as a change in an accounting estimate under IND AS 8.

There is a variety of depreciation methods used to find the depreciable amount of an asset on a systematic basis over its useful life. These methods include the straight-line method, the written down value method which is also called as diminishing balance method. Straight-line depreciation results in a constant charge over the useful life if the asset's residual value does not change. The diminishing balance method results in a decreasing charge over the useful life.

## **Major differences in the new accounting standard**

<b>ACCOUNTING STANDARD 6 AND 10</b>	<b>INDIAN ACCOUNTING STANDARD 16</b>
Depreciation- AS 6 and Fixed Assets- AS 10	Plant, Property and Equipment- IND AS 16
Revaluations are permitted. The regularity of such isn't mentioned.	Revaluations are carried out regularly and carrying amount is not different from the fair value.
It prescribes separate principles of recognition. Subsequent cost of fixed asset is capitalized if there is an increase in economic benefit.	Initial costs and subsequent costs are evaluated on the same principles of recognition.
Entities are not require to adopt component approach Neither AS 6 nor AS 10 deals with separate depreciation for components.	Based on component approach. Sections or parts of a property, plant and equipment are depreciated individually with different rates.
The replacing cost which has not been depreciated is capitalized.	
AS 10 doesn't deal with major inspections.	Major inspections are capitalized.
AS 10 deals with fixed assets jointly owned by entities.	Does not deal with this specifically, as they are covered in IND AS 31, jointly controlled assets.
AS10 doesn't deal with any gain occurring on de-recognition.	Gains occurring on de-recognition should be treated as revenue.
AS 10 and AS 6 disclosure are not elaborate.	Disclosure of IND AS 16 is more elaborate.
It excludes real estate developers.	Includes developers from its scope.
As 10 doesn't deal with self-constructed fixed assets.	Abnormal amounts incurred due to wastage of material, labor, etc., is not included as cost of assets.
No provision is made on any situation when an entity holds an asset under PPE for rental.	Any situation when an entity holds the PPE for the purpose of rent or to sell them, provision is made.

## **Wipro limited**

This initiative of MCA (Ministry of Corporate Affairs) along with ICAI, has decided to implement IND AS. Due to the implementation of IND AS, the companies can now compare the financials internationally and bridge the gap in reporting standards. In order to bring out the differences between AS 6 (depreciation) and AS 10 (fixed assets). We have taken an illustration of Wipro Limited. For the year 2016 under Indian GAAP and under IND AS

<b>Particulars</b>	<b>2016(Indian GAAP)</b>	<b>2016(IND AS)</b>	<b>Change</b>	<b>Change (%)</b>
Property, plant and equipment	58072	64,952	6,880	11.847%
Depreciation	13585	14,967	1,382	10.1729%

Here the company has measured its property, plant and equipment under IND AS at cost less accumulated depreciation and impairment losses, if any. Any general or specific borrowing costs that are directly attributable to the construction of such recognized asset are capitalized as part of the cost. There is a change in depreciation of 10.17% i.e., 1,382. The profits have been increased since the tax is calculated after depreciation and added back later to the profits. The property, plant and equipment have a change percentage of 11.847% due to the revaluation of the same periodically. When parts of an item of PPE have different useful lives, they are grouped together and accounted under component basis.

## **FINDINGS**

- IND AS 16 includes real estate developers from its scope.
- It lays down specific recognition criteria to be termed as Plant, Property and Equipment.
- Major spare parts qualify as PPE when expected to use them more than one year.
- Major costs of inspections need to be capitalized with any misrecognition of any carrying amount.
- The company should choose a cost model or a revaluation model for applying to the entire class of PPE. Revaluation has to be made to ensure that carrying costs does not vary materiality.
- The cost of abnormal amounts of wasted material in constructing an asset is not included in the cost of assets.

- When an entity holds an item of PPE for rental purpose and sells the same, IND AS 16 deals with these situations.
- Disclosure of these items is more elaborate in IND AS 16 when compared to AS 6 and AS 10.
- The change in the method of depreciation is considered as change in accounting estimate and treated.

## **CONCLUSION**

This paper presents the analysis of the existing accounting standard with the converged IND AS with respect to the treatment and recognition of fixed assets and depreciation together. Merging of AS 6 and AS 10 to form IND AS 16 helps the entity to perform the financials in a more simplified manner. The accounting for depreciation has been more specific and it helps to group the block of assets and charge depreciation. After the adoption of IND AS the entity can use the carrying costs of PPE as on the transition date in harmony with the previous GAAP. IND AS has made some major changes so that the company can show the fair value of an asset according to the economic benefit. Component approach of depreciation helps the company to depreciate property, plant and equipment according to different sections of the same. Though the convergence is beneficial it has, its own set of challenges such as, Adopting IND AS 16 for preparing the financials can be difficult. New tools and techniques need to be adopted and personnel's have to be trained in order to recognize the assets on the future economic benefit, group the assets and to revalue the fixed assets on regular intervals and charge depreciation accordingly.

## **FUTURE SCOPE**

To relook on IND AS in order to be at par with IFRS, adoption of the treatment and recognition of depreciation and fixed assets can be more standardized. Revaluing the assets on regular intervals can be challenging and time consuming.

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