Implementation of Ind AS Converged with IFRS – Benefits Far Outweigh Challenges

With the whole world having become a global village, the businesses are increasingly going 'Glocal'— Global+Local. As these businesses speak the language of Accounting, there was a compelling need that they spoke a universally common accounting language for better comparability and unambiguous understanding of financial statements across all companies and jurisdictions. The International Financial Reporting Standards (IFRS) not only fulfils that need, but also offers a plethora of benefits to the economies. India too has rightly kept pace with this global accounting revolution encompassing more than 140 countries, having largely converged with IFRS with only a few carve-outs, overcoming a range of challenges. The Ind ASs converged with IFRS has put India at the centre stage of high quality and transparent financial reporting whose benefits far outweigh the challenges.

"There is an urgent need to converge current Indian Standards with International Accounting Standards," announced Finance Minister Arun Jaitley in the 2014 Budget speech acknowledging the immense underlying benefits, and ushering India in a new era of path-breaking accounting reform. Since then the process of convergence in India has come a long way, with the Ministry of Corporate Affairs (MCA) announcing a firm roadmap for adoption of Ind AS converged with IFRS on 16th February 2015 and notifying 39 Ind AS. Later, on 30th March 2016, the MCA also issued the Companies (Indian Accounting Standards) (Amendment) Rules, 2016, replacing two Ind AS for the earlier notified Ind AS 115, *Revenue from Contracts with Customers*.

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

Ind AS is a business imperative for Indian companies today. This is because it will not only greatly help in boosting foreign investments and making our capital markets more robust, but will also benefit investors and other users of financial statements by refining the quality of reported information. Going by the experience of the countries that have already adopted IFRS, the companies in India implementing Ind AS converged with IFRS are set to reap lasting benefits. The adoption of Ind AS is expected to result in accounting which more closely reflects the underlying business rationale and true economics of transactions. It will also facilitate easier cross-border acquisitions, partnerships and alliances with foreign entities, thereby boosting overall economic growth.

However, there are formidable challenges in the way forward. The Ind AS implementation is likely to have a wide ranging impact on Indian companies, including its financial results. Accounting for mergers and acquisitions, consolidation, share-based payments, financial instruments, revenue recognitions, taxes, and increased use of fair value are some of the areas that may pose interpretation and implementation challenges under Ind AS. One of the key challenges, which may also be relevant for Indian companies, is that IFRS or Ind AS are principles-based standards which require transactions to be accounted for based on their economic substance. Implementing Ind AS is likely to impact key performance metrics. It has wide application on a company's processes, IT systems, internal financial controls, income taxes payout, remuneration policies and also contractual arrangements. Change in reporting brings loads of changes in the areas of provisioning, capitalisation, depreciation, etc. which may widely affect the profitability and net worth of the organisation.

These challenges, however, can be overcome by putting in place suitable mechanisms, like scaling up the training of accounting professionals, creating awareness and providing guidance. With these challenges, no doubt, there are numerous opportunities that need to be tapped, specially by Small and Medium practitioners in providing advisory services for the smooth and effective transition to this big change. In this regard, the ICAI has already put in place an important mechanism – Ind AS Transition Facilitation Group (ITFG), to address complex interpretational issues relating to Ind AS and provide clarifications to companies. The ITFG has issued four bulletins so far on a range of accounting and reporting issues under Ind AS. Besides, the ICAI has also launched a "Support-desk for Implementation of Ind AS" which can be accessed through the ICAI website homepage. Alternatively, one may also send views by e-mail to indas@icai.in.

The ICAI has risen to the occasion and is committed to work closely with the Ministry of Corporate Affairs and all other regulators to ensure effective and smooth implementation of Ind AS in India, which will usher a new era of accounting reforms in the country bringing global opportunities to Indian accounting professionals. ■

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Capital as such is not evil; it is its wrong use that is evil. Capital in some form or other will always be needed. - Mahatma Gandhi