Implementation of Ind AS and Road Ahead— The Journey So Far

This special write-up focuses on the past, present and future of Ind AS implementation in India and the important role of National Advisory Committee on Accounting Standards in this regard. The authors highlight as to how the implementation of Ind AS requires tremendous energy & guidance for a smooth transition. Towards that end the ICAI, NACAS, and Ministry of Corporate Affairs are playing a proactive role and addressing the valid concerns of various stakeholders. The role of NACAS is to mentor & provide guidance & advise to ICAI in issuance of basic draft of Ind AS for NACAS to vet & recommend to Ministry of Corporate Affairs (MCA) for issuance, guidance notes, implementation guidance, education material, FAQs etc. The Accounting Standard Board & the Ind–AS Transition Facilitation Group of the Institute of Chartered Accountants of India are accordingly providing support through basic drafts, education material, FAQs, newsletters, workshops etc. Read on to know more…

***CA. Amarjit Chopra and **CA. Krishan Kant Tulshan**

((*The author is Past President of ICAI and current chairman of National Advisory Committee on Accounting Standards (NACAS). **The author is a member of the Institute. They can be reached at ajc@icai.org.)

International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB) are increasingly gaining momentum as the Global Accounting Standards. Over 100 countries currently require or permit the use of IFRSs in their countries. More and more countries have in the last decade announced its roadmap to

adopt the IFRSs. United States of America has taken up the convergence projects with the IASB.

Increasing complexity of business transactions and globalisation requires a single set of high-quality accounting standards for the investors to place trust in the financial and non-financial information. Economy, investors, industry and accounting professionals all benefit in this journey of single set of global financial standards.

Convergence/adoption benefits the economy by increasing the growth of its international business. It facilitates the maintenance of orderly and efficient capital markets and also helps to increase the capital formation and thereby economic growth. It encourages international investing and thereby leads to more foreign capital flows to the country.

The use of different accounting frameworks creates confusion for users of financial statements. Financial statements prepared using a common set of accounting standards help investors better understand investment opportunities as opposed to financial statements prepared using a different set of national accounting standards. For better understanding of financial statements, global investors have to incur more cost in terms of the time and efforts to convert the financial statements so that they can confidently compare opportunities.

The industry is able to raise capital from foreign markets at lower cost if it can create confidence in the minds of foreign investors that their financial statements comply with globally accepted accounting standards.

Convergence with the IFRSs also benefits the accounting professionals in a way that they are able to sell their services as experts in different parts of the world. The thrust of the movement towards convergence has come mainly from accountants in public practice. It offers them more opportunities in any part of the world if same accounting practices prevail throughout the world.

The Institute of Chartered Accountants of India in 1977 constituted the Accounting Standards Board to formulate Accounting Standards applicable to Indian business entities. Initially, these accounting standards were recommendatory. After gaining sufficient experience, the Council of the ICAI gradually started making these accounting standards mandatory for the members to report whether an entity has followed the mandatory accounting standards. The legal recognition came through an amendment to the Companies Act, 1956 whereby National Advisory Committee on Accounting Standards (NACAS) was constituted and Companies (Accounting Standards) Rules 2006 (AS) were notified prescribing Accounting Standards 1 to 7 and 9 to 29 as recommended by ICAI.

ICAI being a full fledged member of International Federation of Accountants (IFAC) is expected to actively promote the IASB pronouncements to facilitate global harmonisation of accounting standards. The Accounting Standards formulated by ICAI and notified by Ministry of Corporate Affairs, Government of India (MCA) on the recommendation of NACAS were based on the then existing pronouncements of IASB.

The aim was always to follow International Accounting Standards (IAS), to the extent possible in formulating AS. However, deviations (carve outs) from IAS were made because of the following factors:

- To ensure consistency with the legal and regulatory requirements of India, for example, the concept of appointing date and the effective date in the Indian Companies Act *vis–a–vis* only effective date in IAS;
- To appreciate the economic environment of the country, for example, appreciating the maturity of real estate industry, a guidance note prescribing bright lines was issued for the real estate industry;
- To recognise the preparedness of the Indian Industry, for example, AS 30, 31, & 32 on financial instruments remained recommendatory in nature;
- To account for conceptual difference, for example, in the case of amalgamation AS has a concept of capital reserve in Reserves & Surplus when the consideration paid was lower than the fair value of assets whereas in IFRS, the concept is of bargain price to be recognised in statement of profit & loss.

In 2007, a concept paper on 'Convergence with IFRSs in India' was approved and issued by the Council of ICAI. The paper while discussing the need of convergence to IFRS outlined the strategy for convergence with IFRSs.

It dwelt on the meaning of convergence with IFRSs and stated as:

> '1.11 Before discussing the contours of the convergence strategy with a view to meet

the above mentioned objectives, the word 'convergence' needs to be clearly understood.

1.12 In general terms, 'convergence' means to achieve harmony with IFRSs; in precise terms convergence can be considered "to design and maintain national accounting standards in a way that financial statements prepared in accordance with national accounting standards draw unreserved statement of compliance with IFRSs". In this context, attention is drawn to paragraph 14 of International Accounting Standard (IAS) 1, Presentation of Financial Statements, which states that financial statements shall not be described as complying with IFRSs unless they comply with all the requirements of IFRSs. It does not imply that financial statements prepared in accordance with national accounting standards draw unreserved statement of compliance with IFRSs only when IFRSs are adopted word by word. The IASB accepts in its 'Statement of Best Practice: Working Relationships between the IASB and other Accounting Standards-Setters' that "adding disclosure requirements or removing optional treatments does not create noncompliance with IFRSs. Indeed, the IASB aims to remove optional treatments from IFRSs." This makes it clear that if a country wants to add a disclosure that is considered necessary in the local environment, or removes an optional treatment, this will not amount to noncompliance with IFRSs. Thus, for the purpose of this Concept Paper, 'convergence with IFRSs' means adoption of IFRSs with the aforesaid exceptions, where necessary.

1.13 For a country to be IFRS-compliant, it is not necessary that IFRSs are applied to all entities of different sizes and of different public interests. Even the IASB recognises that IFRSs are suitable for publicly accountable entities. The IASB has, therefore, recently issued an Exposure Draft of an IFRS for Small and Medium-sized Entities (SMEs)."

So far as path to IFRS in India was concerned, two additional factors are of key consideration. First, the sovereignty of India. The accounting standards are implemented through a legislation, the Companies Act. The national interests are paramount. Second, so far as implementation of accounting standards in India is concerned, Indian accounting practices were much more matured as compared to a large number of other nations now on road to IFRS.

In the concept paper, after considering the various approaches, applicability, then current environment, expected time to reach the satisfactory level of technical preparedness and the expected time to resolve the conceptual differences with IASB, the ICAI decided that IFRSs should be adopted for public interest entities from the accounting periods commencing on or after 1st April 2011.

This initiative got immense momentum and impetus by the commitment given in G 20 summit by the then Prime Minister of India.

It must be mentioned that so far as path to IFRS in India was concerned, two additional factors are of key consideration. First, the sovereignty of India. The accounting standards are implemented through a legislation, the Companies Act. The national interest are paramount. Second, so far as implementation of accounting standards in India is concerned, Indian accounting practices were much more matured as compared to a large number of other nations now on road to IFRS, being already on the road to implementation of accounting standards in the top gear. The ICAI was established in 1949. ASB was set up in 1977. MCA issued AS in 2006.

ICAI formulated 35 Indian Accounting Standards (Ind AS) which were vetted and recommended by NACAS and were placed on MCA website. Certain press notes were also issued outlining the road map for Corporate India to apply Ind AS. Unfortunately, the date of implementation of these 35 Ind AS was not notified by the Government & they never took off.

A strong resolve was displayed in 2014 by the Finance Minister in his speech for the first budget of the present NDA government that Ind AS shall be adopted by the Indian Companies voluntarily from the financial year 2015–16 and mandatorily thereafter.

It was observed that since 2011, IASB had made various changes in existing IFRSs and also released some more standards. Consequently, the ASB and the Council of ICAI reviewed the already framed Ind AS, made necessary changes therein and framed the new ones such as Ind AS 113, Fair Value Measurements. These were vetted by NACAS and in

February 2015, MCA notified 39 Ind AS alongwith the road map for compliance of Ind AS through the Companies (Indian Accounting Standards) Rules 2015 under section 133 of the Companies Act, 2013.

Initially Ind AS 115, 'Revenue from Contracts with Customers' based on IFRS 15 was notified but was withdrawn later on and Ind AS 11, 'Construction Contracts' & Ind AS 18, 'Revenue' were inserted as the joint project on IFRS 15 of IASB & FASB (accounting body of United States of America) was in the process of receiving comments on the exposure draft on the same topic. Ind AS 115 has now been introduced with effect from 1st April 2018 & Ind AS 11 & 18 have been withdrawn.

The broad road map to Ind AS was/is:

- Voluntary for any entity from accounting period commencing on or after 1st April 2015;
- Mandatory for all entities with net worth of ₹500.00 crore or more and any listed entity with net worth of ₹500.00 crore or more, from accounting period commencing on or after 1st April 2016;
- Mandatory for all entities with net worth of ₹250.00 crore or more and all other listed entities from accounting period commencing on or after 1st April 2017;
- Mandatory for all NBFCs with net worth of ₹500.00 crore or more, from accounting period commencing on or after 1st April 2018;
- Mandatory for all NBFCs with net worth of ₹250.00 crore or more and all other listed NBFCs, from accounting period commencing on or after 1st April 2019;
- Mandatory for all banking entities from accounting period commencing on or after 1st April 2018 (now revised to 1st April 2019);
- Mandatory for all insurance entities from accounting period commencing on or after 1st April 2018 (now revised to 1st April 2020).

The notifications provide detailed guidance with respect to holding, subsidiaries, joint ventures, associates & overseas entities of the aforesaid entities.

As already stated above, while issuing Ind AS based on IFRSs, need was again felt for certain deviations (carve outs). Some of the major carve outs, as per ICAI publication, 'Indian Accounting Standards (Ind AS), An Overview (Revised 2016) are as under:

- Ind AS corresponding to IAS 26, 'Accounting and Reporting by Retirement Benefit Plans' has not been notified;
- IFRIC 2, 'Members Shares in Co–operative Entities and Similar Instruments' is not issued;
- In Ind AS 1, 'Presentation of Financial Statements' and Ind AS 10, 'Events after the Reporting Period' whereby defaults in compliance with minor procedural loan covenants to which lenders do not exercise their rights to recall the loan, would not result in classification of liability as a current liability. Rectification of any breach after the end of the reporting period is an adjusting event. As per IFRS, this would result in classification of liability as a current liability. Rectification after the balance sheet date is a non–adjusting event;
- In Ind AS 17, 'Leases', where the escalation of lease rentals is in line with the expected general inflation so as to compensate the lessor for expected inflationary cost, the increases in the rentals should not be straight lines. IFRS requires it to be straight lined unless another method is more systematic;
- IASB has issued IFRIC 15, 'Agreement for Construction of Real Estate' that prescribes that construction of real estate should be treated as sale of goods and revenue should be recognised when the entity has transferred significant risks and rewards of ownership and retained neither continuing managerial involvement nor effective control. IFRIC 15 was not included as part of Ind AS 18. A separate guidance note on real entities was issued by ICAI;
- IAS 28, Investment in Associates & Joint Ventures requires that for the purpose of application of equity method, uniform accounting policies should be adopted. In Ind AS 28, the phrase, 'unless impracticable to do so' has been added to the relevant paragraph;
- In Ind AS 32, 'Financial Instruments: Presentation' an exception (not in IFRSs) has been included in the definition of 'financial liability', whereby conversion option in a convertible bond denominated in foreign currency to acquire a fixed number of entity's own equity instruments is classified as an equity instrument if the exercise price is fixed in any currency;
- In Ind AS 103, 'Business Combinations',:
  - the bargain purchase gain has to be normally recognised in other comprehensive income and accumulated in equity as capital reserve. As per IFRS 3, bargain purchase gain arising

on business combination is to be recognised in profit or loss as income;
  - Guidance is provided for business combination of entities under common control. IFRS 3 excludes these types of combinations from its scope;
- In Ind AS 101, 'First–time adoption of Ind AS', carve–outs has been made with respect to:
  - Definitions of previous GAAP;
  - Allowing the use of carrying value of Property, Plant & Equipment on the date of transition to Ind AS;
  - Provision for treatment of certain long term foreign currency monetary items.

Challenges and Way Forward

The implementation of Ind AS requires tremendous energy & guidance for a smooth transition. NACAS continues to have regular meetings & interaction with the various stake holders to address their valid concerns. The role of NACAS is to mentor & provide guidance & advise to ICAI in issuance of basic draft of Ind AS for NACAS to vet & recommend to MCA for issuance, guidance notes, implementation guidance, education material, FAQs etc.

The challenges, despite the tremendous work being done, still remain. And with the learning happening on daily basis, the cup is overflowing.

A great deal of harmonisation needs to be undertaken with the Revenue Acts, primary among them being the Income–tax Act, 1961 and the GST. The Income–tax Act, 1961 has issued its own Income Computation & Disclosure Standards (ICDS) which at places are at variance with Ind AS. Necessary amendments have been brought in MAT provisions. The tax returns by the first batch of Ind AS complied entities are just in. How these will be analysed by the tax authorities needs to be seen. To avoid prolonged, time–consuming, avoidable and expensive litigation, it is advisable if CBDT constitutes a separate Ind AS desk from where the Assessing Officer seeks guidance before framing an adverse opinion on an Ind AS interpretation by the assessee entity. This desk also provides internal & external guidance for uniform and harmonious Ind AS and taxation interpretation. Similar steps could be necessary under GST regime.

A great deal of harmonisation needs to be undertaken with the Revenue Acts, primary among them being the Income – tax Act, 1961 and the GST. The Income – tax Act, 1961 has issued its own Income Computation & Disclosure Standards (ICDS) which at places are at variance with Ind AS. Necessary amendments have been brought in MAT provisions.

It is often asked, 'how fair is fair value'. To have a standard on fair valuation is one thing, to implement **it on the ground is another. Ind AS 113 defines fair** value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Harmonisation also needs to be undertaken between Ind AS & the Companies Act, 2013, more particularly definitions such as that of a subsidiary.

The financial institutions need to come to grips with Ind AS complied accounts. As of now, they are still addressing their own concerns of their own backyard for Ind AS implementation. For any economy to grow, *inter–alia*, money supply is essential. That should not stop just because, a new GAAP is in vogue now.

Presently, at least 4 sets of accounting standards can be identified that Corporate India may need to comply with. A global MNC may have to comply with US GAAP, IFRS, Ind AS, AS & ICDS, all at the same time. The ERP guys have their hands full. The configuration of ERPs as per Ind AS presently is a big challenge.

The Ind AS training remains a big task. Ind AS trained professionals are required by Corporate India, stock exchange, financial institutions, investors, regulators, credit rating agencies. One is yet to see a study or a research report that lists the requirements, availability and gap of Ind AS trained

human resource in quantitative terms. Presently, it can be safely stated that a huge gap exists. Unless, this gap is bridged, effective implementation remains a mammoth task.

It is often asked, 'how fair is fair value'. To have a standard on fair valuation is one thing, to implement it on the ground is another. Ind AS 113 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Ind AS requires entities to assume an orderly transaction, principal or most advantageous market, market participants besides a highest and best use of the asset based on usage that is physically possible, legally permissible and financially feasible. The fair value than has to be categorised based on an hierarchy on the aforesaid assumptions, as very explicitly defined in the standards. Any guidance is welcome but determination of fair value still remains subjective. A lot of work will need to be done to bring about consistency in valuation methodology, models and multipliers for a valuation to be in a range that is fair. It can be debated whether valuation has to be within a range that is acceptable (obviously a figure has to be picked) or extremely specific. Encouraging steps have been taken by the Institute of Chartered Accountants of India. With learning on fair valuation front, one may see corrections in the bourses.

The movement from 'incurred loss model' to 'expected loss model' for impairment of certain financial assets is a new experience. And we are presently discussing entities that are in the first phase of Ind AS implementation where they could have adopted a simplified approach. If working out the simplified approach matrix is consuming so much band width, one can only assume when NBFCs & financial institutions interpret and apply the ECL model. The applicability of ECL model versus the provisioning norms continues to niggle the industry. The regulators need to outreach and interact with stakeholders immediately.

Ind AS 110, Consolidated Financial Statements is a standard that focuses on substance over form. Control is now, *inter-alia*, based on voting rights, contractual relationships, economic relationships. Determinants includes power of investor over the investee, investor's exposure to variable returns from the investee and link between power and variable return. There will now be legal subsidiaries and accounting subsidiaries. An entity may not be a subsidiary under the Companies Act, 2013 but could be an Ind AS subsidiary. How this distinction will be viewed by the stakeholders and regulators needs to be ascertained.

The Insolvency & Bankruptcy Code has brought forth very prominently in public domain the issues revolving around impairment of assets and the going concern of the entities. When rotation of auditors was brought in the Companies Act, the auditors feared loss. A complete turnaround had happened. Auditors are refusing to audit the entities. The accounting standard on impairment and the standard of auditing on going concern will be interpreted threadbare. The implementation of the new standard of auditing 701 on communication of key audit matters in the auditor's report will be interesting. One will be reading quite a few times, Ind AS 1, Presentation of Financial Statements.

Way Forward

In the immediate period, implementation of Ind AS 115, Revenue with Contracts with Customers seems to be challenging. Various performance obligations in a contract have to be identified based on a 'distinct' criteria. Consideration has to be determined based on consideration that is variable, is constrained, has significant financing component and includes non–cash component besides contribution from the customer. This estimated consideration then needs to be allocated to identified performance obligations. The entire revenue recognition criteria could be a statistical nightmare. From a risk and reward model, revenue will be recognised based on a control criteria, indicators whereof include (i) whether entity has a present right to payment; (ii) the customer has legal title to the asset; (iii) the entity has transferred physical possession of the asset; (iv) the customer has significant risks & rewards of ownership and (v) the customer has accepted the asset. With the introduction of Ind AS 115, the guidance note on real estate stands withdrawn. There are newspaper reports that net worth of real estate entities may get eroded by Rs. 20,000 crore. The top line of Corporate India could undergo a change. And reconciliations

In the immediate period, implementation of Ind AS 115, Revenue with Contracts with Customers seems to be challenging. Various performance obligations **in a contract have to be identified based on a** 'distinct' criteria.

with taxation authorities could lead to litigations that could sap the energy of Corporate India.

IFRS 16, Leases & IFRS 17, Insurance Contracts will have their Indian counterparts. IFRS 16, Leases is already creating ripples. Traditionally, an asset was capitalised either by the lessor or the lessee. Under IFRS 16, same asset will be capitalised by the lessor generally as part of plant & machinery whereas lessee will recognise it as intangible asset. The asset size of Corporate India will balloon. Is there a possibility of this balloon getting blown up or busted. It is to be seen.

Insurance entities are already skeptical about IFRS 17. They are yet to come to grips to Ind AS 104 and IFRS 17 is already at the horizon. Will there be a case of double Ind AS implementation, first Ind AS 104 and then presumably Ind AS 117 or direct Ind AS 117.

At times, it is felt that Ind AS are being rushed through. And this feeling is despite the fact that drafting of an IFRS takes years if not decades. Perhaps IASB and for that matter has to formulate a strategy of outreach where all stakeholders are taken into confidence as early as possible. It is true that as a process, attempts are made to involve stakeholders at an early stage but the pro–active spirit seems to be absent. Hue and cry is raised when the horses have already been bolted.

It is worthwhile to mention that despite the elaborate road map, a reasonable large number of Corporate India/business entities are still not in Ind AS ambit. These include government corporations, large proprietorship & partnership firms, trusts, mutual funds, large corporate entities with negative net–worth. These need to be brought under Ind AS.

Moreover, within Corporate India, quite a few entities continue to follow Companies (Accounting Standards) Rules, 2006. The authorities are working over–time to ensure that these accounting standards are brought at par with Ind AS.

India chose, instead of IFRS adoption, the path of IFRS conversion with carve outs. Over a period of time, expect a journey from conversion to adoption, if India wants to be a strong voice globally.

Harmonisation with US GAAP should happen at a pace that should be encouraging. Traditionally, in India, regulator takes time to act. The action is neither pro–active nor active or protective, it is mostly reactive. The damage at times can not be undone. Regulators need to be pro–active. They need to identify the issues at an early stage and

IFRS 16, Leases & IFRS 17, Insurance Contracts will have their Indian counterparts. IFRS 16, Leases is already creating ripples. Traditionally, an asset was capitalised either by the lessor or the lessee. Under IFRS 16, same asset will be capitalised by the lessor generally as part of plant & machinery whereas lessee will recognise it as intangible asset.

come out with solutions immediately. Litigations and resolutions cannot be time consuming. The patch work methodology cannot work. India is committed to Ind As. The regulatory authorities should not attempt to override these with their own regulations. ICDS is an attempt in these directions. Hon'ble courts and legislature should recognise the need for global accounting standards if India has to become a financial force.

Ind AS requires a large number of disclosures. With disclosures comes transparency. But at the back end, for making disclosures an entity has to incur cost, consider competitive scenario and factors relating to commercial expediency and objectives. With experience, a balance between transparency & number of disclosures will be achieved. It cannot however, be denied that Ind AS will create more opportunities across economy be it for the entity, investor, professionals & other stakeholders.

The Ind AS impact and implementation studies are being conducted by professional bodies, chambers and others. The learning mentioned above are not even a tip of the iceberg. There will be much more which will be highlighted by these studies. It should however be mentioned that Ind AS has largely been welcomed, adopted with a positive attitude and all stakeholders are willingly ready to face all challenges, come what may be and ensure the success of this big initiative. ■