Timely Convergence of Ind AS with IFRS Standards

The ICAI, being a critical wheel in the Accounting Standard-setting chariot of the Nation, continues with its task to remain substantially converged with International Financial Reporting Standards (IFRS) at all times. In this context, following is the brief update on amendments to Ind AS in the short run.

New Standard on Leases – Ind AS 116, Leases

In January, 2016, a new standard on leases viz. IFRS 16, *Leases* was issued by the International Accounting Standards Board (IASB) which supersedes IAS 17 *Leases (and related Interpretations).* IFRS 16 is an outcome of the IFRS and US GAAP convergence project, though some differences continue to exist. Globally, the new standard is effective for reporting periods beginning on or after 1st January 2019.

In July 2017, the Accounting Standards Board (ASB) of the Institute of Chartered Accountants of India (ICAI) had issued an Exposure Draft of Ind AS 116, corresponding to IFRS 16. National Advisory Committee on Accounting Standards (NACAS) has recommended Ind AS 116 for notification by the Ministry of Corporate Affairs (MCA) on 27th August, 2018 and it is expected to be notified by MCA soon. Ind AS 116 is proposed to be applicable from accounting periods beginning on or after 1st April, 2019.

The accounting requirements under previous lease standard failed to meet the needs of the user of financial statements i.e. information reported about operating leases lacked transparency and existence of two different accounting models for leases, in which assets and liabilities associated with leases were not recognised for operating leases but were recognised for finance leases, meant that transactions that were economically similar could be accounted for very differently which reduced comparability for users of financial statements.

Ind AS 116 will bring significant change in lease accounting in the book of lessee by recognising most off balance sheet leases on the balance sheet. Of course, there are some practical expedients like exemption for short term leases and leases of low value items. Also, there are some major consequential changes in the accounting for sale and lease back transactions. Ind AS 116 will carry forward the lessor accounting requirements in Ind AS 17, except relating to disclosures which will be enhanced.

In summary,

- Ind AS 116 will eliminate the classification of leases as either operating leases or finance leases for lessee. A lessee will be required to recognise assets and liabilities for all leases except for few exemptions; and depreciation of lease assets separately from interest on lease liabilities in the income statement.
- There will be impact on 'Three Components' of financial statements viz. Balance Sheet, Statement of Profit and Loss and Statement of Cash Flows.
- Key financial metrics or ratios will change e.g. Leverage ratios, Operating ratios.
- It will significantly improve the quality of financial reporting for companies with material off balance sheet leases.
- Expected to significantly improve the comparability of financial information.
- Exemption for leases of low-value assets will be of particular benefit for many companies.

(Contributed by Accounting Standards Board of the ICAI. Comments can be sent to asb@icai.in. Refer https://www.icai.org/post.html?post_id=14058 for Ind AS –IFRS Standards Convergence Status)

Other Ind AS Amendments – Expected to be effective 1st April, 2019

Ind AS 103 *Business Combinations* & Ind AS 111 *Joint Arrangements*	Measurement of previously held interest in a joint operation or associates
Ind AS 23 Borrowing Costs	Specific borrowing costs eligible for capitalisation subsequently
Ind AS 19 Employee Benefits	Re-measurement of net defined benefit liability (asset) to determine past service cost or a gain or loss when there is plan amendment, curtailment or settlement
IAS 28 Investments in Associates and Joint Ventures	Accounting for long-term interests in an associate or joint venture to which the equity method is not applied, using Ind AS 109
Ind AS 109 Financial Instruments	Particular prepayable financial assets with so-called negative compensation can be classified under Amortised Cost or at FVOCI if a specified condition is met instead of at FVTPL