IFRS in India (IND-AS)
Moving from Guidance Regime to Regulations

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As per the Ministry of Corporate Affairs (MCA) roadmap, Indian corporate will be required to present their financial statements according to new standards of accounting. These standards are called Ind-AS and are converged with International Financial Reporting Standards (IFRS). Points of deviations between Ind-AS and IFRS are known as carve – outs.

According to the roadmap published by MCA, Ind-AS will be mandatory for companies (whether listed or unlisted) with more than Rs. 500 crore of Net worth with effect from April 1, 2016 and for all companies with net worth of Rs. 250 crore and above with effect from 1 April, 2017. For the former, transition date was April 1, 2015 and they will need current year numbers on similar platform as comparable.

It will be interesting to see companies reporting by applying two types of accounting standards at the same time based on their size. Corporate argue that they have very little time to make an assessment of changing scenario. In this article let us discuss some key changes (read challenges) when a corporate will move from one regime to another.

There are various Ind-AS which are new and earlier no such standard was available in our country. This will certainly try to control the subjectivity in accounting to some extent. Indian corporate may like this idea as the financial statements prepared here are likely to be little more acceptable to the funding agencies and investors. Though one can argue on impact of such change and implication thereof, the macro level movement in direction of stricter adherence can't be denied.

Tone

Existing Accounting Standards are generally using the word 'should' while laying down the principles. For example Clause 18 of Accounting Standard 1 – "Disclosure of Accounting Policies" mentions that "To ensure proper understanding of financial statements, it is necessary that all significant accounting policies adopted in the preparation and presentation of financial statements Should be disclosed." And Clause 19 of the same standard mentions that ".....Such disclosure Should form part of the financial statements."

The Ind-AS generally carry the word 'Shall' which is more regulation oriented. For example let us have a look at Clause 16 of the Ind –AS 1 – "Presentation of Financial Statements", "An entity whose financial statements comply with Ind-ASs shall make an explicit and unreserved statement of such compliance in the notes. An entity shall not describe financial statements as complying with Ind-ASs unless they comply with all the requirements of Ind-ASs..........."

And such is the tone of almost all the Ind-AS. Section 129(1) and General Instructions in Schedule III of The Companies Act 2013 (Act) read with Clause 7 of Companies (Accounts) Rules 2014 provide that the financial statements of any company shall be prepared according to the accounting standards as notified by the Government. This position has significantly changed as earlier accounting standards were used as guidance. Since the accounting standards will prevail over the law now, and the stakes would be significant, this journey from existing AS to Ind-AS is not expected to be smooth. Ultimately the difference of opinions are bound to happen and the court of law will decide the exact position. Presently the environment of financial reporting appear to be moving towards stricter compliances.

New Guidance

Moving in the direction of implementing IFRS in India (Ind-AS) will have some additional challenges. In quite a few situations, presently there is no standard or little guidance available. Accounting of Agriculture is one example. Indian regulators are trying to get an accounting standard to provide guidance on accounting for agriculture products and livestock, but unique complexities bring in road blocks. Besides many other matters, subjectivity in fair valuation and tax implication on depreciation are a matter of debate. . Same is the case with exploration of and evaluation of mineral resources and accounting for Insurance Contracts. Guidance on accounting for share based payments is another area of challenge. Apart from share based payments to employees, little guidance is available in India for share based payments. The Ind-AS has complete accounting standards on these one.

Widen Scope

While we have accounting standard on Amalgamation (AS-14), which provide guidance on basic issues such as method of calculating goodwill, in practice, , mergers and such schemes in India are approved by the court of law. The acquirer and acquiree follow the accounting as proposed and approved in such approved scheme, which may or may not follow accounting standards or principles. In order to plug this loophole, there is a requirement for the listed companies to obtain unqualified certificate from statutory auditor saying that the scheme of merger or acquisition complies with all the accounting standards. Such restriction is not applicable for unlisted companies. With Ind-AS 103 on business combination

As far as public sector undertakings are concerned, this new era is certainly a direction in reforms as the traditional accounting patterns will need an overhauling for sure. Large entities have been studying impact since last couple of years and have more or less settled on positions and views.

getting implemented, corporate will face new challenge to understand the implications and rise above the document approved. In Ind-AS, all the identifiable assets and liabilities will be fair valued and compared with consideration. Variance will be treated as goodwill or capital reserve as the case may be. This is one of the carve outs where in IFRS in case the consideration is less than fair value of identifiable assets and liabilities, it is called gain on bargain and taken to statement of Income.

Untested Waters

While the global companies will implement new accounting standards on Revenue Recognition and Financial Instruments after couple of years or more, thanks to notifications in India, we will have both the equals of IFRS 15 and IFRS 9 implemented here in India ahead of rest of the world. The global corporate will be looking here to observe challenges being faced in these standards. It is interesting as the basic philosophy is undergoing a revamp as far as revenue recognition is concerned. And the complexities of accounting for financial instruments is known to all.

Conclusion

Indian existing Accounting standards are limited in scope for example in case of guidance on disclosure requirements, the new standard takes a deep dive into the details of how the financial statements will be presented. The scope is large and hence the challenges. Indian corporate has already raised issue on disclosure of sensitivity of information related to basis of judgement and management assumptions besides various others.

In order to keep tax matters out of discussion because of implementation of Ind-AS, the Indian tax department has published Tax Accounting Standards – Income computation and disclosure standards (ICDS) which are applicable from the current year. Whether one accounts as per AS or Ind-AS, the income tax will be computed keeping in mind these ICDS. That appears to have taken care of one aspect of challenge, an obvious one. But the road ahead appears to be long – and not an easy one. As far as public sector undertakings are concerned, this new era is certainly a direction in reforms as the traditional accounting patterns will need an overhauling for sure. Large entities have been studying impact since last couple of years and have more or less settled on positions and views. While lot of time and energy will be required to train existing resources, this will also result in opening of job opportunities for young and bright accountants. Basic idea is to have more transparency so that the user of financial statements can get help in understanding the position and performance of the public sector undertaking, whether these are regulator, investor, employees or management. This is the objective of financial statements. ■■■