



cutting through complexity

Voices on Reporting

23 July 2014

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Covering current and emerging reporting issues



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IFRS convergence – key developments and challenges

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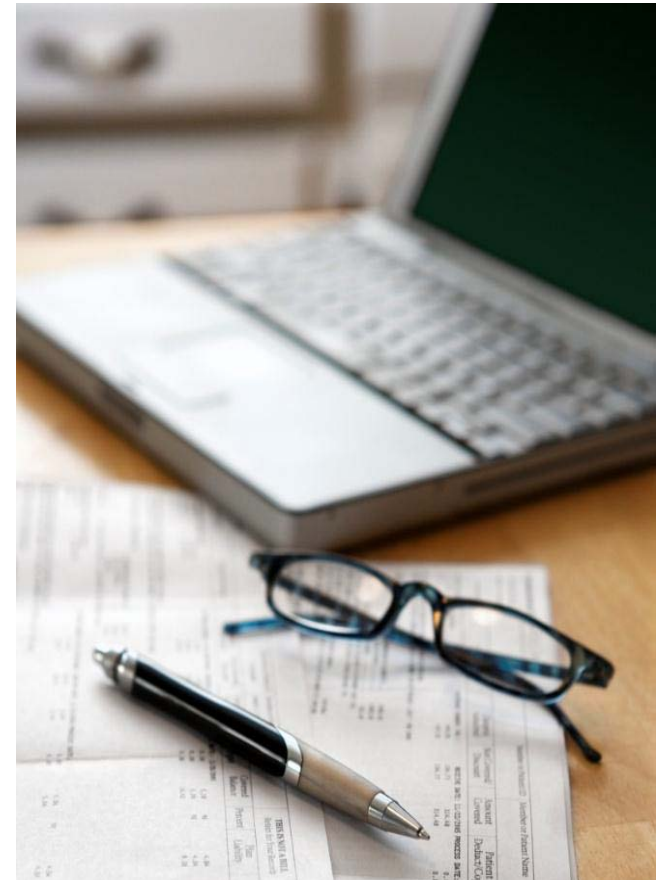
Tax accounting standards – implementation challenges

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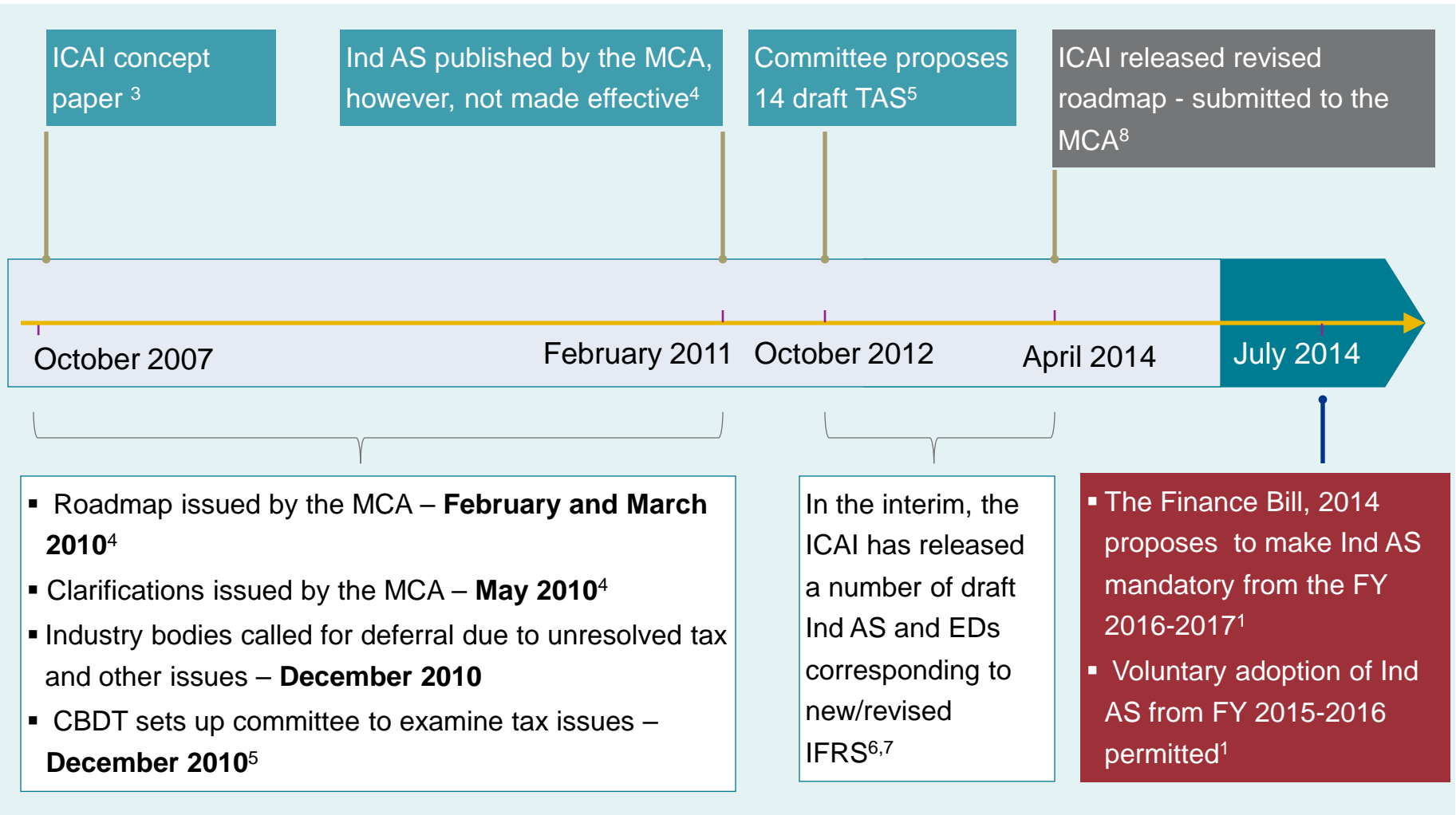
Next steps for companies

The Finance Minister's proposals – 10 July 2014¹

- Convergence with International Financial Reporting Standards (IFRS) by adoption of the Indian Accounting Standards (Ind AS) by Indian companies
- Voluntary from 2015-2016
- Mandatory from 2016-2017
- Banks, insurance companies, etc. – implementation date to be notified by the relevant regulator
- Standards for computation of tax (tax accounting standards) to be notified separately.

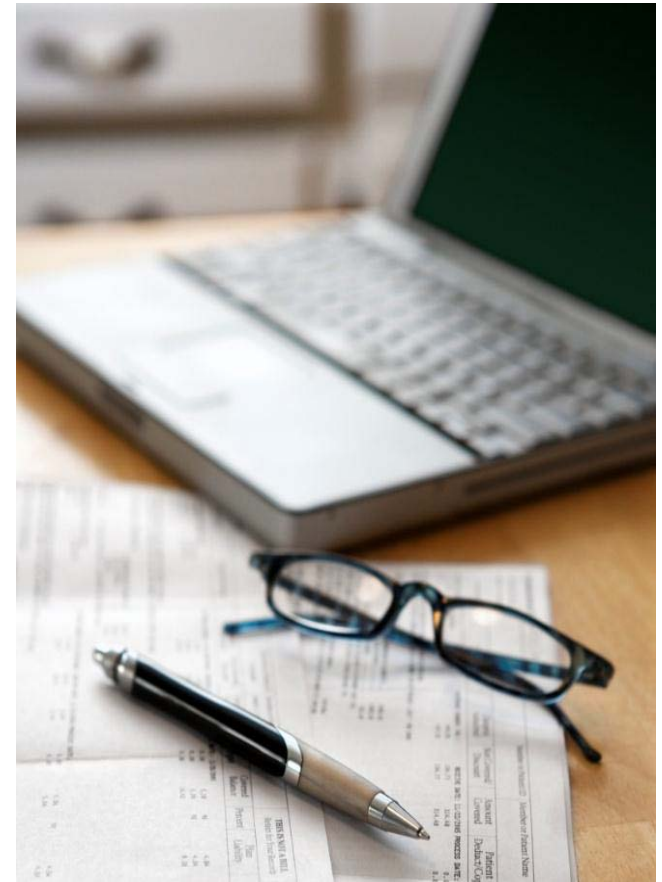


Background relating to the roadmap of Ind AS



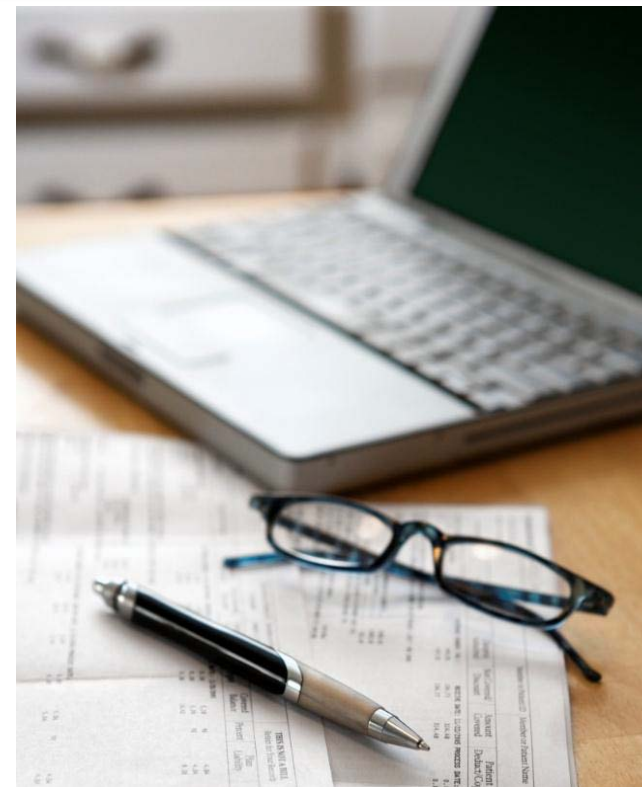
A welcome step

- Adoption of Ind AS will give rise to various benefits to Indian companies including:
 - Reduced cost of capital and better access to global capital markets
 - More cross border transactions
 - Better comparability and transparency of business performance and activities.
- Government will also be able to keep its commitment to G20 regarding convergence to IFRS.



On 9 April 2014, the ICAI submitted the following roadmap to the MCA:

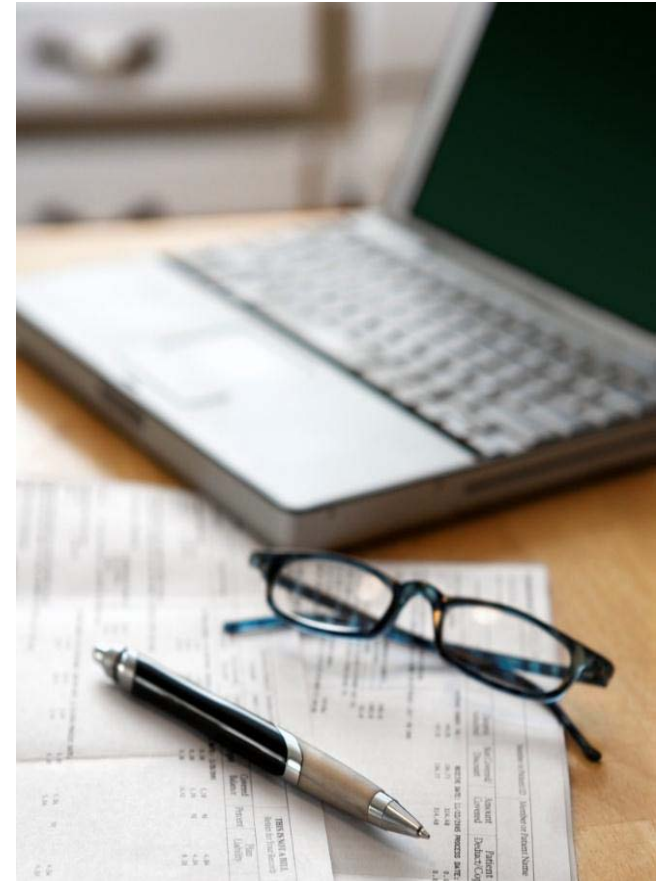
- Two sets of accounting standards:
 - Ind AS
 - Existing notified accounting standards (AS)
- Specified class of companies to which the ICAI's roadmap is applicable:
 - a. Companies whose equity and/or debt securities are listed or are in the process of listing on any stock exchange in India or outside India
 - b. Companies other than those covered in (a) above, having net worth of INR5 billion or more
 - c. Holding, subsidiary, joint venture or associate companies of companies covered in (a) or (b) above.
- No specific roadmap issued for banks, NBFCs and insurance companies.



Effective date: Ind AS to be adopted for preparing consolidated financial statements for financial year beginning on or after 1 April 2016 with comparatives for year ending 31 March 2016 or thereafter

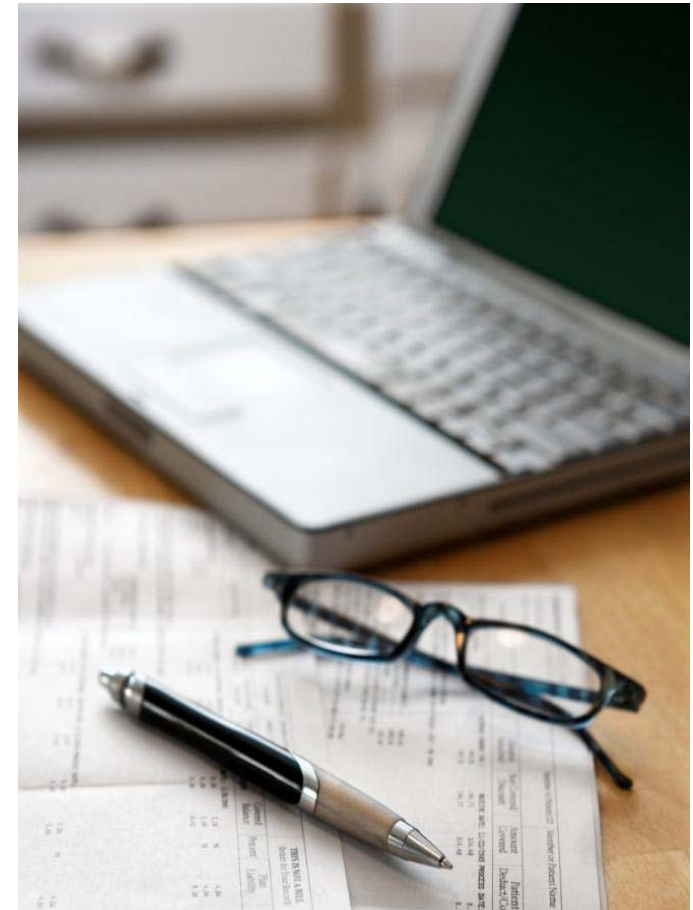
Applicability criteria

- The roadmap for adoption of Ind AS should be finalised by the MCA at the earliest to clearly identify:
 - The classes of companies to whom Ind AS will be applicable
 - Whether implementation would be in a phased manner, like announced by the MCA in 2010
 - Whether Ind AS will be applicable only to consolidated financial statements as proposed by the ICAI
 - What would be the transition date and whether comparatives would be in accordance with Ind AS.



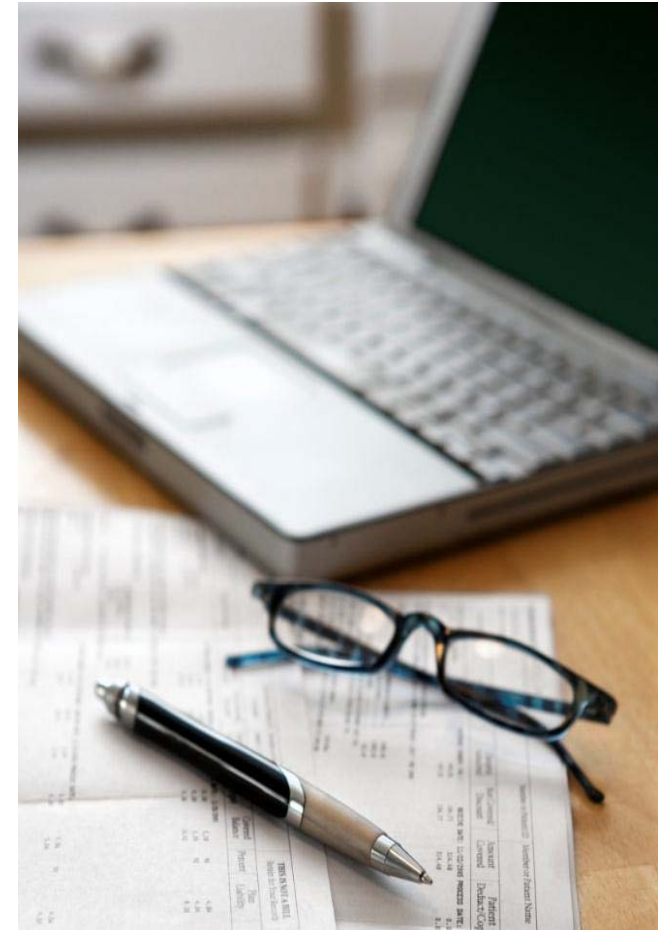
Carve-outs

- The roadmap for adoption of Ind AS should consider reducing the number of carve-outs
- Significant carve-outs under previous roadmap included:
 - Gain on bargain purchase taken directly to equity
 - Conversion feature of ‘foreign currency convertible bond’ treated as an equity component
 - Revenue to be recognised as per percentage completion method for real-estate developers
 - Additional exemptions given to the first time adopters of Ind AS
 - For property, plant and equipment continuation of the Indian GAAP balances.



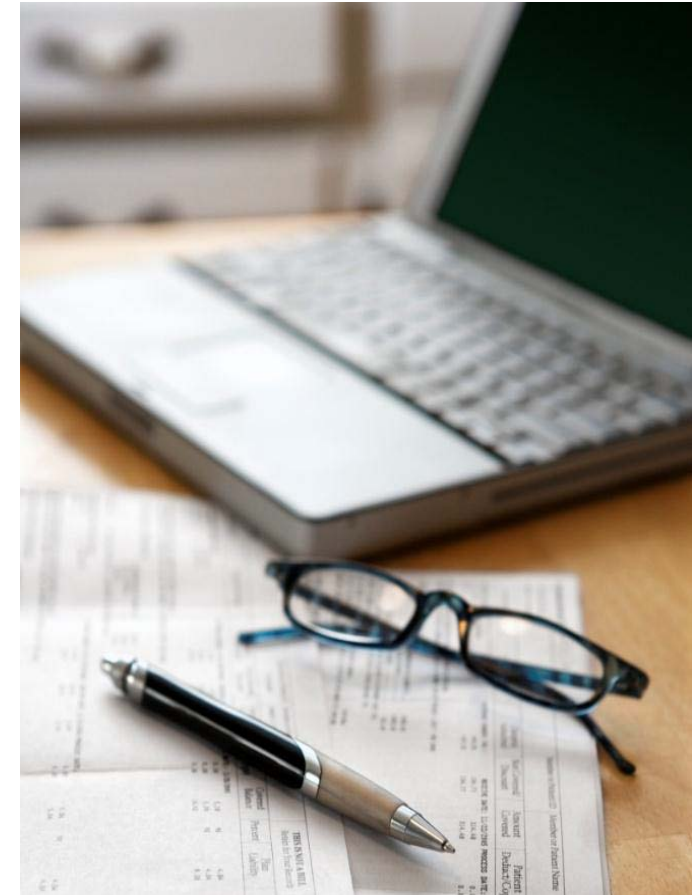
Companies Act, 2013 (the Act)

- The roadmap for adoption of Ind AS should consider requirements and issues faced under the Act, for example:
 - Ind AS should be notified by the NFRA under section 133
 - Preparation of consolidated financial statements
 - Consider exemption for the intermediate holding companies if the ultimate parent company prepares CFS that are publicly available
 - Roadmap will be sufficiently large in its coverage
 - Definition of subsidiary for the purpose of preparing consolidated financial statements under Ind AS.
 - Alignment of requirements under Ind AS relating to depreciation with Schedule II of the Act
 - Utilisation of securities premium under section 52 talks about accounting standards under section 133.
 - Definition of related parties.



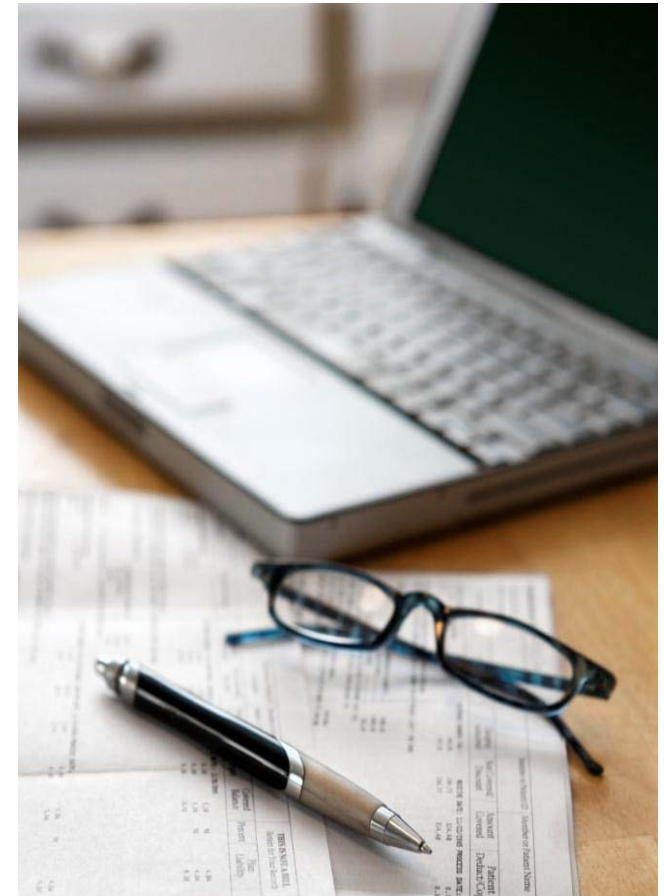
New IFRS

- Ind AS would need to be updated for new developments under IFRS
- Significant developments under IFRS, for example:
 - Consolidation suite of standards including IFRS 10, IFRS 11, IFRS 12 (Effective from annual periods beginning on or after 1 January 2013)
 - IFRS 13, *Fair value measurement* (Effective from annual periods beginning on or after 1 January 2013)
 - IAS 19, *Employee Benefits* (Effective from annual periods beginning on or after 1 January 2013)
 - IFRIC 21, *Levies* (Effective from annual periods beginning on or after 1 January 2014)
 - IFRS 15, *Revenue from contracts with customers* (Effective from annual periods beginning on or after 1 January 2017).
- The ICAI has released several draft Ind AS and exposure drafts on Ind AS in line with the revised and new IFRS.



Banking and insurance companies

- The roadmap for adoption of Ind AS should also be timely announced for banking and insurance companies after consultation with the respective regulators
- The MCA had previously issued roadmap for banking and insurance companies and NBFCs based on certain specified criteria
- The Finance Minister's speech indicates finalisation after international consensus
- Limited to finalisation of IFRS 9 and its implementation date.



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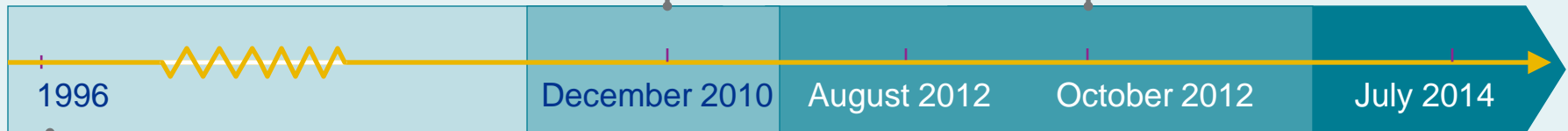
Next steps for companies

Stages towards adoption of 'Tax Accounting Standards' (TAS)

The CBDT constituted AS Committee to suggest the following:⁵

- AS to be notified under the Act
- Amendments to the Act
- Method to determine book profit for MAT purposes on transition to Ind AS.

14 TAS issued for public comments⁵



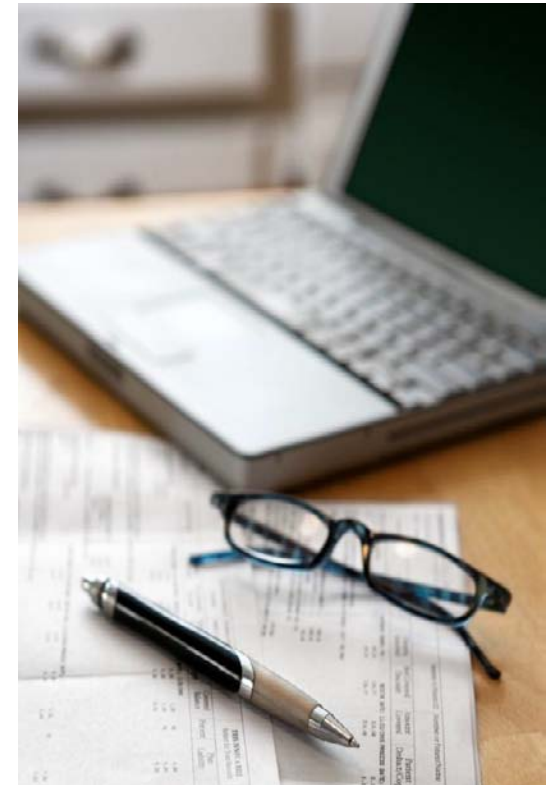
The Central Government notified two accounting standards under section 145(2) of the Income Tax Act, 1961 (the IT Act)⁵

Final report of the Committee published after examining 31 AS issued by the ICAI⁵

- The Finance Bill 2014 amends section 145(2) of the IT Act and would be effective from 1 April 2015²
- The budget speech mentioned that TAS will be notified separately.¹

Significant impact areas

- The Finance Bill, 2014 proposed that TAS will be notified separately
- Recommendations relating to TAS, if accepted, are expected to have serious impact on tax liability
- No separate books of account required; however reconciliation of profits as per the financial statements and taxable income as per TAS required
- Would lead to significant divergence between profit as per accounting standards and taxable income
- Owing to provision under Companies Act, 2013 and Ind AS relating to re-opening or revision of financial statements/board's report there can be an impact on MAT liability for previous years.



Transition from existing tax computation to TAS to be clarified

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Next steps for companies

Planning and gap assessment

Compute the impact on profitability and key metrics, including communication with stakeholders on the key impact areas

Prepare financial statements including disclosures

Build capacity and align systems to achieve 'business as usual'



Q&A

1. The Budget Speech of the Finance Minister dated 10 July 2014
2. The Finance Bill, 2014
3. Concept Paper on Convergence with IFRSs in India released by the Institute of Chartered Accountants of India (ICAI)
4. The Ministry of Corporate Affairs website
5. The ITAT website - <http://www.itatonline.org/info/index.php/download-tax-accounting-standards-issued-by-the-cbdt/> and http://www.itatonline.org/info/wp-content/files/tax_accounting_standards_draft_cbd.pdf
6. The ICAI's website - http://www.icai.org/post.html?post_id=9258
7. The ICAI's website - http://www.icai.org/post.html?post_id=7680
8. The ICAI's announcement dated 9 April 2014

Accounting and Auditing update



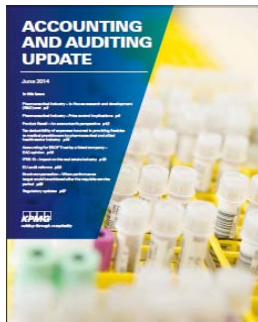
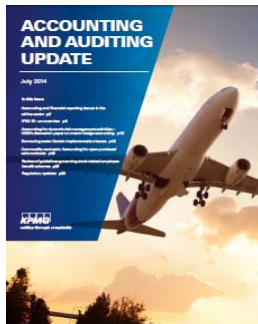
- Accounting and financial reporting issues in the airline sector
- IFRS 15 – an overview
- Accounting for dynamic risk management activities – IASB's discussion paper on macro-hedge accounting
- Borrowing costs: certain implementation issues
- Commodity contracts: Accounting for open purchase/sale contracts
- Review of guidelines governing stock related employee benefit schemes
- Regulatory updates

First notes



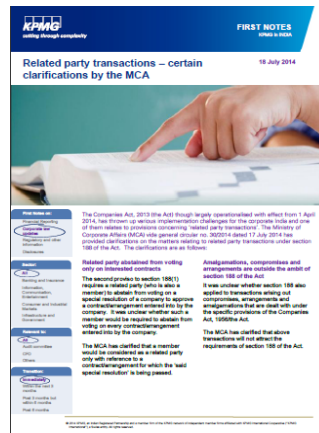
With a view to facilitate the implementation of the Companies Act, 2013 and to address the representations received from various stakeholders, the Ministry of Corporate Affairs (MCA) vide general circular no. 30/2014 dated 17 July 2014 has provided clarifications with regard to provisions relating to related party transactions. Our First Notes provides an overview of these clarifications.

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August 2014

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