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# Voices on reporting

**20 November 2014**

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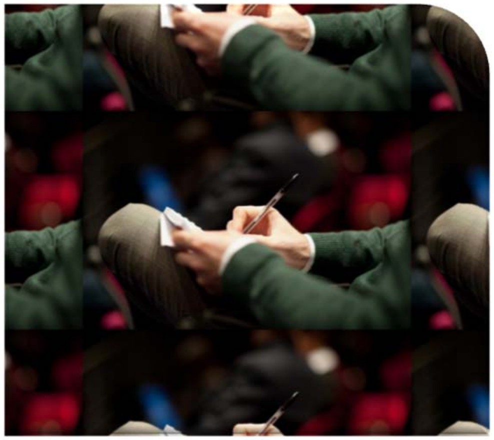
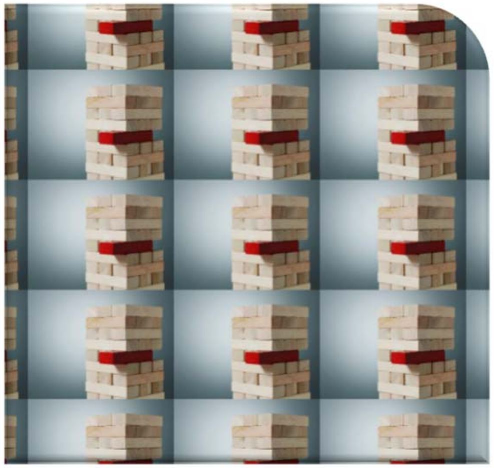
# Welcome

Voices on Reporting





Series of knowledge sharing calls

Covering current and emerging  reporting issues

Scheduled towards the end of each month

Look out for our Accounting and Auditing Update, IFRS Notes and First Notes publications

# Your Speakers

Voices on Reporting

**Madhu Sudan Kankani**
Partner
KPMG in India

**Nirav Patel**
Director
KPMG in India

# Topics for today

Voices on Reporting

1 **Roadmap for IFRS convergence in India**

2 Exposure draft on Ind AS 101, *First time adoption of Indian Accounting Standards*

3 Probable benefits and challenges of Ind AS conversion

# Revised roadmap issued by the ICAI

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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 getting listed on any stock exchange in India or internationally
  b. Companies other than those covered in (a) above, having net worth of INR5 billion or more (approximately USD81.3 million)
  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 the financial year beginning on or after 1 April 2016 with comparatives for year ending 31 March 2016, or thereafter.

# Announcements in the Finance Bill, 2014

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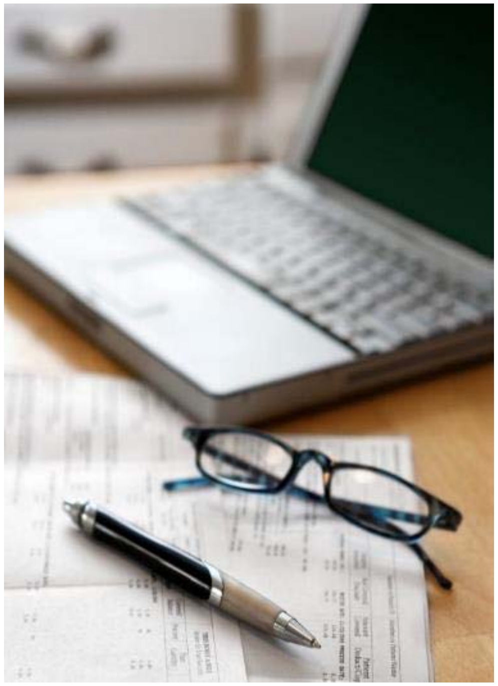
## The Finance Minister's proposals – 10 July 2014

- Convergence with International Financial Reporting Standards (IFRS) by adoption of the Ind AS by Indian companies
- Voluntary from 2015-16
- Mandatory from 2016-17
- 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.



# Topics for today

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1 Roadmap for IFRS convergence in India

2 **Exposure draft on Ind AS 101, *First time adoption of Indian Accounting Standards***

3 Probable benefits and challenges of Ind AS conversion

# ED on Ind AS 101



## Background

- On 24 October 2014, the Institute of Chartered Accountants of India (ICAI) issued exposure draft on Indian Accounting Standard (Ind AS) 101, *First-time Adoption of Indian Accounting Standards* (ED)

- The ED would replace Ind AS 101, *First-time Adoption of Indian Accounting Standards* which was published by the Ministry of Corporate Affairs (MCA) in February 2011

- The objective of the ED is to:
  - provide a suitable starting point for accounting in accordance with Ind AS
  - set out the procedures to be followed by entities for adoption of Ind AS

- The ED has certain differences as compared to the corresponding International Financial Reporting Standard (IFRS) 1, *First-time Adoption of IFRS* to make it relevant in India.

# ED on Ind AS 101

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## Key terms

| | |
|---|---|
| Date of transition | It is the beginning of the earliest period for which an entity presents full comparative information under Ind AS in its first Ind AS financial statements. |
| First Ind AS FS | The first annual financial statements in which the entity adopts Ind AS and in which it makes an explicit and unreserved statement of compliance with Ind AS. |
| Opening Ind AS balance sheet | An entity's balance sheet at the date of transition. |
| Previous GAAP | It is the basis of accounting that a first-time adopter used in India immediately before adopting Ind AS. |
| Deemed cost | It is an amount used as a surrogate for cost or depreciated cost at a given date. |

# Disclosures – First Ind AS interim financial statements

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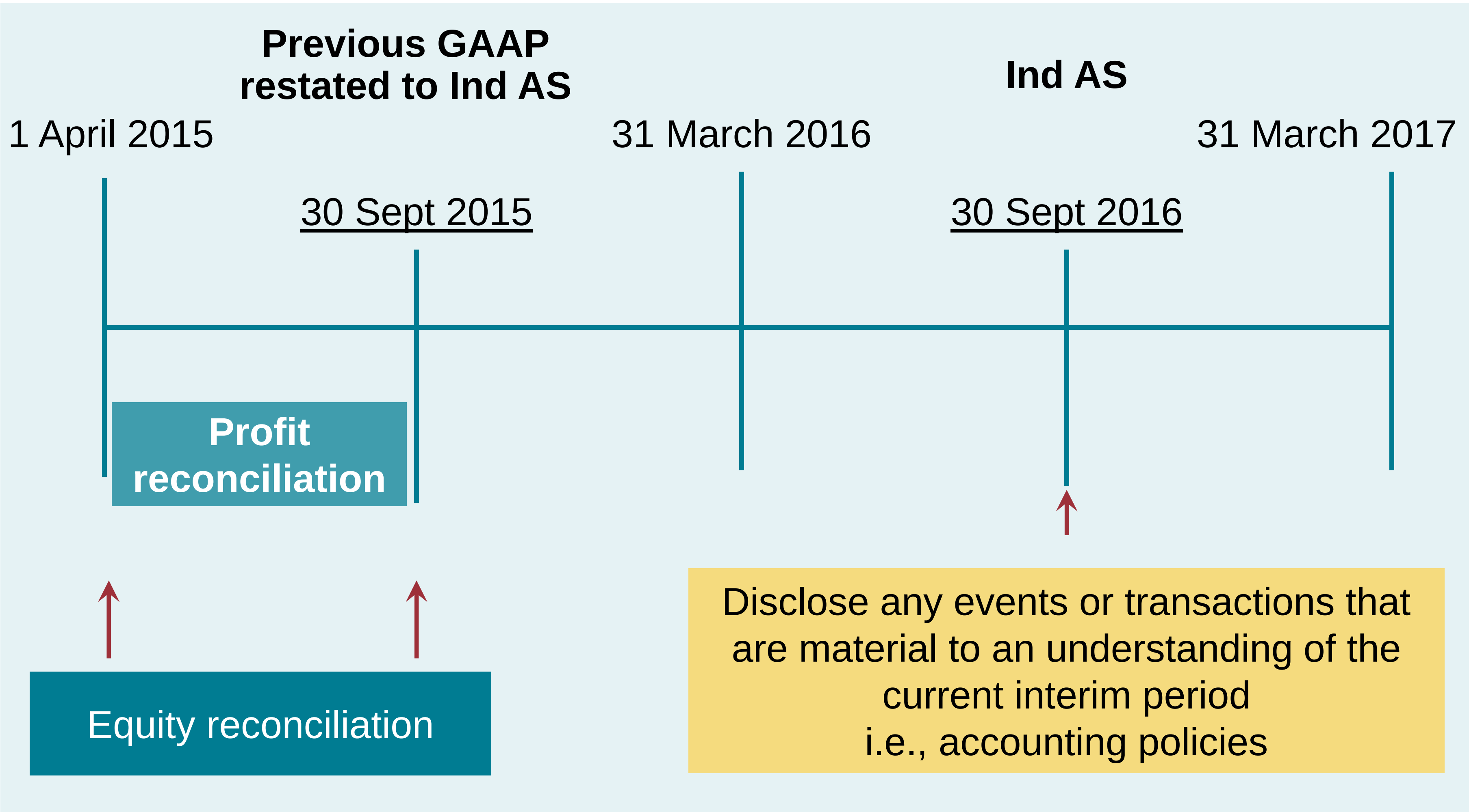
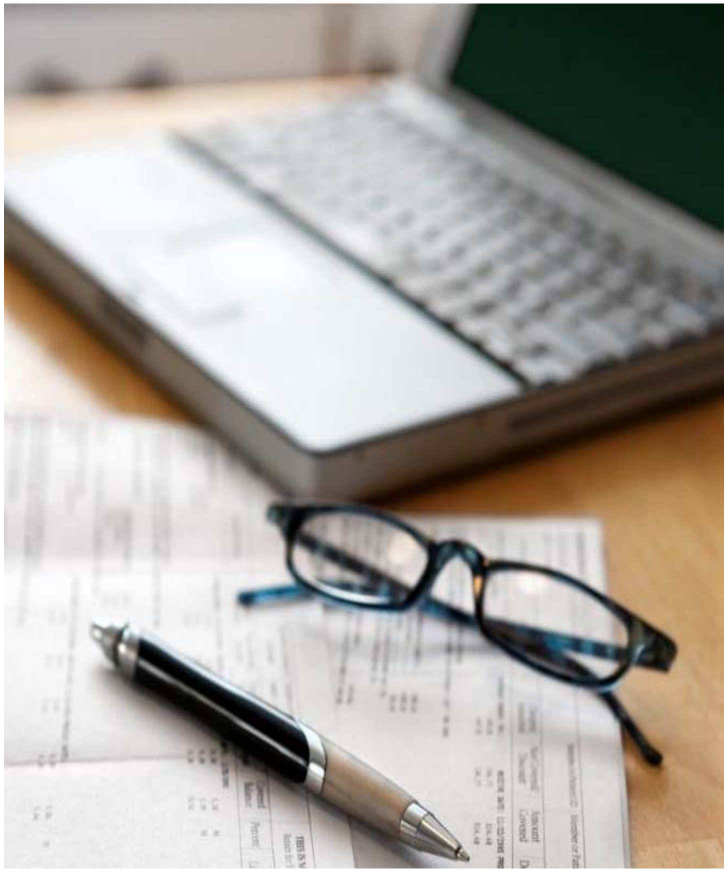


# When to apply Ind AS 101



- In the first set of financial statements that contain an explicit and unreserved statement of compliance with Ind AS
- In any interim financial statements for a period covered by those financial statements that are prepared under Ind AS.



# ED on Ind AS 101

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## Steps to be followed for first time adoption of Ind AS

**Step 1**
Choose accounting policies and consider changes in estimates

**Step 2**
Recognise all assets and liabilities whose recognition is required by Ind AS

**Step 3**
Derecognise all assets or liabilities whose recognition is not allowed by Ind AS

**Step 4**
Reclassify assets, liabilities or components of equity, as necessary

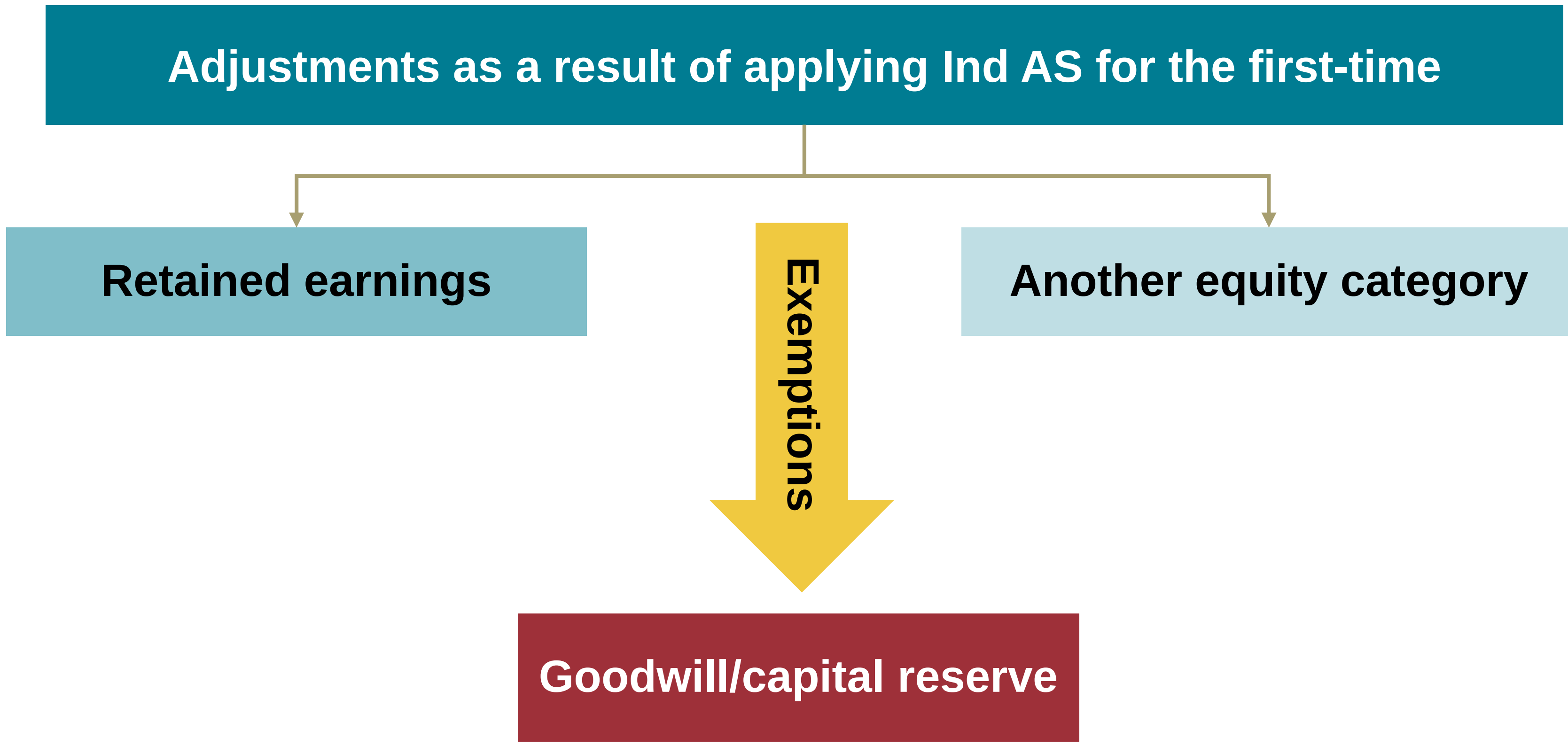
**Step 5**
Apply Ind AS for measuring all recognised assets and liabilities

**Step 6**
Consider mandatory and optional exemptions

**Opening balance sheet at the date of transition**

# The opening Ind AS statement of financial position





# ED on Ind AS 101

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## Overview of the exceptions and optional exemptions

Mandatory exceptions and optional exemptions:

- facilitate smooth transition
- restrict the use of hindsight
- require careful consideration regarding their impact on the first and subsequent Ind AS FS.

## Mandatory exceptions

- **Estimates**
  - To be consistent with estimates made under the previous GAAP unless
    - there was an error, or
    - the estimate and related information under previous GAAP is no longer relevant because the entity elects a different accounting policy on the adoption of Ind AS.

# ED on Ind AS 101

## Mandatory exceptions

- **Derecognition of financial instruments**
  - Derecognition requirements are to be applied prospectively
  - an entity may apply the derecognition requirements in Ind AS 109 retrospectively from a date of the entity's choosing, provided that the information needed to apply Ind AS 109 to financial assets and financial liabilities derecognised as a result of past transactions was obtained at the time of initially accounting for those transactions.
- **Hedge accounting**
  - Prevents the use of hindsight from retrospectively designating derivatives and qualifying instruments as hedges
  - In its opening Ind AS balance sheet, a hedging relationship of a type that does not qualify for hedge accounting in accordance with Ind AS 109 will not be reflected as a hedging relationship.
- **Non-controlling interests (NCI)**
  - Requirements of Ind AS 110 relating to NCI to be applied prospectively unless a first time adopter elects to apply Ind AS 103 retrospectively to past business combinations.

# ED on Ind AS 101

## Mandatory exceptions (contd.)

- **Classification and measurement of financial assets**
  - Assessment needs to be made based on the conditions that exist at the date of transition.
- **Impairment of financial assets**
  - Impairment requirements as per Ind AS 109 are to be applied retrospectively subject to certain exceptions.
- **Embedded derivatives**
  - Assessment of closely related criterion is made on the basis of conditions that existed at the later of the date the entity first became as party to the contract and the date a reassessment is required as per Ind AS 109.
- **Government loans**
  - Requirement of Ind AS 20 and Ind AS 109 are applied prospectively. May be applied retrospectively, if information was obtained at the time of initially recognition.

# Key options under ED on Ind AS 101



## Key options

| | |
|---|---|
| ***Business combinations exemption*** | ED on Ind AS 101 allows a first-time adopter to exclude from its opening balance sheet any item recognised in accordance with previous GAAP that does not qualify for recognition as an asset or liability under Ind AS. Under Ind AS, it is required to account the resulting change in the retained earnings as at the transition date except in certain specific instances where it requires adjustment in the goodwill or such adjustment can be made through capital reserve to the extent such adjustment amount does not exceed the balance available in capital reserve. |
| ***Deemed cost*** | ED on Ind AS 101 proposes to include a choice to consider previous GAAP carrying values as 'deemed cost' for property, plant and equipment, intangible asset, or investment property acquired prior to the transition date. |
| ***Leases*** | ED on Ind AS 101 proposes that an entity to use the transition date facts and circumstances on lease arrangements which include both land and building elements to assess the classification as finance or operating lease at the transition date. |

# Key options under Ind AS 101



## Key options (contd.)

| | |
|---|---|
| ***Non-current Assets Held for Sale and Discontinued Operations*** | ED on Ind AS 101 allows an entity to use the transitional date circumstances to measure such assets or operations at the lower of carrying value and fair value less cost to sell. |
| ***Borrowing costs*** | IFRS 1 provides transitional adjustment requiring companies to apply the provisions of IAS 23 to be applied prospectively after the transition date to Ind AS.<br>In India, the standard on borrowing costs always required an entity to capitalise borrowing costs. Therefore, ED on first-time adoption proposes to delete the borrowing cost exemption as it is not relevant for India. |

# List of exemptions from other Ind AS

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| List of exemptions from other Ind AS | |
|---|---|
| Business combinations | Share-based payment transactions |
| Insurance contracts | Deemed cost |
| Leases | Cumulative translation differences |
| Investments in subsidiaries, joint ventures and associates | Assets and liabilities of subsidiaries, joint ventures and associates |
| Compound financial instruments | Designation of previously recognised financial instruments |
| Fair value measurement of financial assets or financial liabilities at initial recognition | Decommissioning liabilities included in the cost of property, plant and equipment |
| Financial assets or intangible assets accounted for in accordance with Appendix A to Ind AS 115 Service Concession Arrangements | Borrowing costs |
| Extinguishing financial liabilities with equity instruments | Sever hyperinflation |

# List of exemptions from other Ind AS



| List of exemptions from other Ind AS | |
|---|---|
| Joint arrangements | Stripping costs in production phase of a surface mine |
| Designation of contracts to buy or sell a non-financial item | Revenue from Contracts from Customers |
| Non-current assets held for sale and discontinued operations | |

# Topics for today

Voices on Reporting

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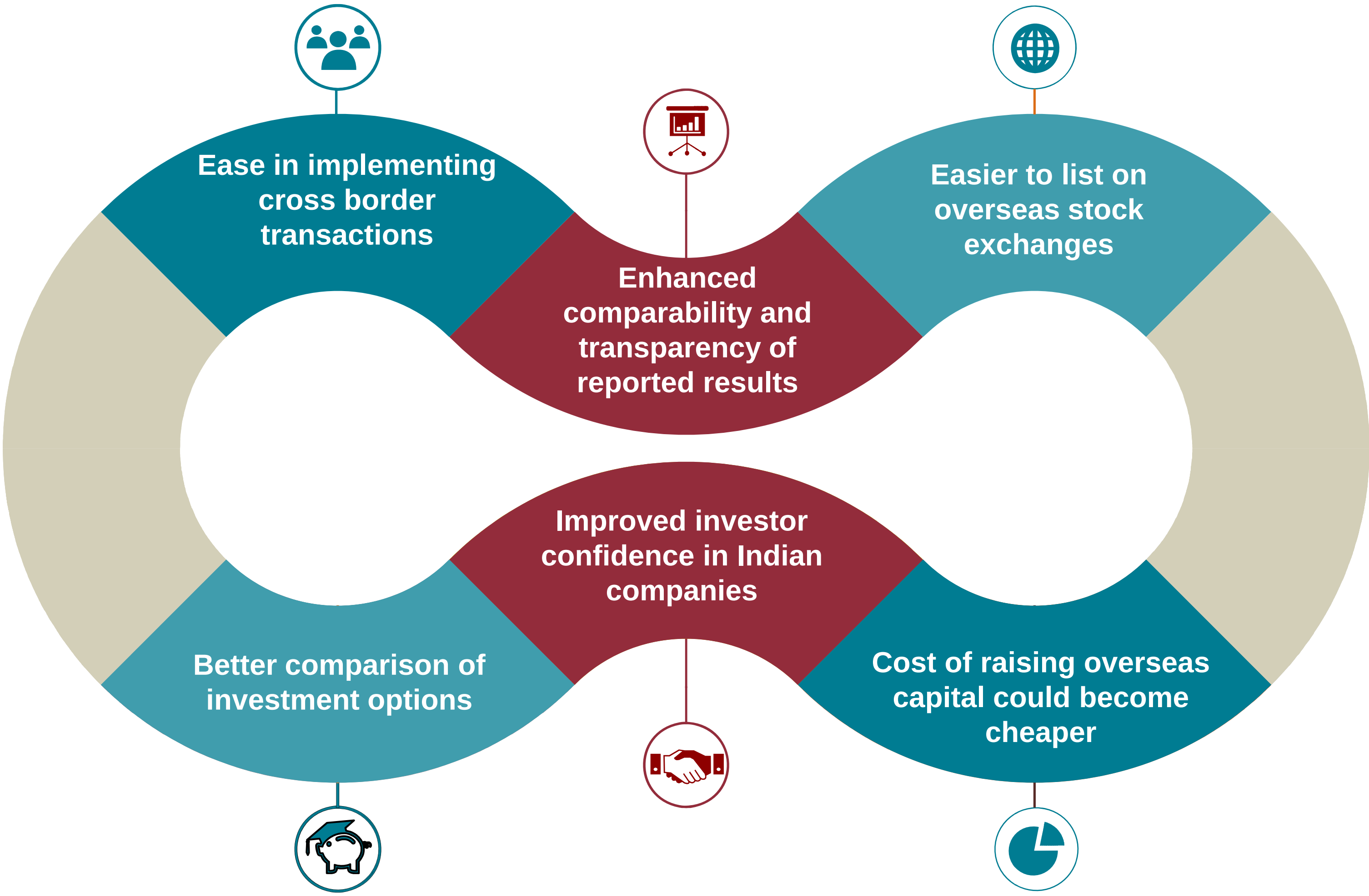
# Potential benefits of Ind AS implementation





# Ind AS implementation can pose significant challenges

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Accounting rules are seen as 'pretty similar', but small differences can matter a lot

Training and awareness beyond the finance and accounts team

Use of more judgement and fair value assessments

Impacts of Ind AS conversion may not be addressed by all stakeholders

Enhanced disclosures including potentially commercially sensitive information

Ind AS reporting is not 'embedded' into the financial reporting systems and processes (including IT systems)

While some of the differences seem very easy to understand, the operational complexities could be the real challenge; project management can be critical

# These can be managed



## Board and management

- Allocate adequate budget to mobilise resources
- Start early
- Understand the impact of Ind AS on results
- Realign financial performance-based measures with Ind AS based measures
- Educate analysts and investors

## Business

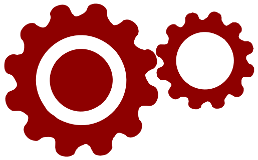
- Provide data to meet additional disclosure requirements and new valuation principles
- Understand Ind AS impact on transactions
- Consider changes required to standard business contracts
- Align budgeting and MIS to Ind AS reporting

# These can be managed



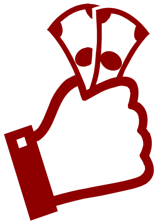
## System

- Plan and implement both ‘quick fixes’ and help ensure that systems implemented would enable sustained Ind AS reporting
- Determine approach for parallel run (multi GAAP reporting), including ICDS information for tax filing
- Identify sources of additional information required as per Ind AS requirements



## Finance

- Understand Ind AS principles and provide training
- Prepare new accounting manuals including revised accounting policies and practices
- Manage the overall conversion process



# Learnings from a previous attempt to implement Ind AS in 2011

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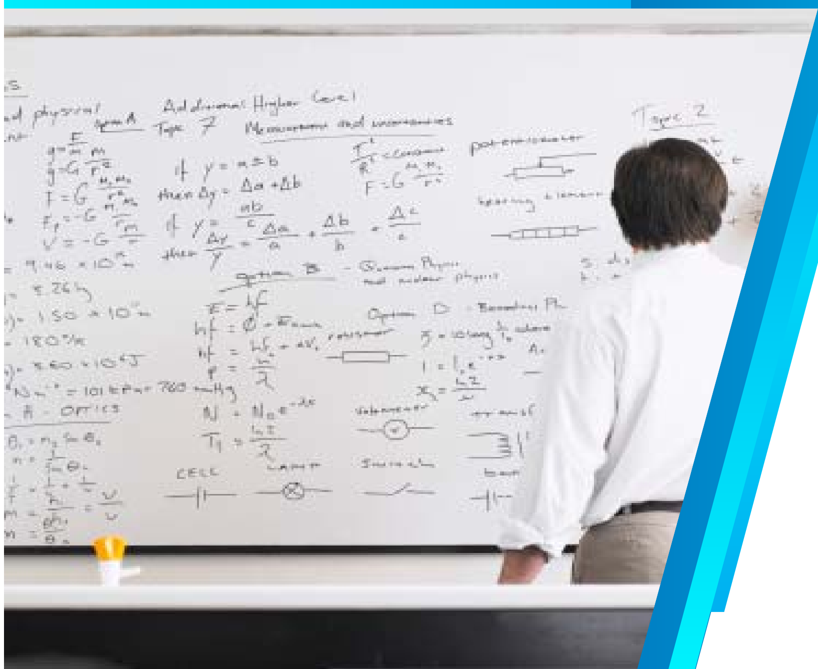


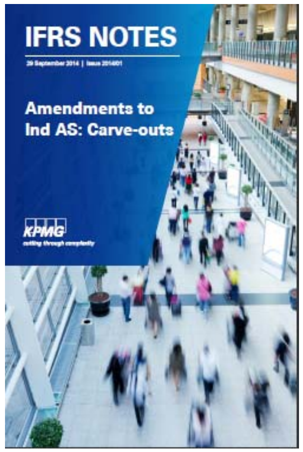
- Understanding of Ind AS; that it is not just an accounting change
- Address the IT system changes for Ind AS implementation
- Address Ind AS with business teams - segment heads, MIS and budgets
- Consider operational complexities with respect to component accounting, MTM, fair valuation, etc.
- Assess training needs with the wider teams
- Educate external stakeholders such as investors, bankers, directors, analysts on the impact of Ind AS
- Several technical areas can be quite complex – sector specific, infrastructure, real estate, retail and others
- Disclosures and notes take time and may be sensitive.

# Q&A

# Introducing IFRS Notes



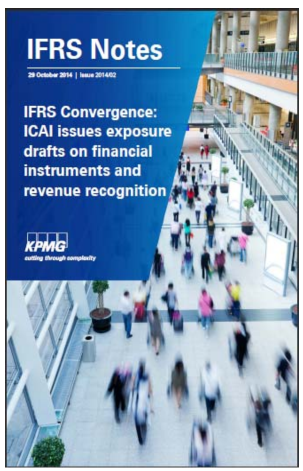
Issue 2014/01




**Amendments to Ind AS: Carve-outs**

the Accounting Standards Board of the Institute of Chartered Accountants of India (ICAI) has released two exposure drafts dealing with 'Amendments to Indian Accounting Standards (Ind AS) – consideration of carve outs/ins'. Through these exposure drafts the ICAI is trying to reduce the differences between Ind AS and IFRS, and substantially reduce the carve-outs. However, at the same time, the ICAI is also assessing the need of any further possible carve-outs considering various new developments under IFRS. This edition of IFRS Notes summarises these exposure drafts issued by the ICAI.

Issue 2014/02




**IFRS Convergence: ICAI issues exposure drafts on financial instruments and revenue recognition**

As part of the initiatives towards India's convergence with IFRS from 2016-17, the Accounting Standards Board of the Institute of Chartered Accountants of India has recently issued exposure drafts on Ind AS 109, Financial Instruments (ED on financial instruments) and Ind AS 115, Revenue from Contracts with Customers (ED on revenue). In this issue of IFRS Notes, we have provided an overview of these exposure drafts along with key impact areas.

# Topics discussed in AAU and First Notes

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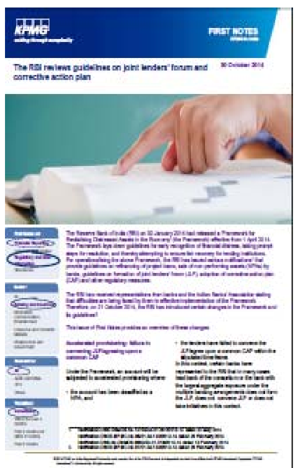
Accounting and Auditing update


- Mutual funds – accounting and reporting issues
- Ind AS 16 – accounting for fixed assets
- The Companies Act, 2013 – deposits
- Understanding the COSO 2013 Framework
- Significant influence
- Regulatory updates

First notes




The Reserve Bank of India (RBI) on 30 January 2014 had released a 'Framework for Revitalising Distressed Assets in the Economy' (the Framework) effective from 1 April 2014.

The Framework lays down guidelines for early recognition of financial distress, taking prompt steps for resolution, and thereby attempting to ensure fair recovery for lending institutions.

The RBI has received representations from banks and the Indian Banks' Association stating that difficulties are being faced by them in effective implementation of the Framework. Therefore, on 21 October 2014, the RBI has introduced certain changes in the Framework and its guidelines.

This issue of First Notes provides an overview of these changes.

# Others

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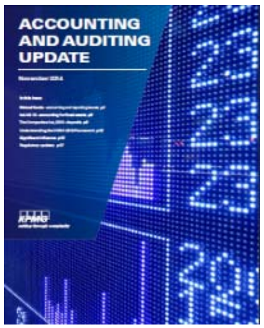
**Missed an issue of the Accounting and Auditing Update?**





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**Missed an issue of the First Notes?**


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## Coming up next

**December 2014**

- **New Issue of Accounting and Auditing Update**
- **First Notes**
- **Voices on Reporting**
- **IFRS Notes**

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# Thank you

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**Feedback/queries can be sent to aaupdate@kpmg.com**


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