



Awareness Programme on Ind AS

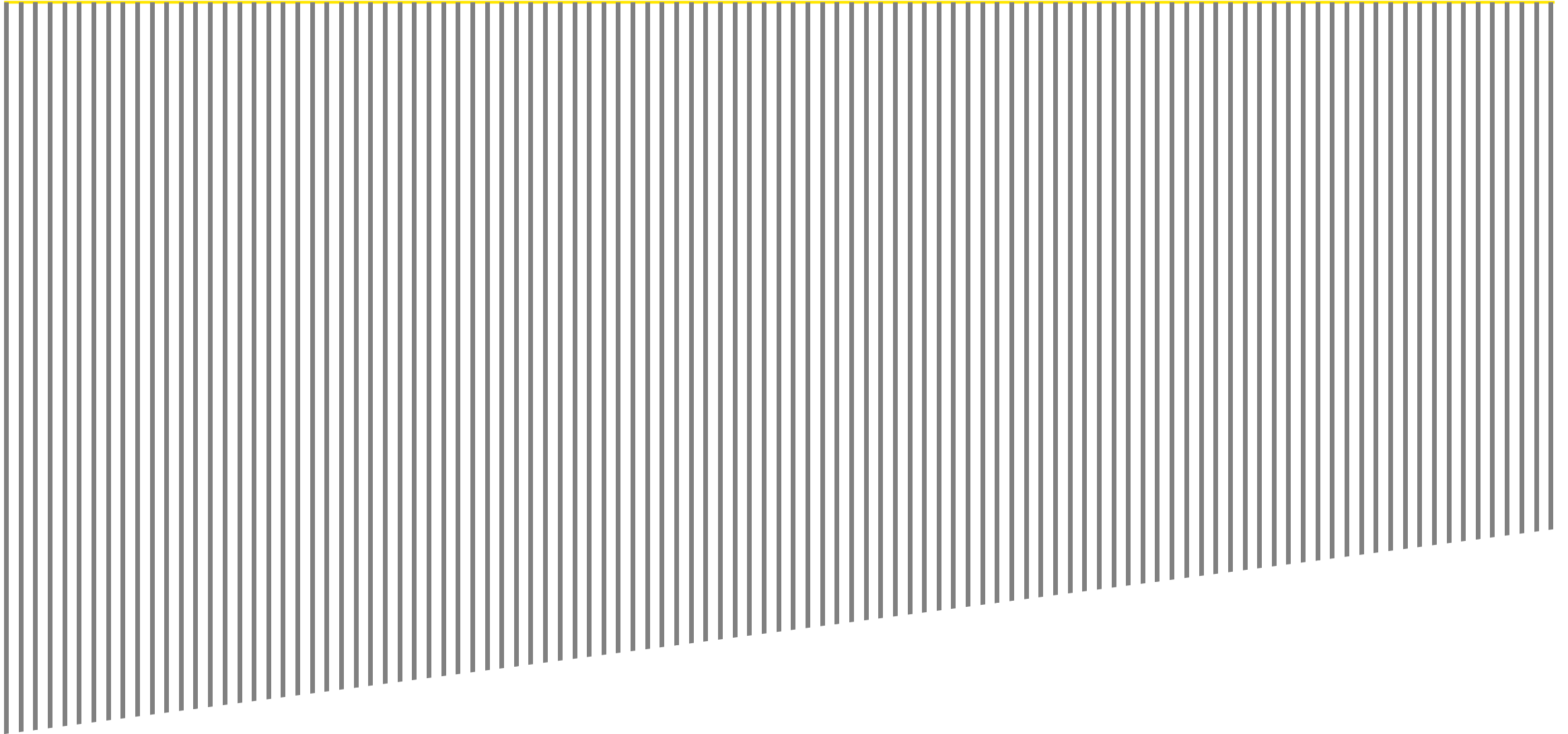
CA Suresh Yadav
26 August 2017



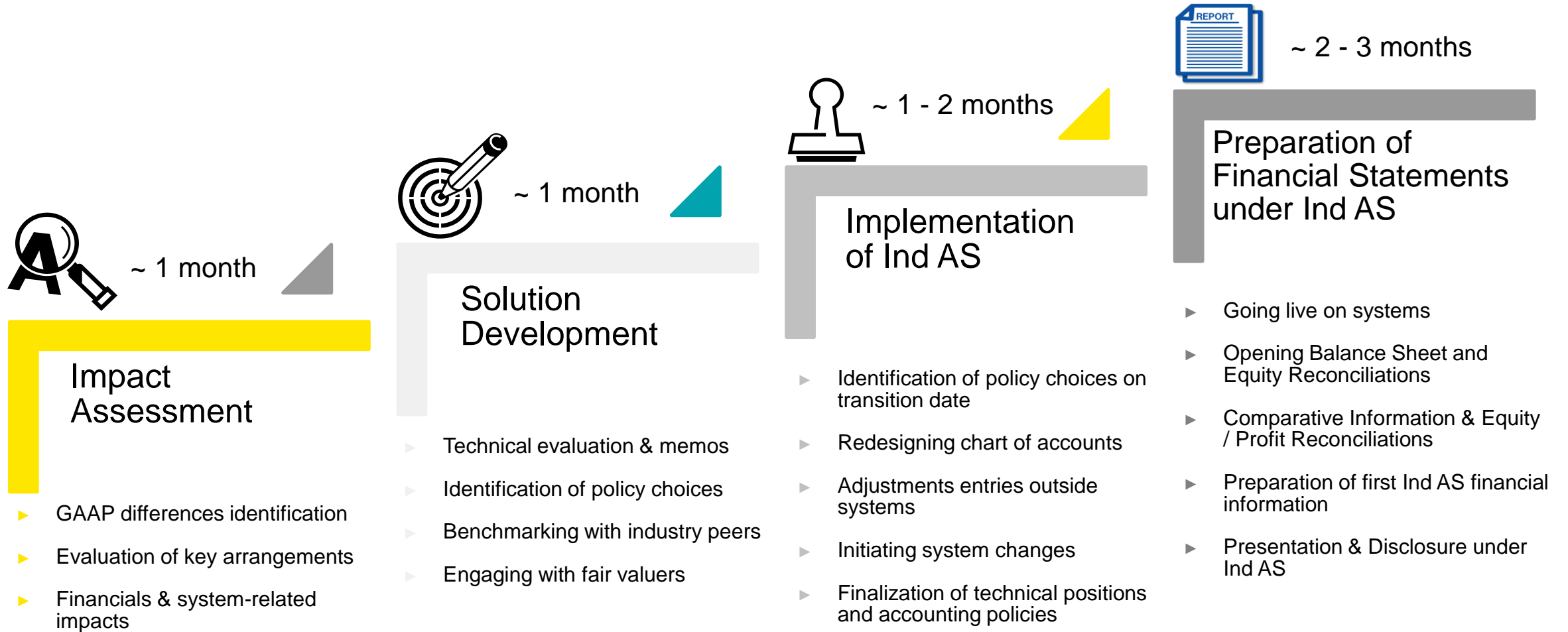
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Key Learnings – First Time Adoption



Key steps in Ind AS implementation journey



Critical success factors for smooth transition

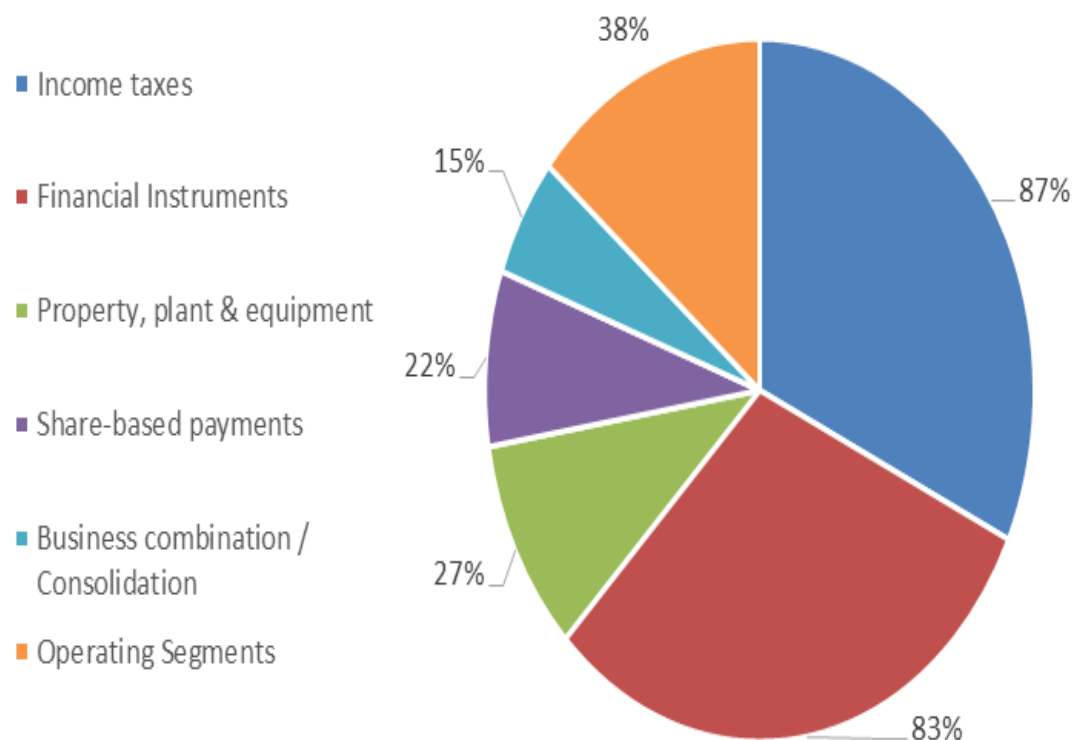
- ▶ Project management – Key work streams
 - ▶ Accounting and reporting
 - ▶ Taxation
 - ▶ Business processes and systems
 - ▶ Change management, communication and training
- ▶ Continuous engagement key stakeholders
 - ▶ Time and effective investors communications
- ▶ Leveraging on resources available
 - ▶ Education materials by ICAI on Ind AS topics
 - ▶ ITFG views on questions raised by the industry
 - ▶ Detailed guidance available through IASB publications/clarifications
 - ▶ Guidance note on Ind AS compliant schedule III
 - ▶ Illustrative Ind AS financial statements issued accounting firms
 - ▶ Published Ind AS financial statements of Phase I Companies

Some companies made detailed presentation to investors

Company	Presented on
HUL	Dec 2015
TCS	April 2016
L&T	June 2016
GCPL	July 2016
Emami	July 2016

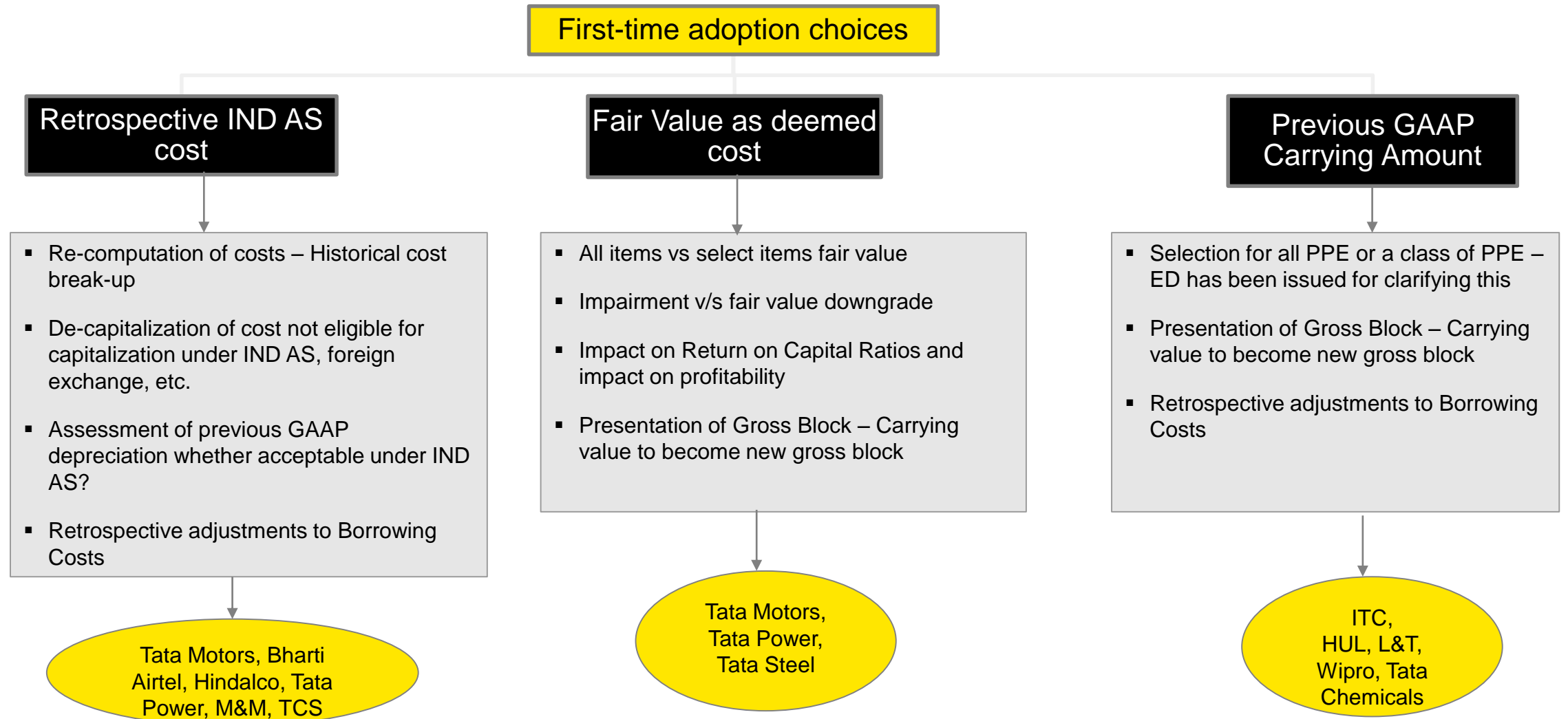
Key Ind AS impacts – Phase I entities

Key Ind AS impact on % companies out of 70 companies listed on BSE

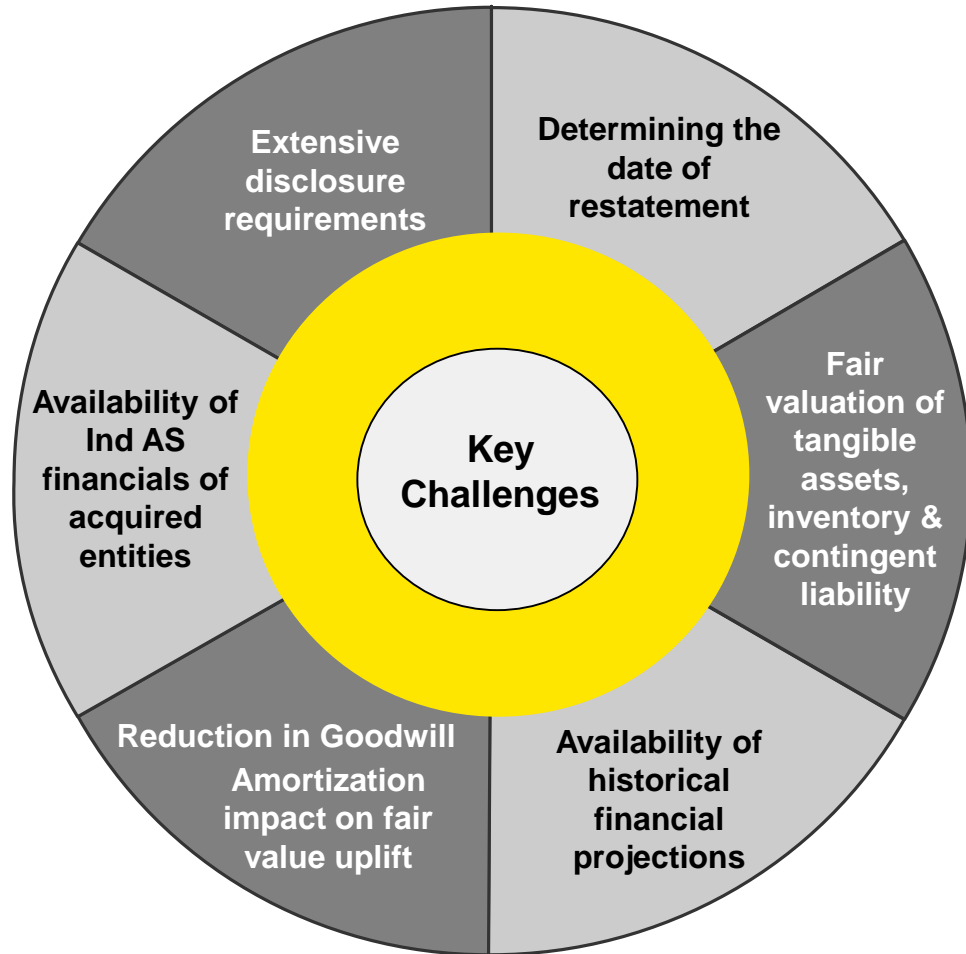


- ▶ Each exemption to be evaluated for entity's objectives:
 - ▶ Strengthening the balance sheet through fair valuation
 - ▶ Reflect the economic value of the past acquisitions
 - ▶ Alignment with IASB IFRS
- ▶ Tax implication on transition date and going forward
- ▶ Availability of historical information
- ▶ Engaging with experts for select matters
- ▶ Exemptions can be finalized before the finalization of first annual Ind AS financial statements

Deemed cost of PPE and Intangibles



Restating Business Combinations



Key Learnings

- ▶ Understand data requirements for valuation
- ▶ Financial projections for valuation of intangibles
- ▶ Use of hindsight is restricted
- ▶ Evaluate impact on equity and profitability and return on capital employed

Company Name	Restated From
Bharti Airtel Ltd.	July 07, 1995
UPL Ltd.	June 01, 2005
Tata Chemicals Ltd.	April 01, 2007
Wipro Ltd.	Apr. 01, 2008
TCS	Apr. 01, 2013
Wipro Ltd.	Apr. 01, 2008
Cipla Ltd.	July 15, 2013
Sun Pharma	Annual Report not available

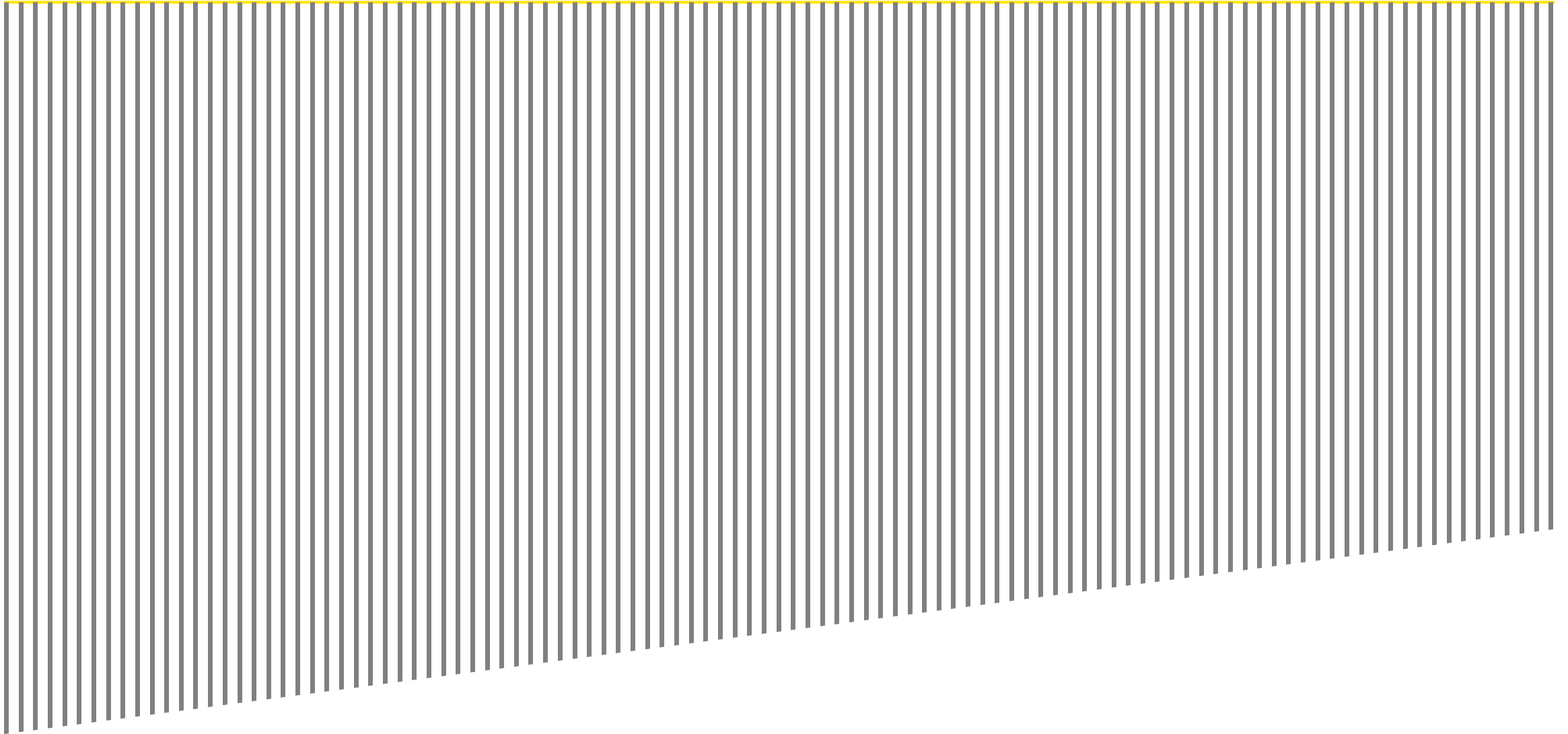
FTA – Investments in subsidiaries, associates and joint ventures

FTA – Investments in subsidiaries, associates and joint venture

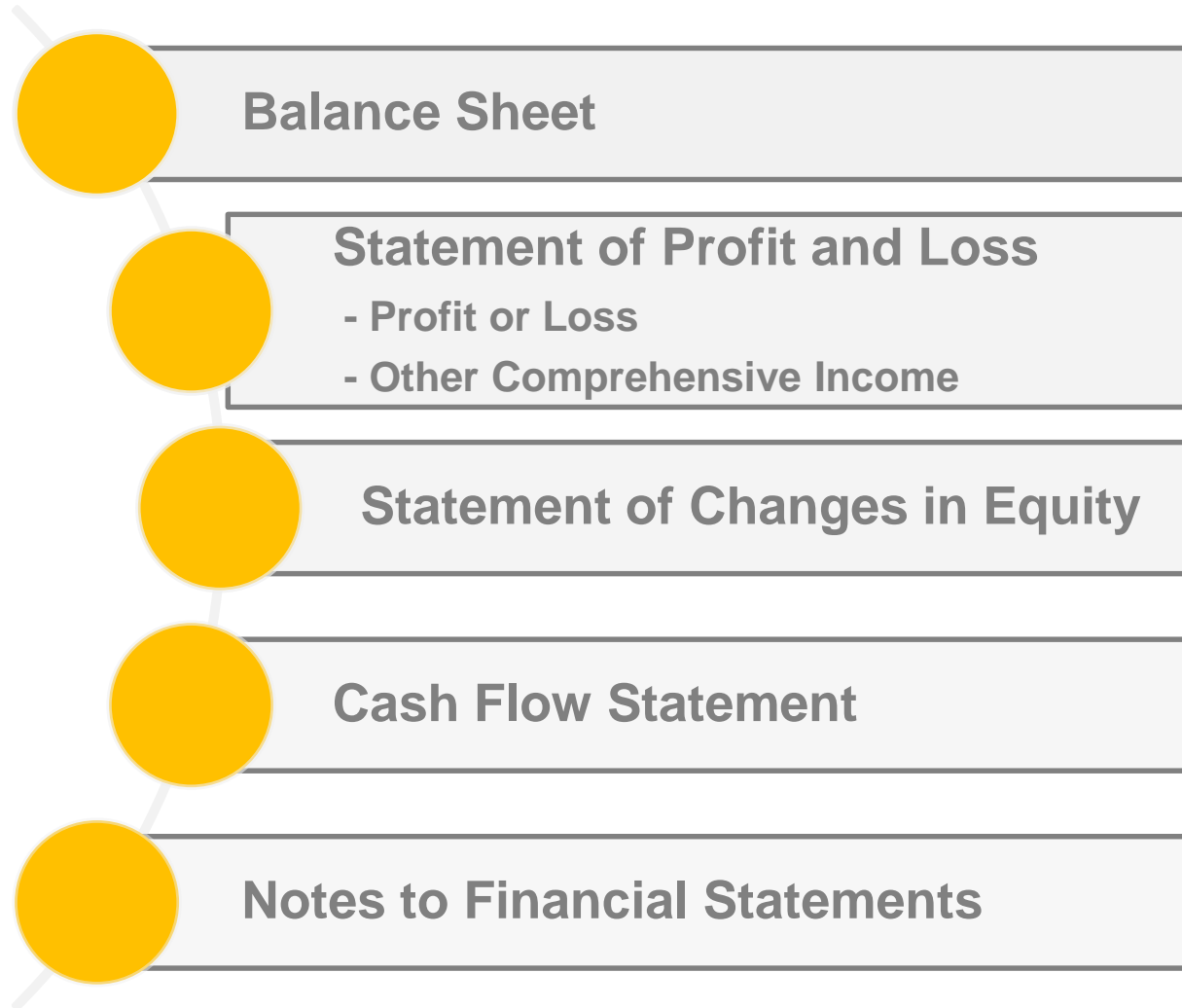
- ▶ Cost as per Ind AS 27
- ▶ Deemed Cost as per Ind AS 101:
 - ▶ Previous GAAP carrying value
 - ▶ Transition date fair value

Company Name	Investment In Group Entities	Impact on net worth (Standalone FS)
Bharti Airtel Ltd.	Fair value of certain subsidiaries	Increase
Cipla	Fair value of certain subsidiaries	Decrease
Tata Steel	Fair value of a subsidiary	Decrease
ITC Ltd.	Previous GAAP carrying amount	No change
HUL	Previous GAAP carrying amount	No change
M&M	Previous GAAP carrying amount	No change
Tata Power	At Cost	No change
L&T Ltd.	At Cost	No change

Key Presentation Aspects of Ind AS Financial Statements



Complete set of Ind AS Financial Statements



- ▶ Ind AS 1 carve-out – single statement of profit and loss
- ▶ IND AS 1 deals with the requirements of the various presentation and disclosures
- ▶ Schedule III – IND AS complaint – GN Issued by ICAI clarifying the various aspects of disclosure requirements
- ▶ Other IND AS presentation and disclosure requirements

Presentation of Balance Sheet

- ▶ Equity v/s Liabilities:

- ▶ Equity Shares
- ▶ Instruments entirely equity in nature
- ▶ Compound Instruments
- ▶ Debt instruments

- ▶ Statement of Changes in Equity

- ▶ Total comprehensive income
- ▶ Reconciliation of changes in equity during the period

- ▶ Financial v/s Non-Financial classification of various assets and liabilities

- ▶ Consolidated financial statements

- ▶ Bargain purchase gain

- ▶ Ind AS 1 carve out – Capital Reserve

- ▶ Non Controlling Interest:

- ▶ Gain/Loss on Change in Proportion
- ▶ Losses attributed to NCI

Examples – Equity v/s Liability classification

Balance Sheet Captions	Equity Instruments	Instruments entirely equity in nature	Compound Instruments	Financial Liabilities
Equity Share Capital	✓			
0% Compulsorily convertible debentures		✓		
12% Non-cumulative Redeemable Preference Shares			✓	
6% Optionally convertible preference shares with fixed conversion			✓	
10% Non-convertible Debentures				✓

Examples – Financial v/s Non-financial classification

Balance Sheet Captions	Financial Liabilities	Financial Assets	Neither
Term Loans / Bank overdraft	✓		
Bank Overdraft	✓		
Deferred tax liability			✓
Security Deposits	✓		
Retention Money payable – capital creditors	✓		
Trade Deposits	✓		
Employee benefit provisions (compensated absences)			✓
Trade payables	✓		
Provision for anticipated losses and other contingencies			✓
Tangible, Intangible Assets and CWIP			
Investment in Shares / Mutual Funds		✓	
Capital Advances			✓
Security Deposits		✓	
Loans / advances to related parties and others		✓	
Advance tax			✓
Inventories			✓
Trade receivables		✓	
Cash and bank balances		✓	

Presentation of Balance Sheet

▶ Property, Plant & Equipment:

- ▶ Gross Block on First-time adoption
- ▶ Additional Information for Gross Block
- ▶ Land & Building – Separate v/s Combined

▶ MAT Credit Entitlement:

- ▶ Presented under deferred tax asset
- ▶ Separate note for nature and amount

▶ Investments:

- ▶ Subsidiary, Associate, JV
- ▶ Investment measured at FVOCI
- ▶ Market value v/s Fair value
- ▶ Current / non-current v/s Business Model
- ▶ Impairment on FVOCI investments

▶ Impairment of Financial Assets:

- ▶ Presentation vis-à-vis Classification (Secured, Unsecured & Doubtful)

Presentation of Profit or Loss

➤ Revenue:

- Pre-GST and post-GST.
- Cash Discounts, Promotions and Sales Incentives

➤ Dividends on Preference Share:

- Non Discretionary → Finance cost
- Discretionary → Profit appropriation

➤ Separate presentation of Interest Income on financial assets:

- Measured at Amortized cost and at FVOCI

➤ Remeasurement Gain/Loss :

- Defined Benefit Plan → OCI
- Defined Contribution Plan → P&L

➤ Other Operating Income v/s Other Income – decide based on company's activities

Items of Other Comprehensive Income

▶ Items that **will not be** reclassified to P&L:

- ▶ Changes in revaluation surplus
- ▶ Re-measurements of defined benefit plans
- ▶ Fair value gains / losses of equity instruments through OCI
- ▶ Share of OCI in Associates and Joint Ventures, to the extent not to be classified into P&L

▶ Items that **will be** reclassified to P&L:

- ▶ Exchange differences in translating foreign operations
- ▶ Fair value gains / losses of debt instruments through OCI
- ▶ Effective portion of gains / losses on hedging instruments in cash flow hedge
- ▶ Share of OCI in Associates and Joint Ventures, to the extent to be classified into P&L

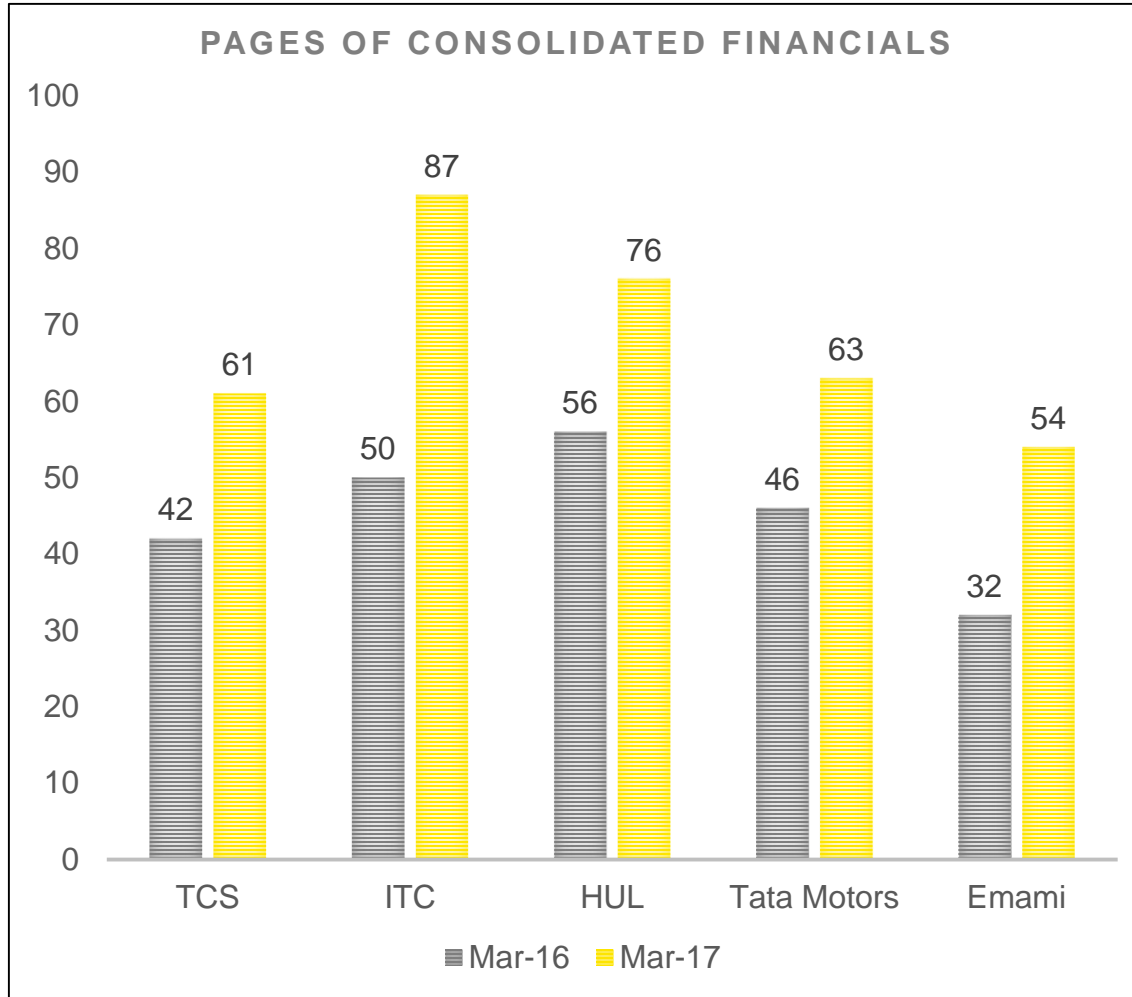
Key Differences between IGAAP and IND AS Schedule III

Description	Division I	Division II
Compound Financial Instruments	No Such Requirement	Shall be classified and presented under the relevant heads of Equity and Liabilities.
Investment Property	Part of Investment	Separately on Face of Balance Sheet
Non Current Assets Held for sale	No Such Requirement	Separate Disclosure
Capital Advance	Classified under Loans and Advances	Classified under Other Non-Current Assets
Trade Receivable	Separate Disclosure for more than 6 months due	No Such Disclosure Required
Bank Deposits with more than 12 months maturity	Classified under Other Bank Balances	Classified Under Other Financial Assets

Key Differences between IGAAP and IND AS Schedule III

Description	Division I	Division II
Details of Purchases/Sales under broad heads	Required	Not Required
Extra Ordinary Items	Presented separately on the face of P&L	No Concept of Extra Ordinary Items
Prior Period Items	Separate Disclosure	No Concept of Prior Period Items Requires Restatement of comparatives
Earnings Per Share	No Separate Disclosure for Continuing and discontinuing operations	Separate Disclosure for Continuing and discontinuing operations

Extensive Presentation & Disclosures



Operating Segments



- ▶ Most companies reported no change in the segment reporting
- ▶ However, in case of some companies segment reporting has been changed due to
 - ▶ Difference between risk and return approach under Indian GAAP vs. Management Approach (Basis CODM reviews the business components)

Company	IGAAP	IND AS
Godrej Consumer	Not Reported	4
Ashok Leyland	Not Reported	2
TVS Motors	3	-
M&M	10	7
L&T	6	5
HUL*	5	5

* HUL has changed its segment in line with its recent change in organization structure and in accordance with IND AS 108

Ind AS 107 – Financial Instruments: Disclosures

▶ **Critical financial instrument disclosures**

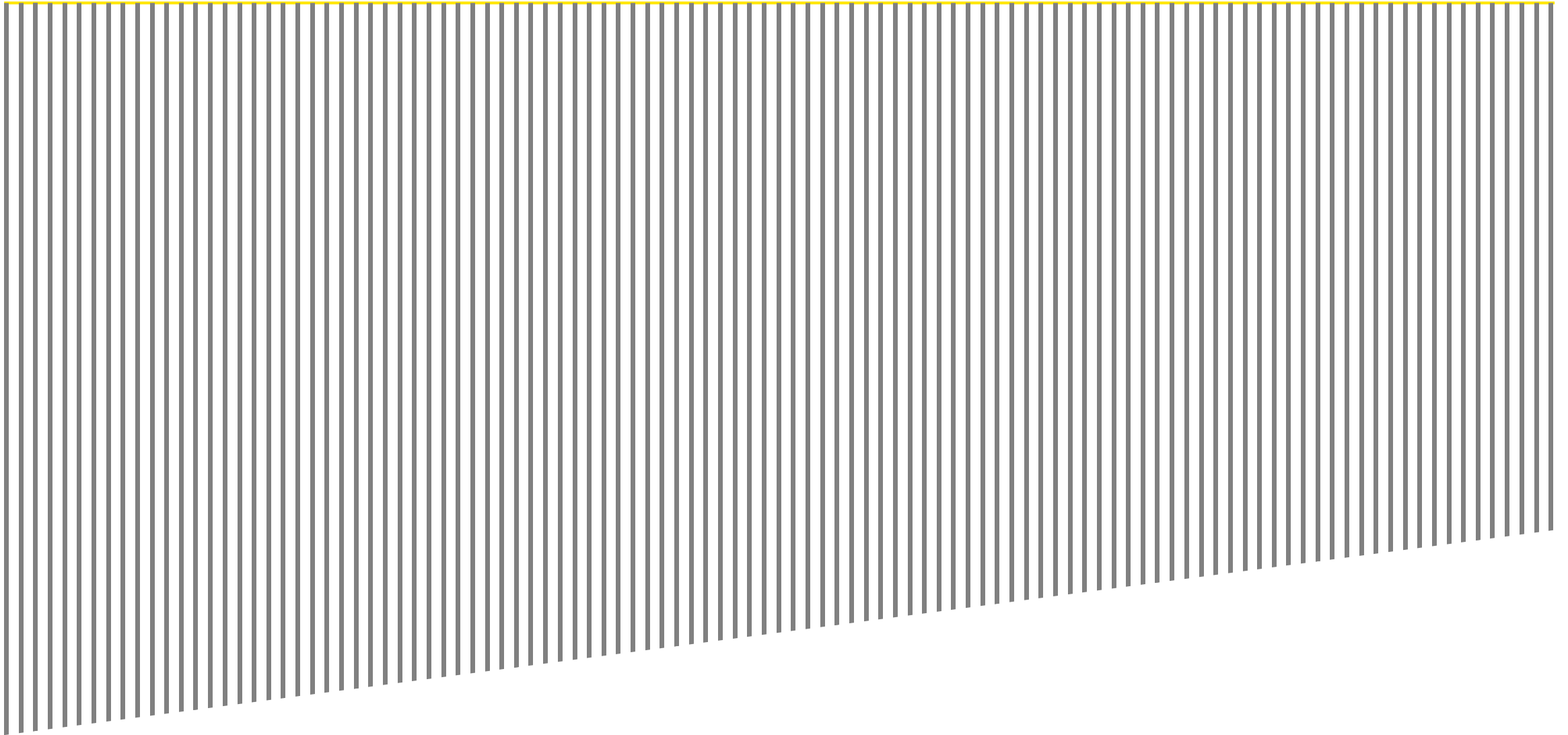
- ▶ Fair value – including for financial assets and financial liability measured at amortized cost
- ▶ Fair value hierarchy – disclosure based on inputs (Level 1, Level 2, Level 3)
- ▶ Financial risk management
- ▶ Capital management

▶ **Qualitative and quantitative disclosures of financial risk management**

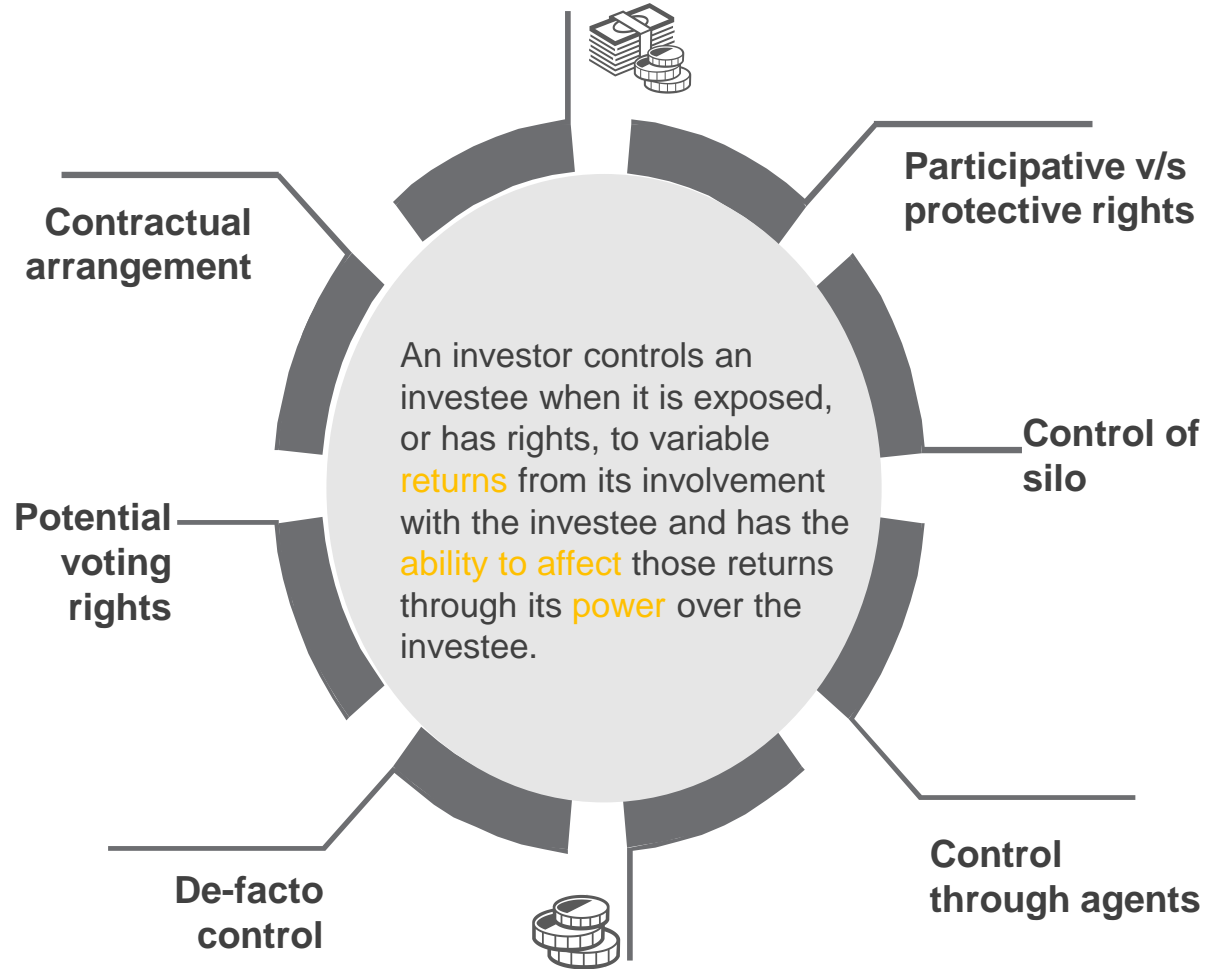
- ▶ Market risk – interest rate risk, foreign currency risk, other price risk
- ▶ Credit risk – details of ECL allowance (12-mths, lifetime), reconciliation of carrying amount of assets on which ECL is provided
- ▶ Liquidity risk – maturity profile of financial liabilities based on undiscounted cash flows

▶ **Capital management** – Objective, net debt, gearing ratio

Major Differences in IGAAP and Ind AS



Wider ambit of Control framework – Key Issues



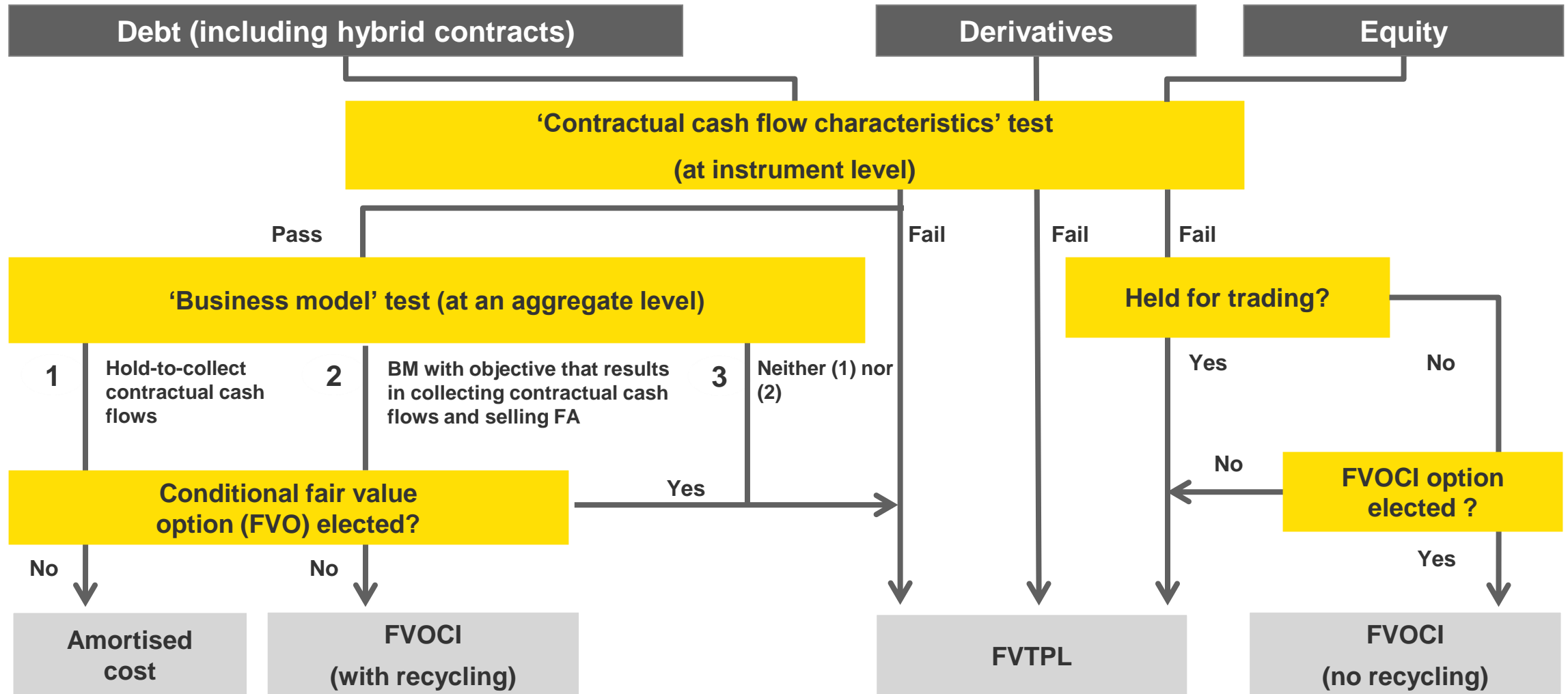
Key Learnings

- ▶ Assessment of contractual arrangements
- ▶ Impact on the KPIs, profitability and equity
- ▶ Data/financial information requirements
- ▶ Communication with the key stakeholders

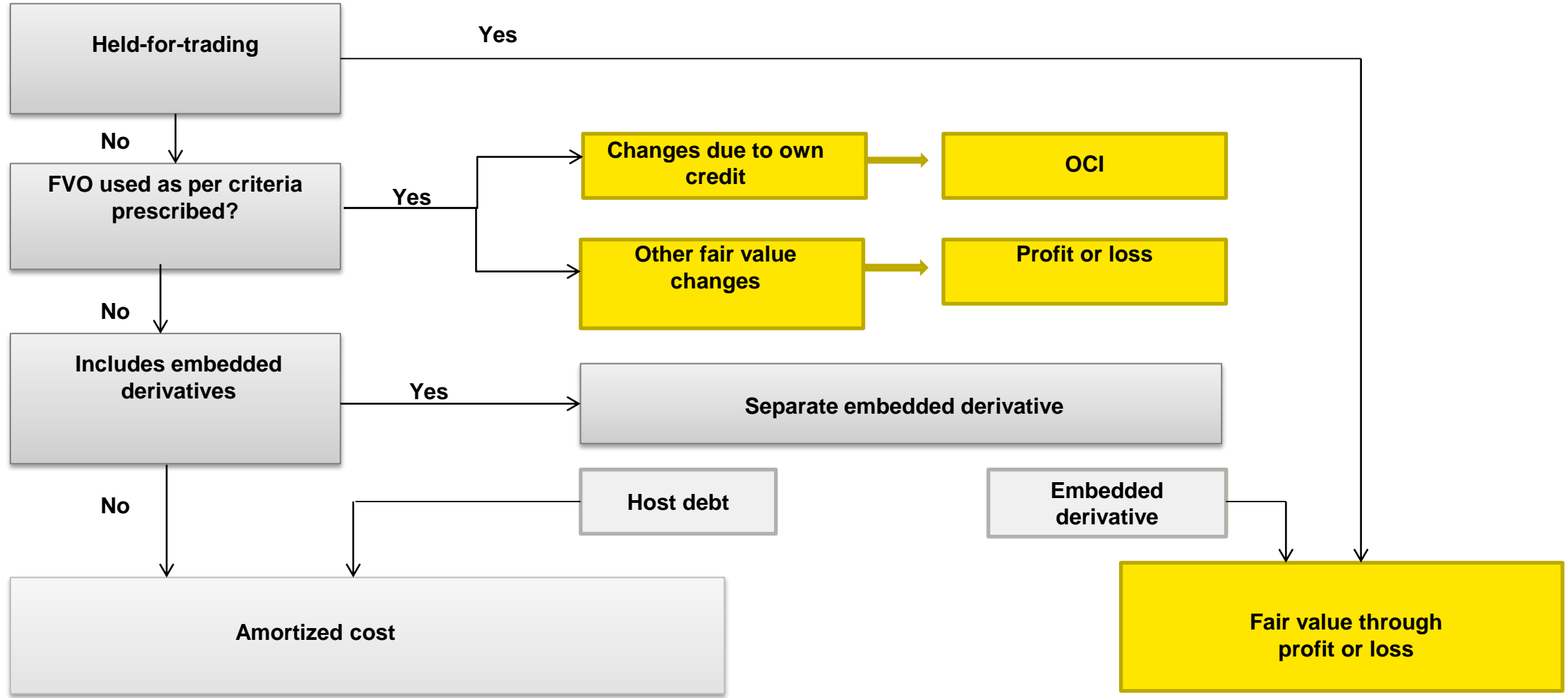
Company Name	Application of new Control framework
HUL	HU Foundation; Child Nutrition Initiatives
TCS	Employee welfare trusts
Tata Chemicals	Change in control assessment impacted the profit by INR 57 crores
ITC	No change
L&T	Some of the subsidiaries treated as JV

In most companies impacted on account of change in joint venture accounting from proportionate consolidation to equity method of accounting

Measurement of Financial Assets



Measurement of Financial Liabilities



Financial Instruments – Key Issues

▶ Debt v/s Equity:

- ▶ L&T – FCCB split accounting; Preference Shares treated as liability
- ▶ Tata Steel/Tata Power – Perpetual securities/loans treated as Equity
- ▶ Raymonds – Change of terms of Preference Shares and debentures in subsidiaries
- ▶ Grasim – Preference Shares treated as liability
- ▶ Adani Ports – Split accounting into liability and equity components
- ▶ ITNL – Preference shares treated as liability

▶ Financial guarantee contracts (standalone financial statements):

- ▶ Separate accounting for parent vis-à-vis subsidiary

▶ Expected Credit Loss (ECL):

- ▶ Availability of historical credit information
- ▶ ECL provision based on historical loss rate + expected default + Time value of money
- ▶ Unbilled receivables – Whether a financial assets? Whether ECL provision is required?

▶ De-recognition of financial assets

- ▶ Assessing risk v/s rewards in factoring / securitization arrangements
- ▶ Bills discounting shown as borrowings

Deferred Tax – Key Issues

- ▶ Balance Sheet Approach vs income statement approach
- ▶ Deferred tax on unabsorbed depreciation and carry forward losses
 - ▶ Virtual certainty vs. reasonable certainty assessment
- ▶ Deferred tax presentation – Items recognized in OCI or equity
- ▶ Deferred tax implication in the consolidated financial statements
 - ▶ Impact of deferred tax on consolidation adjustments e.g. unrealized profits
 - ▶ Stock reserve – Tax rate to be of the destination country
 - ▶ DTL on undistributed profits of subsidiaries, associates and joint venture
- ▶ Key disclosure requirements
 - ▶ Effective tax rate reconciliation – More critical if different tax jurisdictions
 - ▶ Expected utilization on DTA on tax losses and unrecognized DTA



A close-up photograph of a person's hands writing on a notepad. The left hand is positioned on the left side of the notepad, while the right hand holds a black pen, poised to write. The notepad is white and features the words "Thank you" in a large, bold, black sans-serif font. Above this text, there is a faint, cursive signature. Below the main text, there are several horizontal lines and some small, illegible text, possibly a form or a checklist. The background is a plain, light-colored surface.

Thank you