Grant Thornton
An instinct for growth™

# Is India Inc. prepared for adoption of Indian Accounting Standards (Ind AS)? – A Grant Thornton Survey

The Ministry of Corporate Affairs (MCA) rang in the New Year by announcing the roadmap for implementation of Indian Accounting Standards (Ind AS). The new accounting framework is closely aligned with the International Financial Reporting Standards (IFRS), as issued by International Accounting Standards Board (IASB). This is aimed at converging India's accounting standards with the globally accepted framework. This move by the MCA echoes the Finance Minister Arun Jaitley's budget speech in July 2014, in which he stressed the urgent need to converge the current Indian accounting standards with IFRS.

Though the adoption of Ind AS could create certain complexities, in the long run, this major regulatory reform will help them catapult into the global league by having a financial reporting structure that is not only comparable with the best in the world but also more acceptable amongst global stakeholders thereby providing a more transparent view of their financial results.

## The final roadmap for adoption of Ind AS is as follows:

| Threshold | First period of reporting | Comparative information |
|---|---|---|
| **All companies with net worth of Rs. 500 crore or more (whether listed or unlisted)*** | Financial year beginning on or after 1 April 2016 | Opening balance sheet as on or after 1 April 2015 and financial year ending on or after 31 March 2016 |
| **Other companies whose equity and/or debt securities are listed or are in the process of being listed on any stock exchange in India or outside India*** | Financial year beginning on or after 1 April 2017 | Opening balance sheet as on or after 1 April 2016 and financial year ending on or after 31 March 2017 |
| **Unlisted companies having net worth of Rs. 250 crore or more but less than Rs. 500 crore*** | Financial year beginning on or after 1 April 2017 | Opening balance sheet as on or after 1 April 2016 and financial year ending on or after 31 March 2017 |

* including **holding, subsidiary, joint venture or associate companies** of such companies

Further, the MCA's roadmap permits voluntary adoption of Ind AS a year earlier than the aforementioned timelines. The roadmap for banks, non-banking financial companies and insurance companies shall be announced separately.

## Grant Thornton Survey

To gauge the level of preparedness about new accounting system among Indian businesses, Grant Thornton recently conducted a pan-India survey. This survey was aimed at identifying the key challenges that companies were expecting to encounter upon Ind AS implementation.

The survey, conducted among businesses from across sectors, sought response to three key questions:

- How does the industry perceive Ind AS as the new accounting mandate?
- What are the key challenges with respect to the changes proposed to be brought by Ind AS?
- How prepared is the industry to deal with the changes proposed to be brought by Ind AS?

We received an overwhelming response to the survey. While a detailed analysis of the responses is discussed below, the survey revealed the following:

- Adoption of Ind AS is perceived to enhance the credibility and comparability of financial statements of Indian companies with their global peers and provide easier access to capital
- Level of awareness of accounting teams about Ind AS is fairly low, though there is a desire to upgrade the knowledge in a short span of time, and
- Plans for transition are not yet in place and the companies have not fully evaluated the impact of Ind AS on their financial statements and organisations as a whole (human resources and IT in particular)

Overall, these survey results show that as the MCA and the Institute of Chartered Accountants of India (ICAI) swiftly worked towards drafting the new accounting framework, this 'mandate' is perceived as a step in the right direction and the industry is taking steps to keep pace with this landmark development.

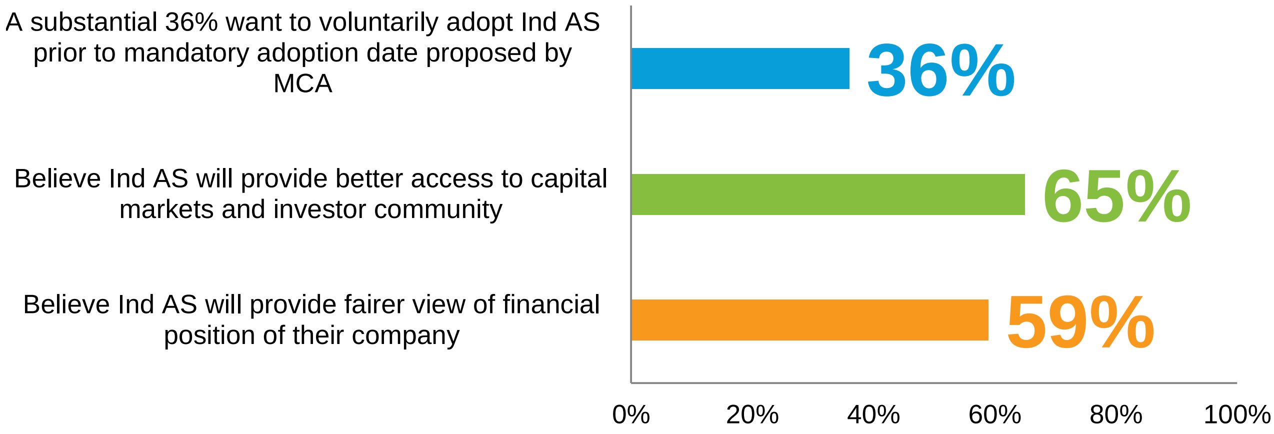
## Survey Results

Let's have a closer look at the corporate sentiments unfolding a mix of wariness and excitement as the corporates evaluated the operational and technical aspects while gearing to commence their journey on the transition path.

**1. How does the industry perceive adoption of Ind AS as the new accounting mandate?**

- In order to judge the industry's perception of Ind AS, we asked the companies as to how they perceived this change - their views on voluntary adoption, the benefits of adoption that they foresee and whether they believe that Ind AS will provide a fairer picture of their financial position.

**The statistics below provide a snapshot of the views of the respondents:**




**These responses are discussed in further detail below:**

- **Voluntary adoption is not considered feasible** by majority of respondents with only 36% of the respondents expressing their intent to do so. Indicative challenges and efforts involved in transition to Ind AS that contribute to this response include –
  a) complexity and sheer differences between present Indian GAAP and Ind AS makes the process of transition even more challenging;
  b) lack of trained resources is a major deterrent for most; and
  c) first time implementation requires significantly more efforts and resources for transition than on-going financial reporting under any regime

  Amidst this indecisiveness around voluntary adoption of new accounting framework, it is very encouraging to see a noticeable proportion of the industry respondents, who are also looking at transitioning to Ind AS prior to mandatory adoption, have initiated planning with a methodical approach towards strategic implementation of Ind AS.

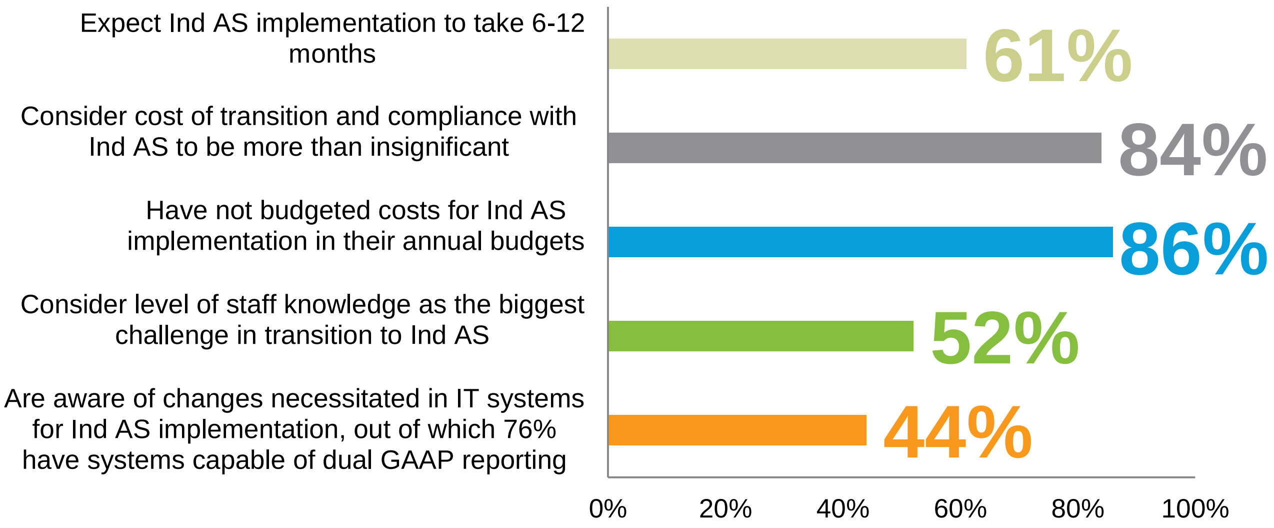
- A vast majority of respondents strongly believe Ind AS will **open up avenues for accessing capital** in international markets as established foreign players will perceive this change in accounting framework as an extremely positive step towards improving the credibility and comparability of financial statements of Indian companies. Foreign investors have often expressed concerns about outdated accounting practices in India which obscure crucial information from potential investors and delay decision making. With the new accounting framework in place, those concerns should now be alleviated.

- India Inc. is of the opinion that adoption of Ind AS, which has sophisticated accounting principles around measurement of financial position at fair values, will provide a **fairer view of financial position** to their stakeholders.

These views are strong indicators of India Inc.'s openness in embracing this historic change.

**2. What are the key challenges with respect to changes proposed to be brought by Ind AS?**

The response to this question throws more light on the implementation challenges perceived by companies with respect to transition to Ind AS.




Most of the respondents to the survey believe that the process of transition to Ind AS shall be **completed within a year's time** but also think that the cost of transition is sizeable. Ironically, not many have factored in such costs in their budgets.

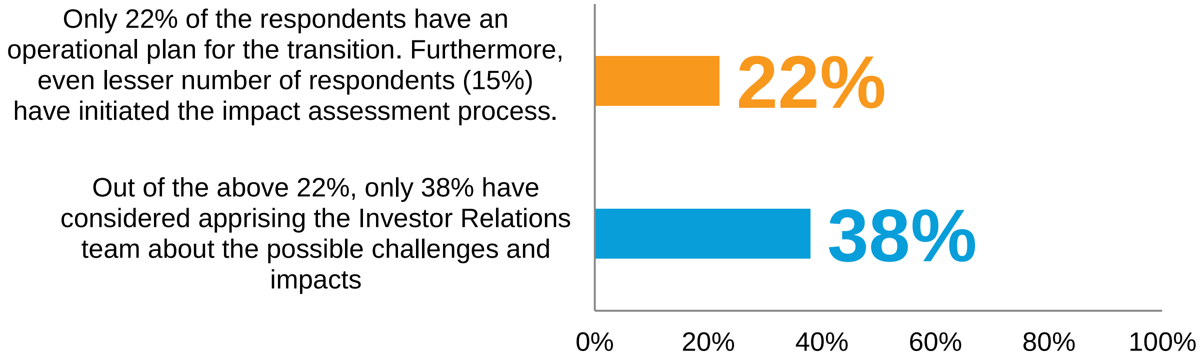
Further, a majority of the respondents consider **lack of knowledge of their financial reporting staff as a significant bottleneck** in implementation of the new accounting standards. Corporates will have to chalk out a strategy for enhancing the skill sets of their human resources by facilitating necessary technical trainings and till such time those skills are enhanced, rely on external support for ensuring true and fair financial reporting.

Finally, on the IT front, which plays a big role in today's accounting environment, a reasonable proportion of **people are aware of the changes required to IT systems,** while only a few have IT systems capable of dual reporting. In most likelihood, for tax purposes, either existing Indian GAAP or the new tax accounting standards shall be applicable for preparation of standalone financial statements. Therefore, a **dual reporting system may be necessary** for continuing parallel preparation of standalone and consolidated financial statements under different accounting frameworks.

### 3. How prepared is the industry to deal with the challenges related to implementation of Ind AS?

To gauge the preparedness of the corporates for adoption of Ind AS, we asked certain specific questions on the present proficiency level of their staff/ IT systems, awareness level of changes brought by Ind AS, impact on their organisation, etc. The challenges involved in any GAAP transition worldwide are very real even for well-trained teams but we face an even bigger challenge due to the large number of differences between present Indian GAAP and new framework – Ind AS.

On a broader note, the responses demonstrate a clear absence of active planning on part of most of the corporates in preparing for this change. Also, only a small proportion of those who have put in place an operational plan, have really kept their investor relations teams informed of the likely impact of Ind AS adoption.




Corporates need to engage in active dialogue with financial reporting advisors, make a thorough assessment of potential impact areas and put down a plan for transition. It is important to know that while the earliest financial reporting period-end is still more than 2 years away, the choices that the corporates will make now will affect their performance metrics 2 years down the line.

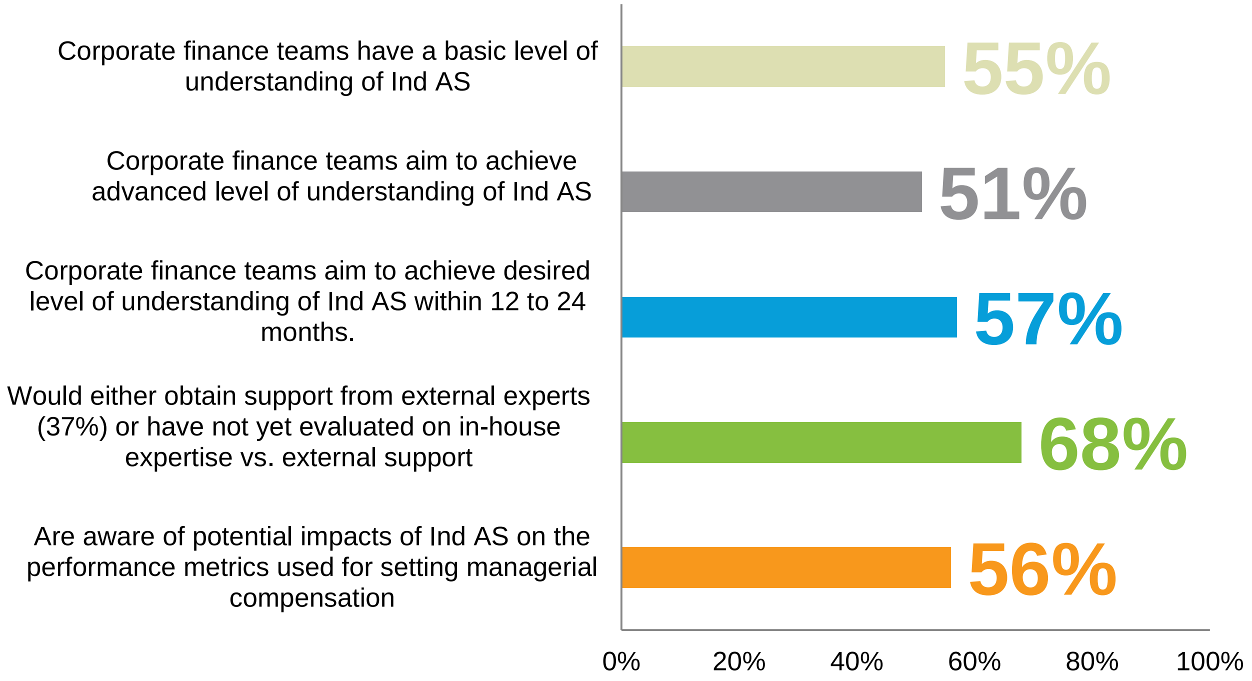
We analysed the preparedness of India Inc. in two parts, as below:

### (1) **Operational preparedness**

Key highlights of the analysis include the following –

- **Basic level of preparedness exists** amongst most of the corporates and majority of them expressed positive inclination towards increasing the staff proficiency levels
- **Average expected time required** for meeting the desired proficiency **is one to two years** which mirrors the maximum time available for transition from now – clearly the need for action is evident!
- Nearly 1/3rd of the respondents have indicated **looping in external experts** to meet the desired objectives. Working in consensus with Ind AS experts is critical for an efficient transition. Further, the need for right mix of in-house and external training resources is also being evaluated by nearly equal number of respondents for an effective approach towards an on-going seamless financial reporting;
- Majority of respondents acknowledge **the farfetched impact that Ind AS may have on performance metrics** of most companies. Apprising the governing board of their consequent implications on the profit linked compensation levels is a necessity to work out alternate metrics, should that be required.

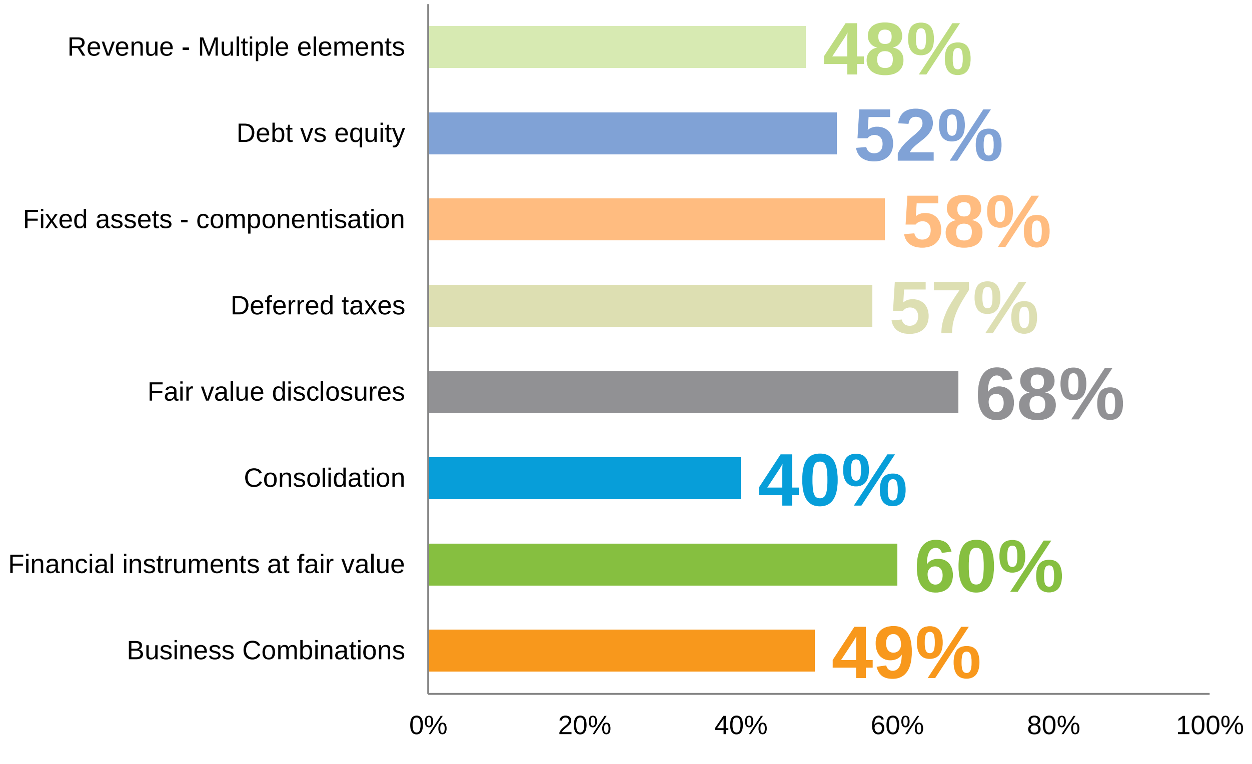
As one looks at the results below, a clear pattern can be drawn with regards to operational readiness to adopt Ind AS. It is clear that the intent to prepare for the change is there, though the blueprint to adopt this change by corporates is still in the works.



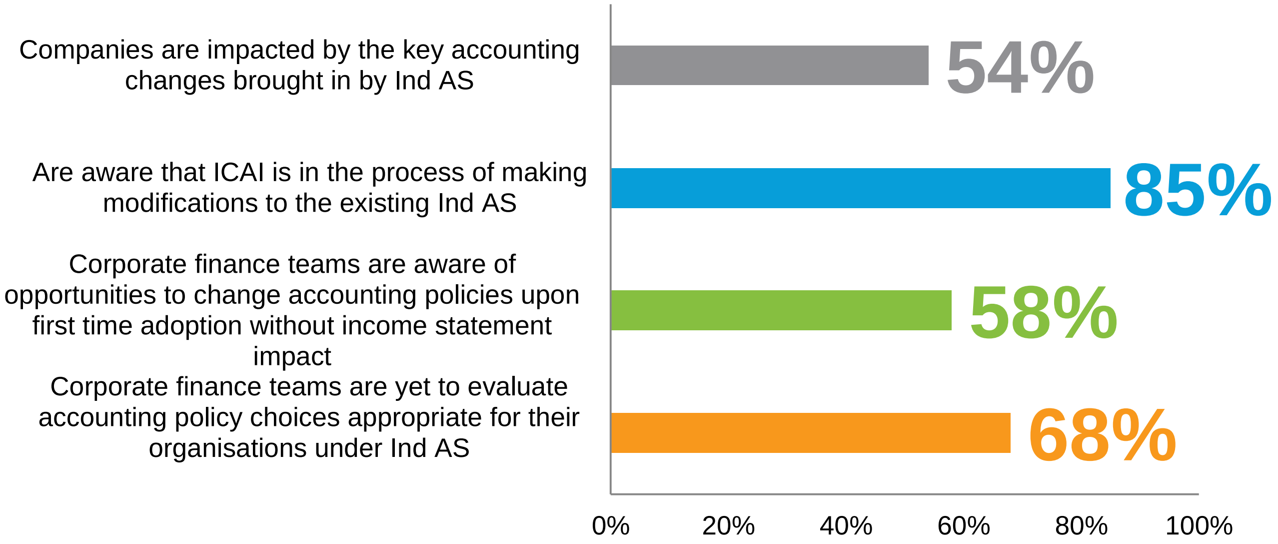

### (2) Technical preparedness

Taking a bird's eye view of how companies are tracking the technicalities involved in adoption of Ind AS, a mixed pattern of basic to intermediate awareness is evident.

Majority of the organisations are likely to be impacted by certain key accounting changes brought in by Ind AS from the erstwhile Indian GAAP as depicted in the chart below. Clearly, corporates feel that **fair valuation related accounting impact will consume substantial time of financial reporting teams**.



A snapshot of other key statistics that demonstrate technical preparedness of Indian corporates is given below:




These statistics have been analysed below:

- Most of the corporates understand that ICAI is making changes to the existing Ind AS for aligning them with changing international standards.
- A majority of the corporates are aware that they will have the option to change accounting policies upon adoption of Ind AS without recognising the impact in income statement. Of course, corporates will need to make informed and long-term choices for which they must initiate expert consultation now.
- However, more than 2/3rd of the respondents are yet to evaluate accounting policy choices appropriate for their organisations.

Some of the changes brought in by Ind AS with a pervasive impact on the Indian corporates are summarised in **Appendix.**

# Appendix

A study of the provisions of Ind AS and outcome of similar transition processes (to IFRS) across the globe has led to following top five points to be considered by companies planning similar transition:

1) **Accounting for financial instruments,** will undergo a comprehensive change which on the one hand affects the balance sheet ratios due to changes in classification of instruments as liability or equity and fair valuation of financial instruments, and on the other hand affects the operational performance measures, due to accounting for fair value changes and interest and other transaction costs on effective interest rate method. Companies will need to be extremely cautious while drafting their financing contracts in order to avoid undesirable accounting implications.

2) **Group structures are likely to include more entities,** which were hitherto not consolidated. The definition of 'control' will go through a paradigm shift, making the evaluation of holding-subsidiary relationships more judgmental than ever before. Terms of loans and guarantees given for financing businesses as well as existence of potential voting rights in equity/preference share instruments will need to be monitored to determine whether or not such businesses get consolidated.

3) **Use of fair values** is going to be extensive and complex. There are numerous instances in the new accounting literature where fair valuation is mandated. This will not only involve huge expenditure in determining fair values, it will also bring a great degree of volatility to the income statements and subjectivity to the financial statements as a whole. Besides, Ind AS financial statements will have massive disclosures around use of fair values (with a separate standard on fair value disclosures in Ind AS, the efforts involved in preparing financial statements cannot be over-emphasised).

4) **Accounting for business acquisitions** will become more challenging as Indian business houses become more global and explore acquisition opportunities outside India. Unlike present accounting practices, which involve the use of book values, Ind AS mandates recognition of assets acquired and liabilities assumed at fair values on acquisition date. Further, the new accounting standards will require seeing through an acquisition transaction to identify hidden or unsaid elements therein which may further complicate accounting.

5) **Revenue recognition** will witness certain high-impact changes. Whether it is accounting for multiple element arrangements or identification of principal-agent relationships, both of which are likely to be rollercoaster rides for companies, revenue contracts will need to be carefully drafted to avoid unintended negative impacts on the income statements. Business development teams will have to work in tandem with the accounting and financial planning teams to ensure that there are no loose ends which could land their companies in judgmental territories.

The dynamic business landscape and growing business complexities pose significant challenges in converging to changing financial reporting framework for Indian corporates. The drivers of these challenges are diverse, inter-alia:

- increasing size and complexity of business transactions
- increasing pressure to publish financial information quickly
- continuously evolving accounting standards, guidance and references
- multiplicity of accounting practices and standards across subsidiaries and segments
- quality of accountants for data processing and validation

Accordingly, it is imperative for a company to define a process whereby the following is achieved:

- choice of appropriate accounting policies and consistency in application thereof across subsidiaries, segments, jurisdictions and sectors
- well defined systems for timely and accurate financial reporting
- reliance on processes rather than on people

# Contact us

**NEW DELHI**
National Office
Outer Circle
L 41 Connaught Circus
New Delhi 110 001
**T** +91 11 4278 7070

**AHMEDABAD**
BSQUARE Managed
Offices 7th Floor Shree
Krishna Center Nr. Mithakali
Six Roads Navrangpura
Ahmedabad 380009
T +91 7600001620

**BENGALURU**
"Wings", 1st floor
16/1 Cambridge Road
Ulsoor
Bengaluru 560 008
**T** +91 80 4243 0700

**CHANDIGARH**
B-406A, 4th Floor
L&T Elante Office Building
Industrial Area Phase-I
Chandigarh – 160002
T +91 172 4338 000

**CHENNAI**
6th floor No.90
Arihant Nitco Park
Dr. Radhakrishnan Salai
Mylapore
Chennai 600 004
T +91 44 4294 0000

**GURGAON**
21st floor, DLF Square
Jacaranda Marg
DLF Phase II
Gurgaon 122 002
T +91 124 462 8000

**HYDERABAD**
7th floor, Block III
White House
Kundan Bagh, Begumpet
Hyderabad 500 016
**T** +91 40 6630 8200

**KOCHI**
7th Floor
Modayil Centre point
Warriam road junction
M.G.Road
Kochi 682016
T +91 484 40064541

**KOLKATA**
5th floor
10C Hungerford Street
Kolkata 700 017
T +91 33 4050 8000

**MUMBAI**
16th floor, Tower II
Indiabulls Finance Centre
SB Marg, Elphinstone (W)
Mumbai 400 013
T +91 22 6626 2600

**MUMBAI**
9th Floor, Classic Pentagon Nr.
Bisleri Factory
Western Express Highway
Andheri (E)
Mumbai 400099
T +91 22 6176 7800

**NOIDA**
Plot No. 19A, 7th Floor
Sector – 16A,
Noida – 201301
**T** +91 120 7109001

**PUNE**
401 Century Arcade
Narangi Baug Road
Off Boat Club Road
Pune 411 001
T +91 20 4105 7000

Grant Thornton India LLP (formerly Grant Thornton India) is registered with limited liability with identity number AAA-7677 and its registered office at L-41 Connaught Circus, New Delhi, 110001

Grant Thornton India LLP is a member firm within Grant Thornton International Ltd ('Grant Thornton International').

Grant Thornton International and the member firms are not a worldwide partnership. Services are delivered by the member firms independently.

For more information or for any queries, write to us at **contact@in.gt.com**

**www.grantthornton.in**