Grant Thornton

An instinct for growth™

Defining the roadmap for an efficient transition to the changing financial reporting environment in India

Indian Accounting Standards (Ind AS) – India converging to IFRS

IFRS converged standards in India – Dawn of a new era

The Leaders' Statement at G-20 Summit held in September 2009 at Pittsburgh contained a commitment by the G-20 nations for convergence of accounting standards globally. The Statement read,

> "We call on our international accounting bodies to redouble their efforts to achieve a single set of high quality, global accounting standards within the context of their independent standard setting process, and complete their convergence project by June 2011. The International Accounting Standards Board's (IASB) institutional framework should further enhance the involvement of various stakeholders."

In February 2011, the Ministry of Corporate Affairs (MCA) concluded the process of convergence of Indian Accounting Standards (Ind ASs) in consultation with the National Committee on Accounting Standards (NACAS) and the Institute of Chartered Accountants of India (ICAI) and notified 35 Ind ASs. Though the standards were notified, the date of their implementation was not.

In March 2014, the ICAI proposed a roadmap for the adoption of Ind ASs from the accounting year beginning on or after 1 April 2016, with previous year comparatives in Ind AS for the year 2015-16. In order to keep the tax issues at bay, the revised roadmap recommended Ind ASs to be implemented for the preparation of Consolidated Financial Statements only.

On 2 January 2015, the Ministry of Corporate Affairs (MCA) issued a press release which laid down a roadmap for adoption of Ind AS in India.

16 February 2015 marked the dawn of new era when MCA notified the final roadmap for adoption of new generation accounting standards, "Indian Accounting Standards – Ind AS".

Between 2011, when MCA deferred the implementation of Ind ASs and this notification, the International Financial Reporting Standards (IFRSs) have gone through a significant rejig – the biggest ones being the new accounting standards on Consolidation (IFRS 10, 11 and 12), Fair Value Measurement (IFRS 13), Revenue (IFRS 15) and Financial Instruments (IFRS 9). These developments have been incorporated in the standards notified by the MCA.

A reliable, consistent and uniform financial reporting framework is an important part of good corporate governance. Grant Thornton India LLP supports the initiatives taken by several regulatory agencies in this convergence process. While we understand the unique landscape of Indian economy which necessitates divergence from IFRSs, on a larger note, we favour all steps taken to keep those differences to the minimum.

Vishesh C Chandiok

National Managing Partner
Grant Thornton India LLP

IFRS converged standards in India – assessing applicability

The final roadmap for Ind AS implementation, announced by the MCA, is as below:

Threshold	First period of reporting	Comparative information
All companies, with net worth of Rs 500 crores 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, 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.

The definition of "net worth", to be considered for the applicability thresholds, is as per the Companies Act, 2013. Further, for the purpose of the above thresholds, net worth shall be calculated in accordance with the standalone financial statements of the company as on 31 March 2014. If a company does not fall within the thresholds above as on 31 March 2014, Ind AS shall be adopted from the financial year succeeding the year-end on which it falls within the above thresholds.

Ind AS shall apply to both standalone and consolidated financial statements, except that the overseas subsidiaries, associates, joint ventures and other similar entities of an Indian company may prepare their standalone financial statements in accordance with the local requirements.

Companies falling within the thresholds above (including their holding, subsidiary, joint venture or associate companies) shall not be required to prepare financial statements as per the Companies (Accounting Standards) Rules, 2006.

In line with the IFRS requirements, companies shall be required to prepare their first set of financial statements in accordance with the Ind AS effective at the end of its first Ind AS reporting period.

Application of Ind AS is irrevocable, even if an entity, which has adopted Ind AS, does not fall under the thresholds for applicability of Ind AS in any subsequent year.

It may be noted that Indian companies shall apply the new accounting standards on financial instruments (Ind AS 109) and revenue from contracts with customers (Ind AS 115) ahead of the timelines set for their peers globally. As per IASB IFRS, the date for the applicability of IFRS 9 and IFRS 15 is the year beginning 1 January 2018.

Ind AS has a specific standard on transition to the new financial reporting framework (Ind AS 101). It provides certain optional exemptions and mandatory exceptions to entities for ensuring a smooth transition from existing accounting practices. It is important that accounting professionals and CFOs make informed accounting policy choices that will be available upon transition.

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

- Accounting policy choices available under the transition standard
- 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 available 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

Transition to Ind AS – key considerations

Based on our study of the provisions of Ind AS and our experience with similar IFRS transition processes across the globe, following are the top five points for companies planning similar transition:

1

Accounting for financial instruments will undergo a comprehensive change, which on 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. Further, assessment of business models and impairment analysis would be difficult to implement and communicate to stakeholders

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 various instances in the new accounting literature that mandate fair valuation. This will not only involve huge expenditure in determining fair values, but will also bring a great degree of volatility to the income statements and subjectivity to the financial statements taken 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 the 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, price concessions & other variable adjustments to transaction price, long term payment contracts or identification of principal-agent relationships, all of which are likely to be a rollercoaster ride for companies, revenue contracts will need to be carefully drafted to avoid unintended negative impacts on the income statements. Further, there are clear principles for allocation of consideration to each performance in a contract as well as for recognition of variable consideration. Business development teams will now have to work in tandem with the accounting and financial planning teams.

Our survey – assessing India Inc's readiness

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 amongst businesses from across sectors, sought responses 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.

Our survey – assessing India Inc's readiness (contd.)

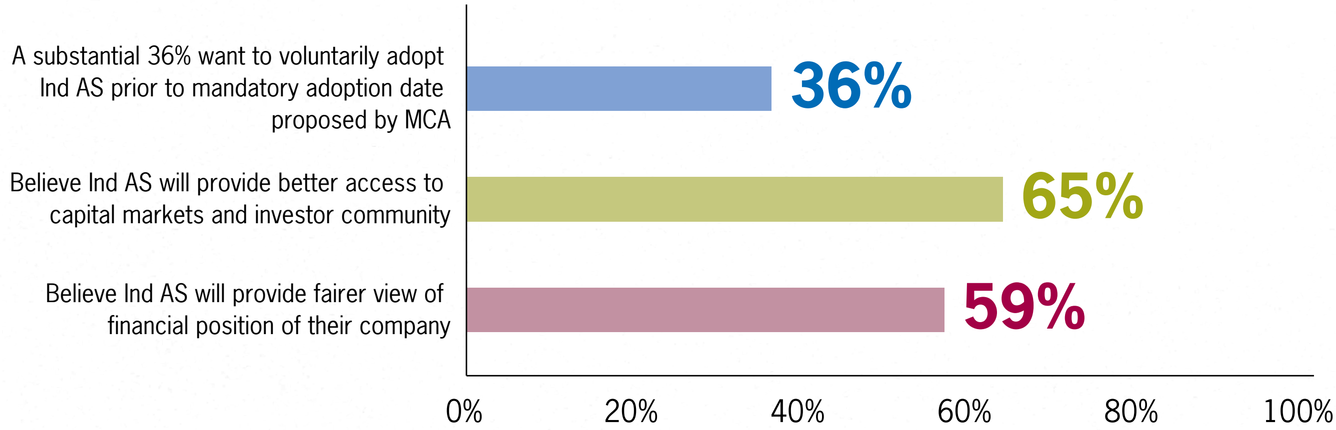
Survey Results

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

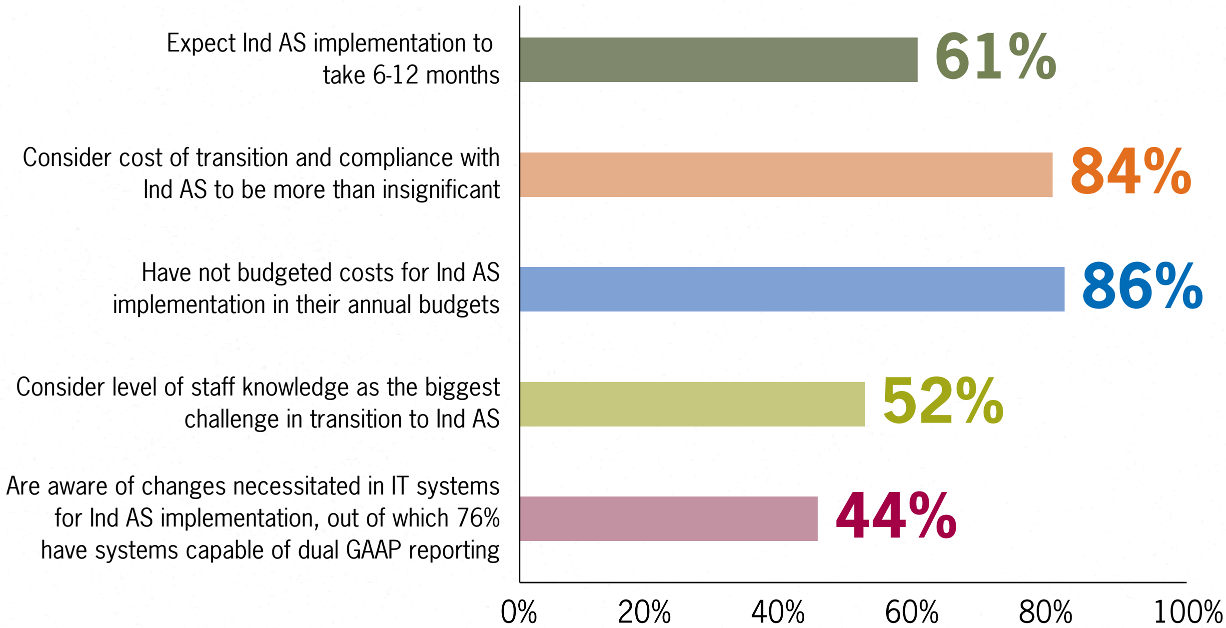
These views are strong indicators of India Inc's openness in embracing this change.

Our survey – assessing India Inc's readiness (contd.)

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.

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



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 skills 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.

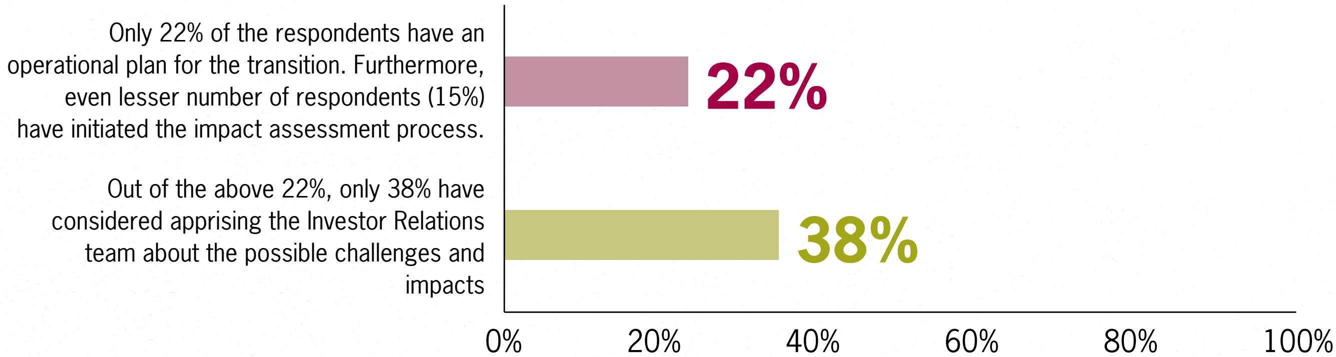
Finally, on the IT front, which plays a big role in today's accounting environment, a reasonable proportion of **people are aware of the changes required to IT systems,** while only a few have IT systems capable of dual reporting. In most likelihood, for tax purposes, either existing Indian GAAP or the 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.

Our survey – assessing India Inc's readiness (contd.)

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 impacts 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:

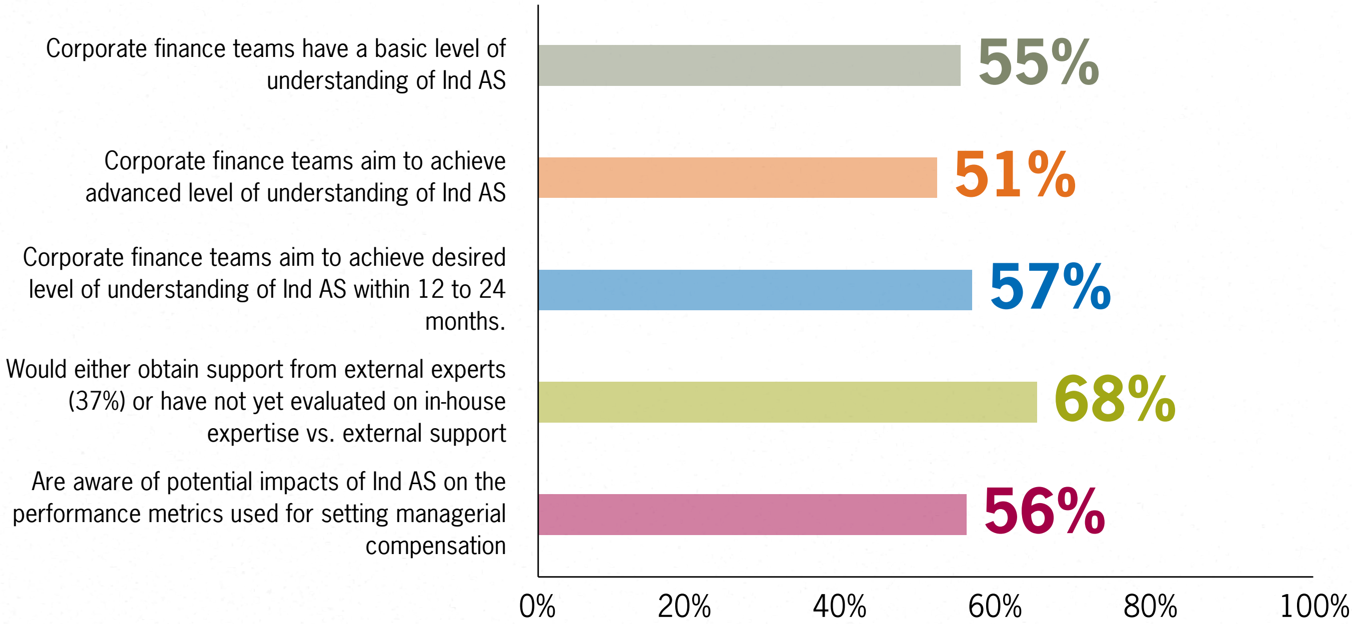
1. Operational preparedness

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.

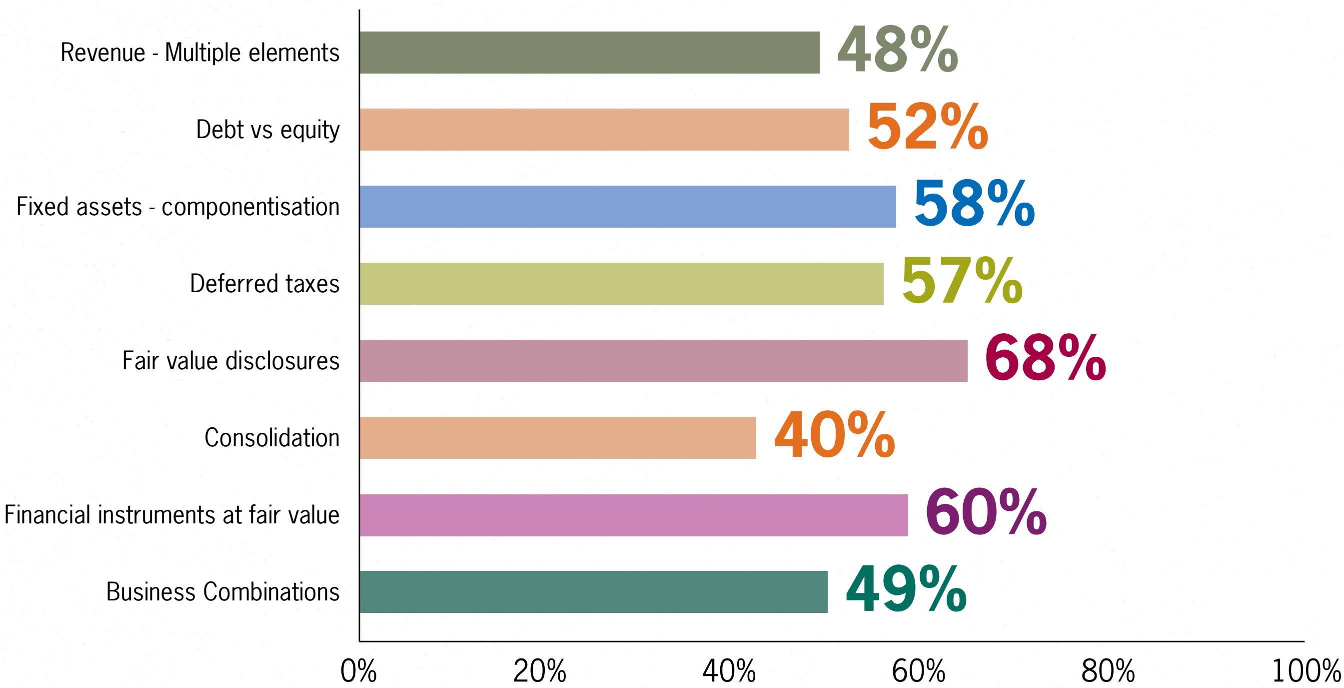
Our survey – assessing India Inc's readiness (contd.)



2. Technical preparedness

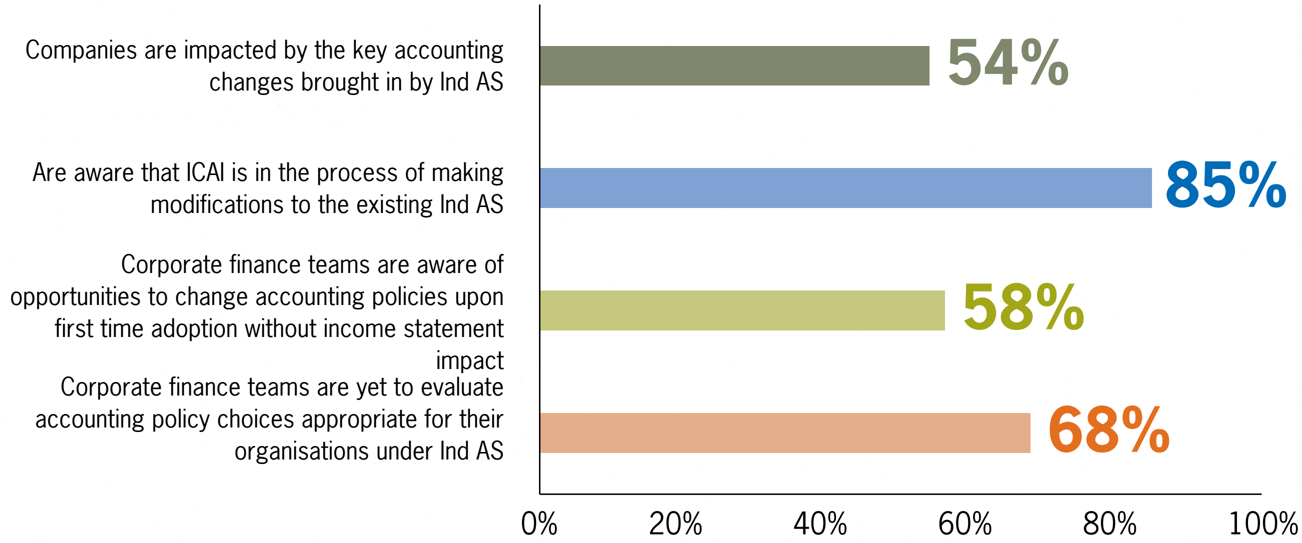
Taking a bird's eye view of how companies are tracking the technicalities involved in adoption of Ind AS, a mixed pattern of basic to intermediate awareness is evident.

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 on the chart below. Clearly, corporates feel that **fair valuation related accounting impact will consume substantial time of financial reporting teams.**



Our survey – assessing India Inc's readiness (contd.)

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 the section **Transition to Ind AS – Key considerations.**

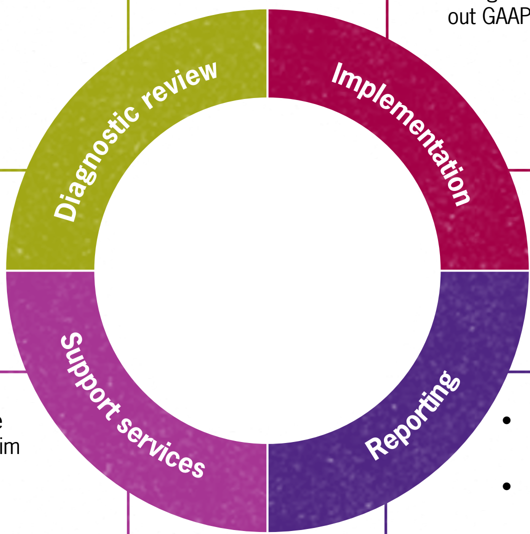
Our services – Preparation of consolidated financial statements in accordance with Ind AS

Our team comprises financial reporting and accounting experts, each having several years of hands-on practical experience across GAAPs and sectors. Our professionals uniquely combine their technical expertise with the intuition, insight and confidence gained from their extensive practical experience to develop a systematic, reliable, efficient and scalable reporting framework for converging from Indian GAAP to Ind AS.

This will entail a careful and well-documented evaluation (and suitable modifications) of the financial reporting process, in order to achieve an optimal balance between transparency, consistency, accuracy, reliability and speed, while also controlling costs.

- Understand the 'as-is' reporting framework, nature of the transactions and the reporting/ consolidation process
- Obtain financial statements and perform a detailed diagnostic review to identify preliminary GAAP differences between Indian (local GAAP) and Ind AS
- Perform detailed review of contracts, agreements, policy documents, etc. to identify the potential GAAP differences

- Create accounting position papers on technical analysis and conclusions for accounting positions for all GAAP differences
- Designing templates and working notes for mathematical computations of GAAP adjustments
- Mapping of existing chart of accounts (CoA) to standard Ind AS CoA
- Design standard operating procedures for carrying out GAAP computations and CoA mapping



- Provide 'on-ground' support for a lifecycle of reporting including preparation of interim reporting
- Conducting knowledge sessions and tests for accounting personnel through implementation workshops to build in-house accounting expertise
- Providing regular updates on evolving changes in the accounting literature that are likely to have an effect on an ongoing basis
- Access to online accounting dashboard and query discussion platform - http://mygaap.grantthornton.in

- Preparing an opening balance sheet as of transition date to Ind AS
- Preparation of financial statements for the reporting period with comparatives
- Conducting a series of workshops and trainings for supporting the implementation
- Finalisation, hand-holding and transfer of work papers

Benefits that our solution brings to dynamic businesses

Operational (Accounting/ Reporting personnel)	**Strategic** (CFO/ Financial Controller**)**	**Governance** (Board of Directors)
• Enhanced productivity and minimal wastage of manpower, resulting from streamlined processes • Enhanced understanding of processes and improved accuracy in standard (and non-standard) reporting • Support for the first time implementation of Ind AS forming the basis for the future reporting • Reduced dependence on people/ greater reliance on processes	• Improved accuracy and reduced time to compile financial statements/ management reports • Ease of reporting to foreign stakeholders/ for business combinations • Enhanced visibility of process and functioning thereof • Consistent application of group accounting/ reporting policies across subsidiaries/ divisions • Effective utilisation of the existing systems	• Incorporation of global best-practices (improved corporate governance) • Defined framework to ensure that adequate diligence is performed at the transaction and review level • Effective utilisation of existing systems • Compliance and consistency in principles across subsidiaries, segments, jurisdictions and sectors

About Grant Thornton in India

Grant Thornton in India is one of the largest assurance, tax, and advisory firms in India. With over 2,000 professional staff across 13 offices, the firm provides robust compliance services and growth navigation solutions on complex business and financial matters through focused practice groups. The firm has extensive experience across a range of industries, market segments, and geographical corridors. It is on a fast-track to becoming the best growth advisor to dynamic Indian businesses with global ambitions. With shorter decision-making chains, more senior personnel involvement, and empowered client service teams, the firm is able to operate in a coordinated way and respond with agility.

Over the years, Grant Thornton in India has added lateral talent across service lines and has developed a host of specialist services such as Corporate Finance, Governance, Risk & Operations, and Forensic & Investigation. The firm's strong Subject Matter Expertise (SME) focus not only enhances the reach but also helps deliver bespoke solutions tailored to the needs of its clients.

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