Introduction to Ind-AS

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What is the importance of financial statements ?

- Financial statements are very important as they are the basis for variety of decisions viz –
  - Purchase, hold or Sell of shares
  - Accountability of Management
  - Lending decisions
  - Ability to pay benefits to employees
  - Dividend decisions
  - Taxation Policies
  - Research, Policy decisions, Regulations etc.

Understanding financial statements -

- The analysis of financial statements is crucial for decision making.
- Let us take a case in Hand.
- Indian Company (ABC Co) in interested purchasing US Co (XYZ Co)

Whether two companies are exactly same if US $ 1= Rs. 50 ?

ABC Co (Indian Origin)		XYZ Co (US Origin)	
	Amount in ₹		Amount US $
Share Capital	1,00,000	Share Capital	2,000
Loans	50,000	Loans	1,000
TOTAL	1,50,000	TOTAL	3,000
Fixed Assets	25,000	Fixed Assets	500
Current Assets (Nett)	1,25,000	Current Assets (Nett)	2,500
TOTAL	1,50,000	TOTAL	3,000

The answer is definitely NO, But Question is WHY ???

- Items included in the financial statements are called as "Elements of Financial Statements"

- And companies are not same because of three main reasons ?

- These elements may have been ***"Recognized"***, ***"Measured"*** and ***"Presented"*** in different manner by two companies.

What is exactly “Recognition” -

Who can be recognized as an Asset in the Balance Sheet ?

We need to apply certain principles before we take the decision –

- Control over the asset ?
- Separately identifiable ?
- Cost can be ascertained ?

What is “measurement” ?

- Company constructed the Factory for which it made following expenses –
  - Material Rs. 10,00,000
  - Labour Rs. 5,00,000
  - Interest on borrowed capital Rs. 50,000
  - Allocated Head Office Cost Rs. 35,000
  - Labour relocation expenses Rs. 20,000
  - Opening ceremony cost Rs. 5,000
  - Initial losses due to low utilisation Rs. 15,000

State the amount to be capitalised in books ?

What is “Presentation”-

- Presentation is disclosure in the financial statement.

- It need to be “faithful presentation”

- E.g. can be disclosure of contingent liabilities, Current vs Non Current Portion of Assets and Liabilities

Reasons for different basis -

- If we already know this, then why do companies use different basis for Recognition, Measurement and Presentation ?
- Because they come from different origin countries which makes their own Accounting Standards (AS) binding on them, and no two AS from different countries are suggesting same basis !

What problems it lead to ?

- No comparability between companies from same industry but from different countries.
- Less transparency in International decisions as we need to convert the financial statements into comparables.
- Manifold Duplication of work for Co raising finance through international markets – waste of time, money and energy.
- Same company for same year but having two financial statements & showing different Profit or Loss !!

Emergence of IFRS -

- IFRS which stands for International Financial Reporting Standards has emerged because of problems explained earlier.
- IFRS is a single set of high quality, understandable and globally enforceable accounting standards
- IFRS has emerged as the common business language of accounting worldover.

Who issues IFRS ?

- IFRS is issued by IFRS Foundation, not for profit private sector organization having main office at UK.
- Members of IASB Board involve representatives from different countries, incl India "C B Bhave"
- ICAI issued concept paper on IFRS, MCA issued IND – AS (converged version of Indian IFRS)

IFRS vs. Indian GAAP?

- Whether it means current Indian Accounting Standards are inferior in quality and hence convergence with IFRS is being done since it is more Qualitative ?

Answer -

- Definitely NOT !!
- But as IFRS are being adopted / converged by almost 160 countries, it has become a common business language all over the world !

IFRS in India -

- India has decided to “converge” with IFRS rather than adopting it as it is !
- It is definitely in the interest of Indian Economy and a conscious decision is made by us !
- MCA has stated that converged IFRS (IND AS) will be implemented in phased manner in India. RBI & IRDA too has consented to it and are making similar efforts.

Ind-AS and Financial Statements -

- So, what we will be presenting in Ind-AS ?
- Same things which we report now – Income, Expense, Asset, Liability and Equity.
- Then what is the change ?
- The change is in its RECOGNITION, MEASUREMENT & PRESENTATION

Mapping of IFRS and Ind-AS

Ind-AS numbering	IFRS	Whether significant difference ?
Ind AS 101 First-time Adoption of Indian Accounting Standards	IFRS 1	No
Ind AS 102 Share based Payment	IFRS 2	No
Ind AS 103 Business Combinations	IFRS 3	No
Ind AS 104 Insurance Contracts	IFRS 4	No
Ind AS 105 Non-Current Assets Held for Sale & Discontinued Operations	IFRS 5	No
Ind AS 106 Exploration for and Evaluation of Mineral resources	IFRS 6	No
Ind AS 107 Financial Instruments : Disclosures	IFRS 7	No
Ind AS 108 Operating Segments	IFRS 8	No
Ind AS 1 Presentation of Financial Statements	IAS 1	No
Ind AS 2 Inventories	IAS 2	No
Ind AS 7 Statement of Cash Flows	IAS 7	No
Ind AS 8 Accounting Policies, Changes in Accounting estimates and Errors	IAS 8	No
Ind AS 10 Events after the Reporting Period	IAS 10	No
Ind AS 11 Construction Contracts	IAS 11	No

Ind-AS numbering	IFRS	Whether significant difference ?
Ind AS 12 Income Taxes	IAS 12	No
Ind AS 16 Property, Plant and Equipment	IAS 16	No
Ind AS 17 Leases	IAS 17	No
Ind AS 18 Revenue	IAS 18	No
Ind AS 19 Employee Benefits	IAS 19	No
Ind AS 20 Accounting for Govt Grants & Disclosure of Govt Assistance	IAS 20	No
Ind AS 21 The Effects of Changes in Foreign Exchange Rates	IAS 21	No
Ind AS 23 Borrowing Costs	IAS 23	No
Ind AS 24 Related Party Disclosures	IAS 24	No
Ind AS 27 Consolidated and Separate Financial Statements	IAS 27	No
Ind AS 28 Investments in Associates	IAS 28	No
Ind AS 29 Financial Reporting in Hyperinflationary Economies	IAS 29	No
Ind AS 31 Interests in Joint Ventures	IAS 31	No

Ind-AS numbering	IFRS	Whether significant difference ?
Ind AS 32 Financial Instruments: Presentation	IAS 32	No
Ind AS 33 Earnings per Share	IAS 33	No
Ind AS 34 Interim Financial Reporting	IAS 34	No
Ind AS 36 Impairment of Assets	IAS 36	No
Ind AS 37 Provisions, Contingent Liabilities & Contingent Assets	IAS 37	No
Ind AS 38 Intangible Assets	IAS 38	No
Ind AS 39 Financial Instruments : Recognition and measurement	IAS 39	No
Ind AS 40 Investment Property	IAS 40	No

Other issues for Ind-AS and IFRS comparison -

- There are no corresponding Ind-AS against IFRS 9 to 13 (Drafts have been published).
  - IFRS 9 – Financial Instruments
  - IFRS 10 – Consolidated Financial Statements
  - IFRS 11 – Joint Arrangements
  - IFRS 12 – Disclosure of interest in other entities
  - IFRS 13 – Fair Value Measurement
- Further, Current Ind-AS were notified in 2011. Since then changes took place in IFRS. So its incorporation in Ind-AS is pending.

Implementation of Ind-AS in India -

- The finance minister in his budget speech has proposed to make Ind AS mandatory for Indian companies from the financial year 2016-17.

- He also mentioned that the companies could opt to adopt Ind AS voluntarily from financial year 2015-16.

Implementation issues -

- Ind-AS adoption shall require change in Revised schedule VI.

- Provisions also to be incorporated in Companies Act 2013 regarding depreciation (estimated useful life).

Recognition differences in existing GAAP and Ind-As

- Currently we have single AS for Fixed Assets, but with the change in purpose, assets are recognised differently and are treated differently under Ind-AS.
- E.g. – Assets used for generating revenue, assets for earning rentals or appreciation, assets to be disposed off in near future etc. This is not currently done.
- Certain “elements” which are currently recognised only in part shall now get recognised full fledged in Balance sheet under Ind-AS
- E.g. – employment benefits – Plan Assets and Liabilities

Measurement basis under Ind-AS

- Following measurement basis have been suggested under Ind-AS -
  - Historical cost –Transaction cost
  - Current cost – Cash and Cash Equivalents
  - Realisable value – FV less cost to sell less cost to complete
  - Present value – Discounted value for future cash flows
  - Fair value – amount at which assets could be exchanged or liability could be settled between knowledgeable willing parties at an arm's length transaction
- Present value has been taken as basis of measurement for the first time. This will lead to several unconsidered situations so far. E.g. – Unwinding of Interests, deferred considerations, concept of cash value equivalent etc..
- Now the need for "valuers" shall be felt more frequently than earlier (reference to separate chapter under Companies Act, 2013 related to Approved Valuers.)

Components of Financial Statement -

Components of Financial Statements					
SOCI	OCI	SOFP	SOCIE	Cash Flow Stat	Notes to Accounts
Profit & Loss A/c	Non realized Gains & Losses	Balance Sheet	Stat of changes in Equity	Cash Flow	Notes
Revenue Expense Profit / Loss	Gain / loss on revaluation	Asset Liability Equity	Increase or decrease of share capital, Dividend payments	Cash Inflow & Outflow	Accounting Policies disclosures

End of session with Back to very basics -

- Assets – An asset is a resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity
- Liabilities – A liability is a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits.
- Equity – Equity is the residual interest in the assets of the entity after deducting all its liabilities.
- Income – Income is increases in economic benefits during the accounting period in the form of inflows or enhancements of assets or decreases of liabilities that result in increases in equity, other than those relating to contributions from equity participants
- Expenses – Expenses are decreases in economic benefits during the accounting period in the form of outflows or depletions of assets or incurrences of liabilities that result in decreases in equity, other than those relating to distributions to equity participants

Thank you