

Bringing expert global and local knowledge to your environment



IND AS: APPLICATION AND SECTOR-WISE ANALYSIS

THE POWER OF BEING UNDERSTOOD





## RSM IN INDIA

- RSM India (comprising of RSM Astute Consulting Group and affiliates) is consistently ranked amongst India's top 6 tax, accounting and consulting groups [International Accounting Bulletin, September 2016]
- Nationwide presence through offices in 11 key cities across India
- Multi-disciplinary personnel strength of over 1,200
- International delivery capabilities

[rsmindia.in](http://rsmindia.in)

---

## RSM AROUND THE GLOBE

- Sixth largest audit, tax and consulting network across the globe
- Annual combined fee income of US\$ 4.64 billion
- Combined staff of over 38,000 in over 760 offices across 120 countries
- RSM is the fifth largest audit, tax and consulting group in the USA

[rsm.global](http://rsm.global)





# Ind AS – Application and Sector-wise Analysis

January 2017

# Foreword

Financial year 2016–17 has been a year of monumental change in the financial reporting landscape in India. From 1 April 2016, Indian Accounting Standards (Ind AS), converged with International Financial Reporting Standards (IFRS) is new accounting norm for listed and unlisted companies with net worth in excess of Rs. 500 crores (phase I). As per some estimates, approximately 350 companies/groups, covered in phase I of Ind AS roadmap, have published their interim financial results under Ind AS.

The transition would have had significant impact on, not only, the financial results of many of these companies, but would also have far reaching consequential business impact. Many companies reported a change in their key financial ratios, such as, earnings per share, price earnings ratio, and gross margin ratio. New Ind AS requirements with regards to classification of debt and equity caused changes on financial ratios, in many cases, significant, such as, net worth, debt – equity and interest coverage ratios due to which many companies had to discuss their debt covenants with their lenders. Also, companies are spooked by the uncertainties around tax consequences of the Ind AS. Further, in many cases, there have been significant regulatory issues, such as, power and infrastructure companies potentially meeting the criteria for NBFCs add control assessment under Ind AS being different from that under regulations, such as, Companies Act, IRDAI and SEBI takeover code.

From 1 April 2017, approximately 8,500 Indian companies, i.e., balance listed companies and, unlisted companies with net worth in excess of Rs. 250 crores, will be covered by Ind AS (phase II) which is almost 25 times the number of companies covered in Phase I. Ind AS contains many new concepts and many requirements are quite complex. Therefore, it would be fitting for these Ind AS phase II companies to leverage on the learning and experiences of bigger phase I companies. Towards this end, in order to assess the Ind AS transition, this publication provides Ind AS technical analysis based on an analysis of the 30 June 2016 and 30 September 2016 quarterly financial results of 110 Ind AS phase I companies across 18 sectors. We discuss the overall impact as well as sector-wise impact of the key Ind AS requirements vis-à-vis the previous Indian GAAP accounting. This publication would help the phase II companies to identify Ind AS requirements that are relevant to them and evaluate various accounting policy choice available under Ind AS.

Ind AS contains several areas involving application of significant judgments and financial reporting is based on significant management estimates. Therefore, it is pertinent to examine the Ind AS application and implementation issues. Currently, there is limited literature of the Ind AS application and implementation issues. In this publication, we endeavour to bring out significant transition and first-time adoption related issues that are emerging in practice. In that context, we discuss various accounting options available under Ind AS, both, upon transition on first-time adoption of Ind AS, as well as those available on an ongoing basis.

This publication is not meant to deal with the quantitative impact that the shift to Ind AS may have caused from a capital markets or market capitalization perspective. Nor is it meant to examine, in detail, the differences between Indian GAAP and Ind AS. This publication would also help Ind AS phase I companies to benchmark their Ind AS accounting with that of their industry peers, as also with that of other leading companies. This publication would aid phase II companies to identify Ind AS requirements that are relevant to their industry sector and evaluate various accounting policy choices available under Ind AS based on the experience of Phase I companies.

We trust you find this publication useful.

## Table of Contents

<b>Chapter 1</b>	<b>Introduction</b>	<b>1</b>
<b>Chapter 2</b>	<b>The Way Forward for the Next Set of Ind AS Companies</b>	<b>4</b>
<b>Chapter 3</b>	<b>Key Ind AS Adjustments – Overall Analysis</b>	<b>8</b>
<b>Chapter 4</b>	<b>Key Accounting Options Available under Ind AS</b>	<b>14</b>
<b>Chapter 5</b>	<b>Methodology of Our Analysis</b>	<b>29</b>
<b>Chapter 6</b>	<b>Summary of Analysis</b>	<b>32</b>
<b>Chapter 7</b>	<b>Sector-wise Ind AS Analysis</b>	<b>47</b>
7.1	Automotive and auto components	48
7.2	Cement and allied products	51
7.3	Fast moving consumer goods	54
7.4	Hospitality and leisure	58
7.5	Industrial products and heavy equipment	62
7.6	Infrastructure	65
7.7	Iron and steel	71
7.8	Jewelry and gems	75
7.9	Media and entertainment	78
7.10	Mining and metals	80
7.11	Oil and gas	85
7.12	Power and utilities	89
7.13	Pharmaceuticals and life sciences	94
7.14	Real estate and construction	99
7.15	Retail	102
7.16	Technology and IT enabling services	105
7.17	Telecom operations and infrastructure	109
7.18	Transportation and logistics	112
<b>Appendix – Key Changes in Indian GAAP</b>		<b>115</b>
<b>Glossary</b>		<b>116</b>



International Financial Reporting Standards (IFRS) have become the *de facto* global standards for financial reporting prevalent in around 120 countries<sup>1</sup>. As a move towards IFRS convergence in India, the Ministry of Corporate Affairs (MCA) notified the roadmap for Indian Accounting Standards (Ind AS) implementation for corporates (companies other than banks, insurance companies and NBFCs) on 16 February 2015. Ind AS are largely based on IFRS, with a few differences (carve outs) intended to smoothen the transition to Ind AS for Indian companies.

With effect from financial year beginning 1 April 2016 (FY 2016–17), phase I companies, i.e., listed and unlisted companies with net worth of Rs.500 crore (about US\$ 75 million) or more have applied Ind AS, along with their group companies<sup>2</sup>. As a result, about 350 listed phase I companies have started publishing their interim financial results starting June 2016 quarter.

With effect from financial year beginning 1 April 2017 (FY 2017–18), about 8,500 phase II companies, i.e., the remaining listed companies and unlisted companies with net worth of Rs. 250 crore (about US\$ 38 million) or more have to apply Ind AS, along with their group companies<sup>2</sup>. This means that listed phase II companies will have to start publishing their interim financial results starting June 2017 quarter. The next section deals with the timelines and the requirements more extensively.

Ind AS contains several significant differences in many areas compared to the erstwhile Indian generally accepted accounting principles (Indian GAAP)<sup>3</sup>. At the heart of Ind AS, lie requirements to fair valuation and accounting for time value of money, instances of which were far and few under Indian GAAP. Ind AS contains new concepts of control and joint control, due to which a few Indian groups have had to reassess and consequently, in a few cases, change their holding–subsidiary or joint venture relations. Accounting for financial instruments is one of the major areas of differences, such as, triggering reclassifications of equity into debt or vice versa, pervasive fair valuation and discounting contractual cash flows. Ind AS contains more elaborate guidance in areas of revenue recognition which has caused changes in reported revenue in many sectors. Ind AS contains more elaborate

1 Source: The *Global Financial Reporting Language* published by the International Accounting Standards Board.

2 Ind AS also applies to holding, subsidiary, joint ventures and associate companies of the covered companies.

3 In this publication, we have referred to the accounting standards notified in Companies (Accounting Standards) Rules, 2006 under the Companies Act as Indian GAAP.



guidance in areas of revenue recognition which has caused changes in reported revenue in many sectors. Deferred tax accounting under Ind AS contains many new requirements, including creating deferred tax liabilities on undistributed earnings of groups companies in certain cases. Earlier this year we released a publication on Ind AS that contains a detailed guidance and analysis of Ind AS requirement<sup>4</sup>.

As the impact varies from sector to sector based on the sector-specific issues, and, therefore, we have analysed Ind AS impact based on sectors, the categorization of which we have explained later in the publication. The Ind AS transition impact would also differ from quarter to quarter, due to market movement such as, currency exchange rates and interest rates. We have considered the financial results of the sample companies for the first two quarters. Company-specific situations, such as, the group structure, financing structure and the extent of treasury activities would also differentiate the Ind AS impacts, for example, highly leveraged companies are likely to have more Ind AS adjustments.

Recently, in view of corporate submissions made, in order to smoothen the transition, the SEBI<sup>5</sup> issued certain relaxations in timelines for listed companies to publish their financial results. Accordingly, the deadlines for submission of Ind AS financial results quarter ending June 30, 2016 and September 30, 2016 were by September 14, 2016 and December 14, 2016 respectively. In addition, there were certain relaxations in the presentation of Ind AS v/s Indian GAAP reconciliations. These relaxations caused mixed practices amongst companies with regards to presentation of reconciliations. Due to this and because of the inherent nature of interim financial results being not as detailed as annual financial statements, we were required to make certain informed assumptions for the purpose of evaluating the Ind AS impact. Further, the values and percentages referred to in this publication should be considered as suggestive and may vary if analysed differently and/or using different set of assumptions.

4 The New Axis of Financial Reporting – Ind AS and ICDS available on

<http://www.rsm.global/india/insights/tax-insights/new-axis-financial-reporting-ind-and-icds>

5 SEBI circular dated 5 July 2016



It is clear from the experiences of the phase I companies, that converting to Ind AS is not merely an accounting exercise; it is a process of change management. Adopting Ind AS may affect many facets of an organization beyond financial reporting. Every consequential aspect of a company affected by financial information has the potential for change (e.g., key performance indicators, employee compensation plans, tax incidence–MAT and regular corporate tax, and internal management information systems). Both, the transition process and the implications of the conversion can vary widely amongst companies based on a number of variables, such as the sector–specific accounting issues, accounting resources and levels of expertise available and data collection. Often, information and data not currently collected and/or warehoused may be needed to produce the required Ind AS information, e.g. fair value measurement that is pervasively required in Ind AS.

It is important to note that Indian GAAP has been revised vide MCA circular dated 30 March 2016– Companies (Accounting Standards) Rules, 2016. These amendments are effective for financial year 2016–17 onwards<sup>6</sup>. Key changes to Indian GAAP are summarised in Appendix.

For listed phase II companies, the first occasion to publish Ind AS–based figures would be June 2017 financial results. Ind AS 101 requires the disclosure of the opening balance sheet in each interim financial period of the first reporting year under Ind AS. However, SEBI has provided relaxations in terms of the reconciliations to be provided in the interim financial results. These relaxations are *mutatis mutandis* applicable to phase II companies in their first year of Ind AS implementation.

6 MCA general circular 4/2016 dated 27th April, 2016 clarified that the amended accounting standards should be used in preparation of accounts for accounting periods commencing on or after the date of notification i.e. 30 March, 2016

Following is a summary of the relaxations in reporting requirements for phase II companies.

Period ending	30 June 2017	30 September 2017	31 December 2017
Timelines for submitting the results	14 September 2017	14 December 2017	14 February 2018
Current quarter results per Ind AS	Mandatory	Mandatory	Mandatory
Preceding quarter results per Ind AS	Optional	Mandatory	Mandatory
Corresponding quarter in previous year as per Ind AS	Mandatory	Mandatory	Mandatory
Year to date period in current year as per Ind AS	Not Applicable	Mandatory	Mandatory
Year to date period in previous year as per Ind AS	Not Applicable	Mandatory	Mandatory
Previous year ended 31 March 2017 as per Ind AS	Optional	Optional	Optional
Audit/review of previous year comparative period as per Ind AS	Optional	Optional	Mandatory
Audit/review of year ended 31 March 2017 as per Ind AS	Optional	Optional	If presented, audit / review required
Disclosure of reserves (excluding revaluation reserve)	Optional	Optional	Optional

Internationally, under IFRS, IFRS 15 *Revenue from Contracts with Customers* and IFRS 16 *Leases* are effective from 2018 and 2019 respectively. In India, the regulators have not yet set the process and timelines for incorporating/ considering the same under Ind AS. Companies will have to watch out for the related regulatory developments so as to plan and prepare appropriately.

Converting to Ind AS is one of the most fundamental financial reporting changes that companies are dealing with. The complexity and quantum of the exercise, combined with the attention that financial statements attract from a broad range of stakeholders such as, the investor, tax and other regulatory authorities means effective project management and execution is critical. Understanding the key accounting issues, and ensuring they are properly applied and disclosed, will be essential.

Phase II companies are medium-sized and generally characterized by features such as, inadequate accounting resources and lack of adequate expertise, lack of accessibility of data points and lack of robust IT systems. While the changes around Ind AS would take place, there would pressure on account of: transition to GST; possible changes in direct taxes for example, due to MAT implications of Ind AS and due to ICDS; revisiting internal financial controls to ensure smooth transition to Ind AS; and modification of IT systems. Directors and senior management may require adequate training and insight into the implications of Ind AS to prepare them for the upcoming conversions.

To deal with such issues, companies would do well to plan appropriately and start their transition early. This will require a significant undertaking from the company's management.



## Chapter 3      Key Ind AS Adjustments Observed

---

In this chapter we discuss key Ind AS adjustments that we observed in each area during our analysis.

### ■ Revenue

- Possible differences in timing of recognition of revenue (for example, due to estimated sales return, dispatch vs. delivery)
- Certain incentive and trade schemes – presented as reduction from revenue
- Deferral of revenue due to multiple deliverable arrangements
- Fair valuation of consideration – time value of money to be considered
- Deferral of revenue due to linked transactions (to reflect the substance)
- Assessment of agency vs. principal assessment for customers
- Accounting for joint development agreements
- Differences in percentage of completion revenue recognition
- Gross vs. net presentation (excise duty, other charges)
- Service concession arrangements
- Customer loyalty schemes
- Accounting for barter – non cash considerations

### ■ Property, plant and equipment

- Provision and capitalization of asset retirement obligation (on discounted basis considering time value of money)
- Use of fair value – deemed cost exemption at transition; consequential impact on subsequent depreciation and impairment charge
- Capitalization of eligible spare parts
- Capitalization of major overhaul
- Capitalization of eligible enabling assets

- Retrospective restatement of PPE under Ind AS

- **Intangible assets**

- Restriction on use of revenue-based amortization for new tolls roads
- Indefinite useful lives for certain intangibles, and reversal of amortization charge
- De capitalization of non-eligible intangible assets

- **Borrowing cost**

- Eligible borrowing costs (impact on account of reclassification debt vs. equity, group level issues)

- **Foreign exchange**

- Foreign exchange fluctuations to be immediately charged to the statement of profit and loss
- Functional currency assessment for all operations

- **Leases**

- Accounting for leases embedded in sale or service contracts
- Non straight-lining of the lease escalations on account of inflation
- Straight-lining of lease incentives
- Fair valuation of lease deposits

- **Deferred tax**

- Deferred tax on undistributed reserves on subsidiaries, joint venture, associate, unless certain criteria met
- Deferred tax on intercompany eliminations in consolidated financial statements
- Deferred tax on capital loss



- Deferred tax on Ind AS adjustments

#### ■ **Financial instruments**

- Redeemable preference shares classified as liability and related 'dividend' recognised as interest expense
- Convertible bonds split into their liability and equity/derivative components
- All costs related to the debt recognised through a periodic charge to the statement of profit and loss – can not be adjusted against share premium account
- Treasury shares are presented as a reduction from equity – no gain/loss on sale of treasury shares
- Compulsory convertible debentures at fixed conversion ratio classified as equity
- Any obligation to issue variable number of shares may be classified as a liability
- Classification of financial assets is based on an entity's business model for managing financial assets and the contractual cash flow characteristics of the financial asset
- Amortised cost based on effective interest rate
- Investments to be categorised – fair value through profit or loss (FVTPL), fair value through other comprehensive income (FVOCI) and amortised cost
- Initial recognition of all financial assets and financial liabilities at fair value (e.g., interest –free security deposits, employee loans, etc.)
- All investments, including unquoted equity shares, except investments in subsidiary/joint venture/ associate, measured, at fair value
- All derivative instruments to be carried at fair value, unless hedge accounting requirements met

- Transfer of financial assets/liability with recourse – continue to be reported in the balance sheet
- Impairment of financial assets – expected loss model
- Accounting for financial guarantee provided for loans taken by group companies at fair value and subsequent unwinding through P&L

#### ■ **Share based payments**

- Mandatory use of fair value for share based payments
- Accelerated costs for options with graded vesting
- Consolidation of trusts dealing with employee share based payment
- Group share based payments to be accounted for by the recipient company

#### ■ **Employee benefits**

- Actuarial gains and loss recognized in equity through OCI rather than in P&L
- Long term employee benefits accrued on constructive obligation basis at discounted values
- Past service costs to be charged to P&L as incurred– can not be deferred

#### ■ **Business combinations and consolidation**

- Acquisition accounting based on fair values of assets including intangibles (customer relationships and contracts, etc.,) and liabilities, including, contingent liabilities
- Common control business combinations accounted for using pooling of interest method; can not give rise to goodwill; restatement of comparative period mandatory
- Acquisition related costs charged to P&L as accrued
- Goodwill can not be amortised, but should be tested for impairment at least annually

- Deferred and contingent consideration payable to the seller for business combination to be fair valued through P&L
- Detailed guidance for call/put option agreements / forward agreements to buy/ sell balance shares to non-controlling interest shareholders
- Gain/ loss on acquisition/sale of interest in a subsidiary from/to other shareholders without losing control can not result in P&L gain/ loss; to be recognized directly in equity
- More elaborate guidance for aspects such as pre-existing relations between acquirer and acquire, share based payments replaced, etc.
- Consolidation of joint ventures using equity method- 'one line consolidation'; proportionate consolidation not permitted
- Consolidation / deconsolidation based on new definition of control:
- Sale/dilution of stake without losing control not to be recognized in P&L
- Losses attributed to minority shareholders
- Mandatory use of uniform accounting policies
- Demerger accounting (other than that under common control) at fair value

#### ■ **Government grants**

- Below-market interest rates/ interest free government loans (eg, sales tax deferral schemes) to be initially fair valued and the differential treated as government grant
- Asset-related government grant to be set up as deferred income balance and amortised in P&L over the useful life of the asset
- Government grant in the nature of promoter contribution, recognized in capital reserve under Indian GAAP, to be assessed as asset-related or income-related grant under Ind AS and a deferred income balance to be set up, amortised in P&L over the period



Ind AS provides various accounting options. First set of options relate to optional exemptions from retrospective application of Ind AS standards upon first-time adoption of Ind AS transition. The other set of options are available under individual Ind AS standards on an ongoing basis. In this chapter we discuss both these options available to a company.

#### **A. Accounting options available on first-time adoption of Ind AS**

Ind AS 101 contains the first-time adoption principles for all the transition related requirements when a company moves from accounting as per Indian GAAP to Ind AS. As a general principle, all the Ind AS requirements are applied retrospectively. However, to ensure smooth transition, companies have been provided with certain optional exemptions from such retrospective application.

##### **■ Property, plant and equipment (PPE)**

On transition to Ind AS, instead of retrospectively re-computing the carrying value of PPE under Ind AS, a company has certain choices with respect to PPE balances on the transition date. In the event that a company elects such a choice, the amounts so substituted are referred to as the 'deemed cost' of the PPE. Specific choices include:

- a) Re-measure some or all items of PPE to their fair value as at the transition date; or
- b) In case assets have been previously revalued under Indian GAAP, then those revalued amounts can be considered as the deemed cost, provided that those revalued amounts are broadly comparable
  - (i) to the fair values as at the date of revaluation or
  - (ii) cost or depreciated cost in accordance with Ind AS adjusted to reflect, for instance, the changes in the general or specific price index; or
- c) Continue Indian GAAP carrying values of all items of PPE as at transition

date without any modification, except for adjustments for decommissioning obligations to be included in the PPE. This exemption, if exercised, is required to be applied to all items of PPE without any exception. Following are the important points to be noted with regards to this option:

- The option is only available if there is no change in the company's functional currency on the transition date
- The option is available to all PPE. Unlike option a) above, this option can not be applied selectively
- If the last Indian GAAP financial statements of the group was Indian GAAP consolidated financial statements, the Indian GAAP amount of the subsidiary should be the amounts used in the Indian GAAP consolidated financial statements
- In case of a previously unconsolidated subsidiary, the amount required to be reported by the subsidiary as per the previous GAAP in its individual financial statements should be the previous GAAP amount
- This option can be also availed for investment properties and intangible assets

This is an important option available to first time adopters of Ind AS due to the sheer size of fixed assets in many companies. It may have consequential impact on, for example; net worth; subsequent depreciation and impairment charge, it must be noted that additional depreciation can not be recouped from reserves; deferred tax on transition and in subsequent period; and IT systems and records such as, the fixed asset register.

#### ■ **Decommissioning obligations**

Ind AS requires that the cost of dismantling or removal of the asset, or restoration of the site, should be included as part of the initial cost of the asset capitalized at the present discounted value with a corresponding provision. Imputed interest subsequently unwinds through P&L. Any changes in the obligation, other than that

arising on efflux of time, are adjusted in the cost of the asset and depreciated prospectively over balance useful life. This would be difficult to apply retrospectively. A first time adopter of Ind AS is, therefore, provided with an exemption for such obligations incurred before the transition date. The exemption provides that a first time adopter:

- measures liability at the date of transition to Ind AS
- estimates the amount required that would have been capitalized in the past when the obligation first arose, by discounting the liability to that date using best estimate of the historical risk-adjusted discount rate(s) applicable during the intervening period
- Calculates the accumulated depreciation on the above amount as at the transition date, on the basis of the current estimate of useful life of the asset

#### ■ **Assessment date for embedded leases**

Indian GAAP does not provide explicit guidance on accounting for lease transactions which are embedded in purchase/sale arrangements. Such arrangements are generally recognised based on their legal form. Ind AS provides specific guidance for the identification of embedded leases. Once identified as a lease, the principles for classification and accounting of the embedded lease would be the same as other leases.

The determination of whether an arrangement contains lease is made at the inception of the arrangement. For arrangements entered into several years back, this may pose practical challenge. Therefore, Ind AS 101 provides an option to first time adopter to make this assessment as of the date of transition based on the facts and circumstances as at that date, rather than at the inception of the arrangement. If this exemption is applied and it is determined that the arrangement contains lease based on the transition date facts and circumstances, accounting for operating or finance lease has to be done from the inception date of the arrangement.

## ■ Land lease

Ind AS provides guidance on accounting for leases of land, requiring a determination of whether the land lease would qualify as an operating lease or a finance lease. A land lease with a term spanning into several decades (e.g. a 99 years) may qualify as a finance lease even though the title may not transfer at the end of the lease term. Ind AS also states that when a lease includes both land and building elements, an entity assesses the classification of each element as finance or an operating lease separately as per the criteria laid down.

Ind AS 101 provides an exemption when a lease contains both land and building element. A first time adopter may assess the classification of each element at the transition date based on the facts and circumstances existing at that date. If there is a land lease newly classified as finance lease under Ind AS at the transition date, then the first time adopter may recognize the asset and liability at fair value on that date with any difference between the fair values recognized in retained earnings.

## ■ Business combinations

On transition to Ind AS, a company has the following three options in relation to the business combination transactions before the transition date:

- Not to restate business combinations before the transition date and apply Ind AS only to subsequent business combinations; or
- Restate all past business combinations before the transition date; or
- Restate all past business combinations done after a chosen date, prior to the transition date.

Where the exemption for not restating past business combination is taken, usually no adjustments are made to the accounting as per Indian GAAP except certain specific matters, for example, where intangible assets that do not meet the definition of an asset under Ind AS have been recognised, then they would be de-recognised with a corresponding adjustment to goodwill.



If the company elects not to restate past business combinations, the carrying value of goodwill as per Indian GAAP is required to be carried over to Ind AS without any modification. Under this approach, any previous goodwill amortisation under Indian GAAP is not required to be reversed. However, goodwill will need to be tested for impairment on transition date to Ind AS.

For subsidiaries which were not previously consolidated, goodwill can be computed as the difference, at the transition date, between parent's interest in carrying values of net assets of subsidiaries and the cost of investment in the parent's separate financial statements.

Ind AS requires that any goodwill arising on acquisition of foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising of the acquisition to be treated as the assets and liabilities of the foreign operations. For first-time adopter, it may be impracticable, especially for old acquisitions, to determine the retrospective foreign currency exchange differences on goodwill and fair value adjustments. Ind AS 101 therefore provides a voluntary exemption whereby a first-time adopter need not apply the requirement to retrospectively account for the foreign exchange differences on goodwill and fair value adjustments of foreign operations acquired. If this exemption is used, goodwill and fair value adjustments of foreign operations are treated as the assets and liabilities of the acquirer company and not the acquiree company.

#### ■ **Investments in the separate financial statements of the parent**

On transition to Ind AS, a company is permitted to recognise an investment in the subsidiary either at the cost of the investment or at deemed cost. The deemed cost may be computed based on the fair value as at the transition date or based on the Indian GAAP carrying value. This deemed cost option may be applied selectively to each investment on a case-by-case basis.

#### ■ **Cumulative foreign currency translation reserve**

As at the transition date, the cumulative foreign currency translation reserve in relation to the foreign operation may be reset to zero. If a first-time adopter uses

this exemption:

- the cumulative translation differences for all foreign operations are nullified at the date of transition to Ind AS; and
- the gain or loss on a subsequent disposal of any foreign operation shall exclude translation differences that arose before the date of transition to Ind AS and shall include subsequent translation differences.

#### ■ Long term foreign currency monetary items

Under Indian GAAP, companies are allowed to adjust exchange differences arising on long-term foreign currency monetary items to the carrying value of depreciable capital assets, to the extent they relate to the acquisition of such assets. These would be then depreciated through P&L over the useful lives of the assets. If the long term foreign currency monetary item relates to items other than acquisition of a depreciable capital asset, exchange differences are accumulated in the 'Foreign Currency Monetary Item Translation Difference Account' which is subsequently amortised through the P&L over the life of such long term asset or liability. Ind AS requires exchange differences arising on translation/settlement of all foreign monetary items, including long-term foreign currency monetary items, to be recognized in P&L for the period in which they arise. It does not give an option to defer or to capitalize exchange differences arising on long-term foreign currency monetary items.

Ind AS 101 includes an optional exemption to continue the existing policy as per the previous GAAP, i.e., existing Indian GAAP policy in respect of the long-term foreign currency monetary items recognised in the financial statements for the period ending immediately before the beginning of the first Ind AS financial reporting period. The exemption is only available for foreign currency monetary items recognised in the financial statements for the period ending immediately before the beginning of the first Ind AS financial reporting periods. For example, for a phase II company, the first Ind AS reporting is applicable from FY 2017-18. Its last Indian GAAP financial statements would be 31 March 2017. This option is only available for continuing deferral/ amortization for long term foreign currency

monetary items recognized on or before 31 March 2017. For any subsequent long term foreign currency monetary items, deferral/ amortization of exchange differences would not be allowed.

- **Managing different transition dates for group companies**

Where a subsidiary transitions to Ind AS later than its parent, the subsidiary has an option to measure its assets and liabilities at their carrying values based on either (i) the parent's transition date to Ind AS (if no adjustments were made for consolidation procedures and for effects of business combination in which the parent acquired the subsidiary) or (ii) based on the subsidiary's own transition date to Ind AS.

Where a parent company transitions to Ind AS later than its subsidiary, the assets and liabilities of the subsidiary would be stated in the consolidated financial statements of the parent at the same values as appearing in the separate financial statements of the subsidiary company, after adjusting for the effects of business combination in which the company was acquired and consolidation adjustments. This is not an option, but a compulsion for the parent.

The above principles in relation to the subsidiaries also apply in case of associates and joint ventures.

- **Employee stock option plans**

Employee stock options that have already vested as on the transition date need not be accounted for based on fair values.

- **De-recognition of financial instruments**

The transition requirements allow the application of the derecognition principles for financial assets and financial liabilities on a prospective basis from the transition date. Alternatively, these principles can be applied retrospectively from a date as per the company's choice, if the information to apply the derecognition principles was obtained at the time of initially accounting those transactions.

## ■ **Compound instruments**

Under Ind AS, an instrument may be compound instrument containing both equity element and debt element. For example, foreign currency convertible bond is treated as a compound instrument by the issuer containing an obligation towards interest and redemption payment i.e. a debt component and an equity conversion feature i.e. an equity element.

Ind AS 101 provides an exemption whereby a first-time adopter need not identify separately the two portions of equity if liability component of the instrument is no longer outstanding at the date of transition to Ind AS.

## ■ **Classification of financial assets**

Under Ind AS, all financial assets (eg, investments in equity shares, preference shares, mutual fund units, bonds, debentures, deposits, etc.) are classified into three main categories – amortised cost, fair value through P&L (FVPL) and fair value through OCI (FVOCI). The classification depends on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset.

Under Ind AS 109, an entity may voluntarily designate a financial asset, which is a debt investment and otherwise meets amortised cost or FVOCI criteria, as FVPL. This designation is only allowed if the designation reduces or eliminates a measurement or recognition inconsistency. A first-time adopter is permitted to designate as FVPL based on the facts and circumstances at the transition date to Ind AS.

Ind AS 109 allows an entity to designate investment in equity instrument not held for trading as at FVOCI, instead of FVPL. Such an election has to be made on initial recognition and can not be subsequently changed. A first time adopter is allowed to make this designation based on the facts and circumstances at the transition date to Ind AS.

- **Hedge accounting**

On transition to Ind AS, all derivatives are required fair valued through P&L unless they are a part of a qualifying hedge relationship, which meets the hedge accounting requirements under Ind AS. Retrospective designation as hedges, of transactions entered before transition date is not permitted.

- **Financial liabilities**

Under Ind AS, financial liabilities (e.g., borrowings, loans, debentures, etc.) are classified as at FVPL or amortised cost. Further, Ind AS permits an entity to designate a financial liability as at FVPL if the prescribed criteria are met at the time of initial recognition of the financial liability. A first-time adopter is permitted to designate a financial liability as at FVPL provided the liability meets the Ind AS 109 criteria at the date of transition to Ind AS.

- **Measurement of financial asset and liability using effective interest method**

If it is impracticable for an entity to apply retrospectively the effective interest method in Ind AS 109, the fair value of the financial asset or the financial liability at the date of transition to Ind AS shall be the new gross carrying amount of that financial asset or the new amortised cost of that financial liability at the date of transition to Ind AS.

- **Stripping costs in the production phase of a surface mine**

Mining operations involve overburden exercise necessary to remove waste materials to gain access to mineral ore deposits. This is referred to as stripping and it may go on during the production phase of a mine. Ind AS provides guidance on accounting for such stripping cost.

A first-time adopter may apply the Ind AS requirement from the date of transition to Ind AS. As at transition date to Ind AS, any previously recognised asset balance that resulted from stripping activity undertaken during the production phase should be reclassified as a part of an existing asset to which the stripping activity

is related, however, only to the extent that there remains an identifiable component of the ore body with which the predecessor stripping asset can be associated.

The balance of the predecessor stripping asset should be depreciated or amortised over the remaining expected useful life of the identified component of the ore body to which each predecessor stripping asset balance relates. In case where there is no identifiable component of the ore body to which that predecessor stripping asset relates, it should be recognised in retained earnings at the transition date to Ind AS.

#### ■ **Non current assets held for sale and discontinued operations**

Ind AS requires non-current assets (or disposal groups) that meet the criteria laid down, to be measured at lower of its carrying amount and the fair value less cost to sell. Ind AS requires that a non-current asset classified as held for sale or forming part of disposal group should not be depreciated. A first time adopter can:

- (a) measure such assets or operations at the lower of carrying value and fair value less cost to sell at the date of transition to Ind AS; and
- (b) recognise directly in retained earnings any difference between that amount and the carrying amount of those assets at the date of transition to Ind AS.

#### ■ **Service concessions**

Ind AS provides specific guidance for public-to-private service concession arrangements in which: the public sector entity controls or regulates the services provided with the infrastructure and their prices; and controls any significant residual interest in the infrastructure. The operator does not recognise the PPE constructed as a part of the service concession arrangement. As per the service concession agreement, the operator is considered to have a right to access, rather than a right to use/right of ownership over the infrastructure asset. This right is recognised either as an intangible asset or a financial asset based on terms of the arrangement.

For accounting purposes, service concession arrangements are normally divided into of two phases – construction phase and operations and maintenance phase. During construction phase, the operator recognises and measures revenue and costs related to the construction or upgrade of infrastructure, contracts. Hence, in the construction phase, the operator will generally recognise revenue as construction activity based on the value of the services performed (construction cost plus a fair margin).

If retrospective application of service concessions arrangement based on the above requirements is not practicable, Ind AS 101 gives first time adopters an exemption to

- Recognize financial and intangible asset that existed at the transition date
- Use the previous GAAP carrying amount, no matter how they were previously classified and
- Test the financial and intangible assets recognized at that date for impairment

#### ■ **Revenue based depreciation for toll roads**

Indian GAAP allows revenue-based depreciation for toll roads created under a service concession arrangement. Ind AS prohibit use of revenue based depreciation. Ind AS provide an option to continue with revenue based amortization for toll roads recognized in financial statements for period immediately before the beginning of the first Ind AS financial statements. For example, for a phase II company, the first Ind AS reporting is applicable from FY 2017-18. Its last Indian GAAP financial statements would be 31 March 2017. This option is only available for toll roads recognized in 31 March 2017 financial statements.

However, new toll roads constructed through subsequent service concessions would not be allowed to use revenue-based amortisation.

■ **Deemed cost for assets used in operations subject to rate regulation**

If the carrying amount of PPE or intangible assets that are used in rate-regulated activities includes amounts under previous GAAP that do not qualify for capitalization in accordance with Ind AS, a first-time adopter may elect to use the previous GAAP carrying amount of such items as deemed cost on the initial adoption of Ind AS.

**B. Accounting options available on an ongoing basis under Ind AS**

Many Ind AS standards provide accounting policy choice related to measurement of assets and liabilities. Following is a list of the accounting policy choice available under various standards.

■ **Property, plant and equipment**

Ind AS provides two alternative measurement models for subsequent measurement of property, plant and equipment:

- Cost model: PPE is carried at cost less accumulated depreciation and impairment.
- Revaluation model: PPE is carried at a revalued amount, being its fair value at the date of revaluation less subsequent depreciation and impairment, provided that fair value can be measured reliably. Under the revaluation model, revaluations should be carried out regularly, so that the carrying amount of an asset does not differ materially from its fair value at the balance sheet date. If an item is revalued, the entire class of assets to which that asset belongs should be revalued. Revalued assets are depreciated in the same way as under the cost model, no recoupment of additional depreciation from reserves is permitted.

Similar accounting policy choice is available for intangible assets with quoted market price in an active market (which is uncommon).



- **Presentation of grants related to income**

Grants related to income may be presented as a credit in the statement of P&L, either separately or under a general heading such as 'other income'; alternatively, they are deducted in reporting the related expense.

- **Investments in subsidiaries, associates and joint venture in separate financial statements of parent or investor**

Investments in subsidiaries, associates and joint venture in separate financial statements of parent or investor are accounted for either at cost or at fair value.

- **Financial instruments**

Ind AS requires investments in equity instruments to be fair valued. If an equity investment is not held for trading, an entity can make an irrevocable election at initial recognition to measure it fair value through other comprehensive income (FVOCI) rather than at FVPL. Under this option, all the fair value changes, realized or unrealized, are recognized in equity through OCI, with only dividend income recognized in P&L.

Ind AS provides three categories for classifying financial asset in debt instruments – amortised cost, FVOCI and FVPL. This classification of debt instruments is driven by the entity's business model for managing the financial assets and their contractual cash flow characteristics. Financial liabilities are classified as at FVPL or amortised cost. An entity is permitted to designate a financial asset or liability, otherwise to be measured at amortised cost, as at FVPL if the prescribed criteria are met at the time of initial recognition of the financial liability.

- **Hedge accounting**

Ind AS requires derivatives to be measured at fair value through profit and loss account, except if certain criteria for hedge accounting are met. Hedge accounting enables gains and losses on the hedging instrument to be recognised in the profit and loss account in the same period as offsetting losses and gains on the hedged item. Specific criteria, including the existence of formal documentation and the

achievement of effectiveness tests, must be met at inception and throughout the term of the hedge relationship in order for hedge accounting to be applied.

- **Presentation of cash flow statement**

Ind AS provides an option to present cash flow statements using either direct method or indirect method. The direct method shows each major class of gross cash receipts and gross cash payments. The indirect method adjusts accrual basis net profit or loss for the effects of non-cash transactions.

- **Interim financial statements**

An interim financial report is either a complete or condensed set of financial statements for a period shorter than an entity's full financial year.



Coverage

In this publication, we have analyzed 30 June 2016 and 30 September 2016 financial results announced by 110 companies across 18 sectors. These include the Ind AS phase I companies featuring in the Bombay Stock Exchange (BSE) 100 companies by market capitalization as at 30 November 2016. Since this list is based on market capitalization of the companies, the list does not feature adequate companies from sectors, such as, real estate, retail, transportation and jewelry & gems. Therefore, we have expanded our samples and included leading companies in respective sectors covered in Ind AS phase I, so as to have a sample size of at least 3 companies representing a sector.

BSE 100 list includes banks and NBFCs and the companies with non-March year ends, which were not required to apply Ind AS in their financial results September 2016 quarter. We have excluded these companies.

Sectors covered

Sr. No	Sector categorization	Number of companies covered
1	Automotive and auto components	13
2	Cement and allied products	4
3	Fast moving consumer goods	14
4	Hospitality and leisure	3
5	Industrial products and heavy equipment	5
6	Infrastructure	7
7	Iron and steel	3
8	Jewelry and gems	3
9	Media and entertainment	3
10	Mining and metals	6
11	Oil and gas	5
12	Power and utilities	8
13	Pharmaceuticals and life sciences	13
14	Real estate and construction	3
15	Retail	4
16	Technology and IT enabling services	8
17	Telecom operations and infrastructure	5
18	Transportation and logistics	3

## Basis of analysis

The publication analyses the Ind AS transition adjustments on the performance of the companies based on the Indian GAAP versus Ind AS profit and, to the extent available, the equity reconciliations of the companies.

Given the SEBI relaxation in the requirement to furnish reconciliations of annual results for FY March 2016, a mixed practice with respect to financial results' disclosures has emerged amongst companies. Whilst 13 companies in our sample furnished detailed Ind AS impact on investor presentations in addition to the financial results, majority of the companies (72) stuck to the minimum reconciliation disclosures of corresponding periods for previous year i.e. June 2015 and Sep 2015 in their financial results. 38 companies provided FY March 2016 profit reconciliations and 29 companies provided equity reconciliations as at 31 March 2016. Additionally, there was a significant difference on the extent to which and the quality of the narrative explanations and descriptions of Ind AS adjustments.

Generally, SEBI's LODR<sup>8</sup> regulations provide an option for companies having subsidiaries, to either provide consolidated results or stand-alone results. This creates further divergence in practice leading to lack of uniformity. 29 sample companies published their consolidated financial results either solely or in addition to their standalone financial results.

The aforesaid diversities caused of non-availability of uniform and comparable information. We have therefore based our analysis on the FY March 2016 profit reconciliations published by 38 sample companies. In absence of this, we have based our findings on the profit reconciliations for six-month period ending September 2015 published by the other companies. We have considered the equity reconciliations provided by 29 companies. Also, we have referred to the additional information and explanations provided by those who provided separate investor presentations on Ind AS transition. We have considered the consolidated financial results to the extent possible, in absence of which, we have based the analyses on the stand-alone financial results.

8 Securities and Exchange Board of India (Listing Obligations & Disclosures Requirements) Regulations, 2015



The table below summarises the area-wise Ind AS impact the aggregated profit and loss and equity reconciliations and the number of sample companies that were affected by the Ind AS areas.

Description	P&L reconciliation of 110 companies (Rs. Crores)	Equity reconciliation of 38 companies (Rs. Crores)	Number of sample companies affected
Net profit/equity as per Indian GAAP	228,524	798,078	
- Property, plant and equipment	(3,766)	66,281	76
- Business combinations and consolidation	5,753	1,859	65
- Financial instruments	(3,238)	22,209	96
- Share based payment	(608)	(22)	46
- Employee benefits	(958)	(430)	98
- Revenue	311	(191)	32
- Leases	384	(2,081)	42
- Foreign currency	650	(84)	61
- Deferred tax	(540)	(21,784)	106
- Proposed dividend	-	40,092	23
Others	8,619	(37,768)	
Net profit/equity as per Ind AS	234,828	866,265	

The above figures are based on the figures reported in the first two quarters by the companies. If there is a change in accounting policies or use of the first-time adoption optional exemptions in Ind AS 101, an entity is required explain the changes in each subsequent interim financial report and update the subsequent reconciliations. Therefore, there is a possibility that the accounting policies and first-time adoption options used in quarterly financial results may be further revised before finalization of annual Ind AS financial statements for FY 31 March 2017.

There are also uncertainties around tax consequences of the Ind AS adjustment. The Central Board of Direct Taxes (CBDT) set up a committee to recommend amendments to the tax laws for the purpose of levy of MAT on Ind AS companies. In February 2017, the Finance Bill 2017 has rationalized the provisions of section 115JB of the Act in line with



Ind AS. Following are the key proposals of the Bill for MAT incidence on transition adjustments on first time adoption of Ind AS and comparative financial year. The transition adjustments arising on account of transition to Ind AS from Indian GAAP is required to be recorded directly in Other Equity at the date of transition to Ind AS. Several of these items would subsequently never be recycled / reclassified to profit and loss / included in the computation of book profits. Accordingly, the following treatment is proposed:

Item	Point in time
Changes in revaluation surplus of PPE and Intangible assets	To be included in book profits at the time of realisation/ disposal/ retirement or otherwise transferred
Gains and losses from investments in equity instruments designated at fair value through other comprehensive income	To be included in book profits at the time of realisation/ disposal/ retirement or otherwise transferred
Re measurements of defined benefit plans	To be included in book profits equally over a period of five years starting from the year of first time adoption of Ind AS
Any other item	To be included in book profits equally over a period of five years starting from the year of first time adoption of Ind AS

The period of five years proposed above shall be previous years 2016–17 to 2020–21 for phase I Ind AS companies (Ind AS effective from financial year 2016–17 onwards) and previous years 2017–18 to 2021–22 for phase–II Ind AS companies (Ind AS effective from financial year 2017–18 onwards).

- For Fair valuation of PPE and intangible asset as deemed cost upon first time adoption of Ind AS, the existing provisions for computation of book profits under section 115JB of the Act provide that in case of revaluation of assets, any impact on account of such revaluation shall be ignored for the purposes of computation of book profits. Further, the adjustments in retained earnings on first time adoption with respect to items of PPE and Intangible assets shall be ignored for the purposes of computation of book profits. Depreciation shall be computed ignoring the amount of retained earnings adjustment. Similarly, gain/loss on realisation/ disposal/ retirement of such assets shall be computed ignoring the aforesaid retained earnings adjustment.
- Investments in subsidiaries, joint ventures and associates can be fair valued as deemed cost upon first time adoption of Ind AS. For fair valuation in retained earnings at the date of transition, the retained earnings adjustment shall be included in the book profit at the time of realisation of such investment.
- The cumulative translation differences on the date of transition that is transferred to retained earnings, are taken into account for MAT, the Bill proposes that these shall be included in the book profits at the time of disposal of foreign operations.

For detailed note, refer to our newsflash dated 3 February 2017.



The table below summarises the major area of impact, key reasons for the impact and the sectors impacted.

Major area of impact	Main reasons for pervasive impact	Main sectors impacted
Property, plant and equipment	<ul style="list-style-type: none"> <li>– Use of fair value deemed cost exemption at transition</li> <li>– Provision and capitalization of asset retirement obligation</li> <li>– Capitalization of eligible spare parts</li> <li>– Capitalization of major overhaul expenses</li> </ul>	<ul style="list-style-type: none"> <li>– Oil &amp; gas</li> <li>– Mining &amp; Metal,</li> <li>– Cement</li> <li>– Iron &amp; steel,</li> <li>– Power &amp; utilities</li> <li>– Industrial products &amp; heavy engineering.</li> </ul>
Business combinations and consolidation	<ul style="list-style-type: none"> <li>– Purchase price allocation– acquisition accounting based on fair values of assets and liabilities</li> <li>– Restatement due to common control business combinations to be accounted for using pooling of interest method under Ind AS</li> <li>– Reversal of amortization on goodwill</li> <li>– Deferred and contingent consideration payable to be fair valued through P&amp;L</li> <li>– Allocation of loss to non–controlling shareholders</li> </ul>	<ul style="list-style-type: none"> <li>– Technology &amp; IT Enabling Services</li> <li>– Pharmaceuticals &amp; life sciences</li> <li>– Iron &amp; steel</li> </ul>
Financial instruments	<ul style="list-style-type: none"> <li>– Fair valuation of investments, excluding investments in subsidiary/Joint venture/ associate, either as FVPL or FVOCI</li> <li>– Measurement using effective interest method</li> <li>– Fair valuation of derivative instruments</li> <li>– Redeemable preference shares classified as financial liability and</li> </ul>	<i>Generally across all sectors</i>

Major area of impact	Main reasons for pervasive impact	Main sectors impacted
	<ul style="list-style-type: none"> <li>unwinding through P&amp;L</li> <li>– Initial recognition of all financial assets and financial liabilities at fair value (e.g., interest –free security deposits, government loans, employee loans, etc.)</li> <li>– Impairment of financial assets using expected loss model</li> </ul>	
Share-based payments	<ul style="list-style-type: none"> <li>– Mandatory use of fair value for share based payments</li> <li>– Consolidation of trusts dealing with employee share based payment</li> </ul>	<ul style="list-style-type: none"> <li>– Fast moving consumer goods</li> <li>– Technology &amp; ITES</li> </ul>
Employee benefits	<ul style="list-style-type: none"> <li>– Actuarial gains and loss recognized in equity through OCI rather than in P&amp;L</li> </ul>	<i>Generally across all sectors</i>
Revenue	<ul style="list-style-type: none"> <li>– Gross vs. net presentation (excise duty, other charges)</li> <li>– Deferral of recognition of revenue (dispatch vs. delivery, multiple deliverable arrangements, linked transactions, sales on Sale or return basis)</li> <li>– Fair valuation of consideration (time value of money to be considered, customer incentive schemes and trade schemes)</li> <li>– Customer loyalty schemes</li> </ul>	<ul style="list-style-type: none"> <li>– Excise duty presentation affected all the manufacturing companies</li> <li>– Adjustments on account for trade schemes and customer incentives presentation were evident in fast moving consumer goods, pharmaceutical &amp; life sciences and automotive</li> <li>– Revenue deferral adjustments were evident in pharmaceutical &amp; life sciences, retail and automotive</li> <li>– Adjustments for customer loyalty schemes were evident in retail and hospitality &amp; leisure</li> </ul>

Major area of impact	Main reasons for pervasive impact	Main sectors impacted
Leases	<ul style="list-style-type: none"> <li>– Accounting for leases embedded in sale, purchase, other contracts</li> <li>– Non straight-lining of the lease escalations on account of inflation</li> </ul>	<ul style="list-style-type: none"> <li>– Power &amp; utilities</li> <li>– Automotive</li> <li>– Power &amp; utilities</li> <li>– Automotive</li> <li>– Telecom &amp; related infrastructure</li> </ul>
Foreign currency	<ul style="list-style-type: none"> <li>– Foreign exchange fluctuations to be immediately charged to the statement of profit and loss</li> <li>– Functional currency assessment for all operations</li> </ul>	<ul style="list-style-type: none"> <li>– Mining &amp; metals</li> <li>– Oil &amp; gas</li> <li>– Automotive</li> <li>– Telecom &amp; related infrastructure</li> </ul>
Deferred tax	<ul style="list-style-type: none"> <li>– Deferred tax arising on temporary differences arising on Ind AS adjustments</li> <li>– Deferred tax on undistributed reserves on subsidiaries, joint venture, associate, unless certain criteria met</li> <li>– Deferred tax on intercompany eliminations</li> </ul>	<ul style="list-style-type: none"> <li>– Pharmaceutical &amp; life sciences</li> <li>– Technology &amp; IT enabling services</li> <li>– Telecom &amp; related infrastructure</li> <li>– Mining &amp; metals</li> </ul>

## 6.1 Property, plant and equipment (PPE)

The biggest Ind AS impact area was PPE. Mainly the adjustments that affected profits and equity of companies was with regards to the first time adoption exemption – the use of fair value deemed cost option that Ind AS 101 provides.

Ind AS 101 generally requires first-time adopters to retrospectively apply the requirements of Ind AS. Alternatively, the standard provides first-time adopters with exemptions allowing the Ind AS carrying amount of an item of PPE to be measured at the date of transition based on a what is known as deemed cost. Broadly, the deemed cost exemption may be based on any of the following:

- Selective fair valuation at the transition date

- Previous GAAP carrying values of the PPE at the transition date

Most companies did not mention in their financial results the options that they have availed. Whilst the use of previous GAAP carrying value deemed cost exemption is operationally most convenient, many companies opted for fair value deemed cost exemption, i.e. they fair valued items of PPE at the transition date. Subsequent depreciation charge under Ind AS is based on the fair valued asset base. Based on the differential depreciation adjustment featuring in the profit reconciliations and fair valuation uplifts featuring in the equity reconciliations provided, at least 40 sample companies opted for the fair value deemed cost exemption.

Other widespread impact areas of differences included accounting for major overhaul and spares. Adjustments on account of these differences featured in the reconciliations of 16 sample companies, mostly in metals and mining, cement, iron & steel, power & utilities and industrial products & heavy engineering sectors.

## **6.2 Business combinations and consolidation**

Under Indian GAAP, there are separate standards that deal with amalgamation, consolidation and assets acquisition. Acquisitions through share acquisition are recorded at carrying values of assets and liabilities of the acquired company. Under Ind AS, all assets and liabilities acquired are recognized at fair value. Additionally, contingent liabilities and intangible assets not recorded in the acquiree's balance sheet are likely to be recorded in the acquirer's balance sheet on acquisition date.

Ind AS prohibits amortization of goodwill arising on business combinations, and requires it to be tested for impairment annually. Indian GAAP, on the other hand, required amortization of goodwill in the case of amalgamations. This GAAP difference resulted in reversal of goodwill amortisation in 38 sample companies.

Upon first-time adoption of Ind AS, application of Ind AS to past business combinations prior to the date of transition to Ind AS is optional under Ind AS 101. However, 22 sample companies in sectors such as, technology & IT enabling services, pharmaceuticals & life sciences and iron & steel, opted to apply Ind AS business combinations accounting retrospectively. This resulted in increase in tangible/intangible asset base (and resultant subsequent depreciation/

amortization) and corresponding decrease in historical goodwill.

Indian GAAP does not differentiate between common control transactions and other acquisitions. Common control business combinations refer to a business combination involving companies or businesses in which all the combining companies or businesses are ultimately controlled by the same party or parties both before and after the business combination and such control is not transitory. In the case of common control business combinations, Ind AS requires accounting using pooling of interest method i.e. the assets, liabilities and reserves of the acquired company to be recognised at their carrying values (the only adjustment allowed is for harmonisation of policies). No goodwill can be created in such cases. Comparative information is restated. 22 sample companies had adjustments on account of common control business combinations.

In addition, there were other areas of differences such as, charging out of acquisition-related costs, accounting for put/call options with non-controlling shareholders and fair valuation of deferred and contingent considerations.

Under Ind AS, the assessment of control is not solely based on majority voting interest or ability to control the composition of the board of directors. Control assessment is also based on existence of the investor's rights, exposure/rights to variable returns and ability to use rights over the investee to affect the amount of the investor's returns. For example, an investor with less than majority voting interest in a company may result in consolidation of the company as a subsidiary if the investor has substantive participative rights, i.e, rights to participate in the operating and financial policies of the company that go beyond just protecting the interests of the minority shareholder. 16 groups in our sample had a change in their subsidiary/joint venture/associate relationships previously assessed under Indian GAAP on account of this.

### 6.3 Financial Instruments

Apart from income taxes, accounting for financial instruments was the most widespread area of impact across all the sectors. Whilst, on an aggregated basis, there was uplift in the equity as at 31 March 2016 due to Ind AS accounting for financial instruments, it caused the aggregated profits to decline.

Key widespread impact areas within financial instruments accounting included:

- Ind AS generally requires investments in equity shares (other than that of subsidiaries, joint ventures and associates), investment in mutual funds units and derivative instruments at fair value. For investments in equity shares, there is an irrevocable choice to measure at fair value either through P&L or through OCI (FVOCI). If the FVOCI option is availed, fair value movement and gains/ losses on sale of the investments permanently escape P&L – all subsequent re-measurements, other than dividend income, are recognized in equity through OCI. Under Indian GAAP, they were generally classified as long term or current. Long term investments are measured at cost less other than temporary diminution in the value of investment. Current investments are measured at lower of cost or market price. This impacted companies across all the sectors.
- Under Indian GAAP, there was no detailed methodology prescribed for determining the impairment of financial assets, such as, loans and trade receivables. Ind AS introduces a new 'expected credit loss' (ECL) model for impairment of financial assets. This model requires more forward looking information to recognize either a 12-month or a lifetime expected credit losses. Consequentially, provision for bad debts no longer depends on a company identifying a credit loss or a default event. Rather, a company always estimates an 'expected loss' considering a broader range of information including; past events such as, historical loss trend for similar assets; current economic and trade conditions; and, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the financial instruments.

The impact of expected credit loss method based impairment is more pronounced in case automotive and industrial goods and heavy engineering sectors.

- Debt instruments are treated as financial assets and liabilities under Ind AS and are accounted for at amortised cost using effective interest method. Indian GAAP did not contain any such requirement and interest was generally accrued based on the stated interest rates.

- Under Ind AS, the liability and equity classifications of financial instruments may change substantially. Redeemable preference shares, classified as part of equity under Indian GAAP, are treated as, partly or entirely, as debt under Ind AS. This is due to the nature of the instrument giving rise to redemption obligation(s) at a future date. Such debt instruments are initially measured at fair value and subsequently amortised through P&L by booking finance cost. Dividend distribution tax payable on such debt instruments are charged to P&L as finance cost.
- Under Ind AS, financial guarantees issued in favor of bank on behalf of another company, for example, a subsidiary, are accounted for and are initially recognised and measured at fair value. Subsequently, the measurement is at the higher of: amount of loss allowance determined as per impairment requirements of Ind AS, and amount initially recognized less, where appropriate, cumulative amortization. The impact of this was evident in holding companies in infrastructure, power & utilities and real estate sectors giving bank guarantee towards loans borrowed by subsidiary / group companies.
- All financial assets including assets such as, interest free lease deposits, low interest or interest free loans, have to be fair valued at inception under Ind AS. The initial difference that arises from the fair valuation of such financial assets and liabilities is accounted for depending on the nature and the substance of the underlying transaction. For example, the initial difference on fair valuation of interest-free lease deposits relating to an operating lease is considered as prepaid lease rent to be amortised as additional lease expense over the lease term. This impacted generally all sectors. However, the impact was predominant in retail, technology & IT enabling and fast moving consumer goods sectors.

## 6.4 Share based payments

Under Indian GAAP, employee share based payment transactions can be accounted for either by the fair value method or the intrinsic value method. A company which uses the intrinsic value method is required to make fair value disclosures. In

practice, most Indian companies used the intrinsic value method to measure the cost of share based payments. Under this approach, if the exercise price for the employee stock option is not less than the market price of the underlying shares on the date of the grant, no compensation cost is recorded.

Under Ind AS, costs of share based payments are recorded based on the fair value of the instrument, with rare exceptions. Under fair value approach, the instrument would have a value even if the exercise price is equal to the market price of the underlying shares on the date of grant. This value is generally measured using option pricing models, and, therefore, the employee cost P&L charge for most employee stock options schemes increased under Ind AS, as can be seen from the table above. The impact was predominant in fast moving consumer goods sector and was also evident in technology sector companies.

Ind AS 101 provides a transitional exemption to first-time adopters of Ind AS. Employee stock options that have already vested as at the transition date need not be accounted for based on fair values. Most companies in our sample availed this option.

In addition, in a few cases, we observed Ind AS adjustments on account of accounting for employee stock options with graded vesting schedule. Ind AS requires an accelerated method of employee benefit expense to be used to work out the P&L charge. Straight-line method, used by many Indian companies under Indian GAAP, is not permitted. Ind AS requires ESOP trusts to be consolidated. These adjustments impacted sectors, such as technology & ITES.

Ind AS requires accounting for the cost of any share based payments granted by a parent to employees of a subsidiary or vice versa. This change generally impacted multinational companies with overseas holding company / subsidiaries.

## 6.5 Employee benefits

Ind AS requires remeasurements, including actuarial gains and losses, to be accounted for in equity through OCI. Under Indian GAAP, such actuarial valuation was to be recognized in P&L. This adjustment impacted a vast majority of the



sample companies across all sectors.

In certain cases, there was impact on account of early recording of constructive long term employee obligations, and on account of recording performance-linked incentives at discounted values.

## 6.6 Revenue

The most significant impact on revenue of manufacturing companies was on account of grossing up of excise duty included in the sales price. Under Ind AS revenue is presented gross of excise duty, which is treated as a cost, as against Indian GAAP treatment of presentation of revenue net of excise duty. Whilst this did not have bottomline impact on profits, it did necessitate changes in key performance ratios based on revenue, such as, gross margin and net margin.

Under Ind AS, revenue is measured at the consideration received/receivable considering trade discounts, volume rebates, cash discounts and other incentives. Hence, under Ind AS, such customer incentives to achieve minimum threshold of purchase or early settlement of receivables (cash discounts) are recorded as a reduction from revenue rather than as expense. Under Indian GAAP, some of these costs were included in advertising and sales promotion costs. This impacted companies in fast moving consumer goods, pharmaceuticals and a few automotive companies.

A contract may include multiple components (for example, goods sold with subsequent free maintenance services). Indian GAAP did not have specific guidance on multiple element transactions. In practice, most companies (other than many technology companies who used the international accounting guidance) accounted for such arrangements based on the invoiced values and the legal form of the transaction. Under Ind AS, when an arrangement includes more than one component, it is necessary to account for the revenue attributable to each component separately. In case of many sample companies, this caused deferral of revenue due to unsatisfied performance obligations. This impacted mostly companies in automotive and industrial goods & heavy engineering sectors.

Under Ind AS, revenue from sale of goods is recognized when significant risks and rewards of ownership has been transferred to the buyer and the seller no longer retains control or has managerial involvement. Further, Ind AS requires a careful assessment of principal–agency relations with the seller. Although, under Indian GAAP, revenue recognition has been on similar basis, there was no specific guidance. This caused deferral of revenue in companies in sectors, such as, pharmaceuticals and automotive. One company, manufacturing alcoholic beverages, concluded its relationship with certain dealers as agent rather than principal under Ind AS.

There were other sector specific adjustments, such as: revenue deferral on account of linked transactions and the requirement to estimate sales returns and reduce from revenue in pharmaceuticals; fair valuation of joint development agreements in real estate sectors; separation of embedded derivatives in provisionally priced sale agreements in case of oil & gas and mining & metals sectors; difference in percentage of completion revenue method in transportation sector; accounting for service concessions arrangement in infrastructure sector; and accounting for customer loyalty schemes in retail, transportation (civil aviation) and hospitality sectors. These have been discussed elaborately in subsequent sectorial impact sections.

## 6.7 Leases

Indian GAAP requires lease rental escalations to be straight-lined over the lease term. In the Indian context, given the inflationary situation, Ind AS states that the straight lining of lease rentals may not be required in cases where periodic rent escalation is due to inflation. Indian GAAP did not contain this relaxation for straight lining. This impacted companies in telecom & related infrastructure sector and a couple of retail companies.

Indian GAAP does not provide explicit guidance on accounting for lease transactions which are embedded in purchase/sale arrangements. Such arrangements are generally recognised based on their legal form. Ind AS provides specific guidance for the identification of embedded leases. Once identified as a lease, the principles for classification and accounting of the embedded lease would

be the same as other leases. Under Ind AS, leasing would extend to arrangements which, in substance, meet the definition of a lease, even though not be structured as lease. These arrangements convey a right to use an asset or assets for an agreed period of time in return for a payment or series of payments. Embedded leases are likely to exist in certain outsourcing job work arrangements, power purchase agreements, transportation arrangements, etc. Sectors that were impacted include power & utilities and iron & steel. While the adjustments were evident in other sectors as well, this did not significantly impact profit or equity, probably due to the arrangements being assessed as operating leases.

## 6.8 Foreign currency

Under Indian GAAP, companies were allowed to adjust exchange differences arising on long-term foreign currency monetary items to the carrying value of depreciable capital assets (to the extent they relate to the acquisition of such assets) and are depreciated through P&L over the useful lives of the assets. If the long term foreign currency monetary item relates to other than acquisition of a depreciable capital asset, exchange differences are accumulated in the 'Foreign Currency Monetary Item Translation Difference Account' which is subsequently amortised through the P&L over the life of such long term asset or liability. Ind AS requires exchange differences arising on translation/settlement of all foreign monetary items, including long-term foreign currency monetary items, to be recognized in P&L for the period in which they arise. As a transitional relief, companies could elect to continue with their chosen Indian GAAP accounting policy to capitalize/defer exchange fluctuations on long term monetary items existing as of 31 March 2016 (for phase I companies). However, all subsequent long-term foreign currency monetary items are to be translated through P&L. This impacted many companies, particularly, those in automotive, oil & gas and mining & metals sectors.

Accounting for exchange differences on translation of foreign operations under Indian GAAP was based on whether the operations are integral or non-integral. Ind AS does not have these concepts and requires determination of functional currency of the operations. This impacted companies in oil & gas and mining & metals sectors.

## 6.9 Deferred taxes

Under Indian GAAP, deferred taxes are recognised on timing differences based on what is known as the income statement approach. Under Ind AS, deferred taxes are recognised on temporary differences based on what is known as the balance sheet approach. Under this approach, additional deferred taxes may need to be recognised on revaluation of assets; indexation benefits for freehold land and investments; fair value changes for FVOCI securities; and consolidation of undistributed profits of subsidiaries, joint ventures and associates. Under Ind AS, deferred tax impact of intragroup eliminations is also required to be recognised. For example, when unrealised profits are eliminated on unsold inventory purchased by a subsidiary from a parent, deferred taxes are recognised for the temporary difference that arise between the tax base (normally, the transaction value) and the carrying value in the consolidated financial statements (after eliminating unrealised profits). All Ind AS transition adjustment that resulted in temporary differences also caused recognition of deferred taxes.

Deferred tax adjustments under Ind AS were seen in almost all sample companies. The impacts on account of deferred tax on undistributed profits of subsidiaries were significant in case of companies in technology & IT enabling services, telecom and mining & metals sectors. Impacts of deferred tax on intragroup eliminations in consolidated financial statements were significant in pharmaceutical sector companies.

## 6.10 Proposed dividend

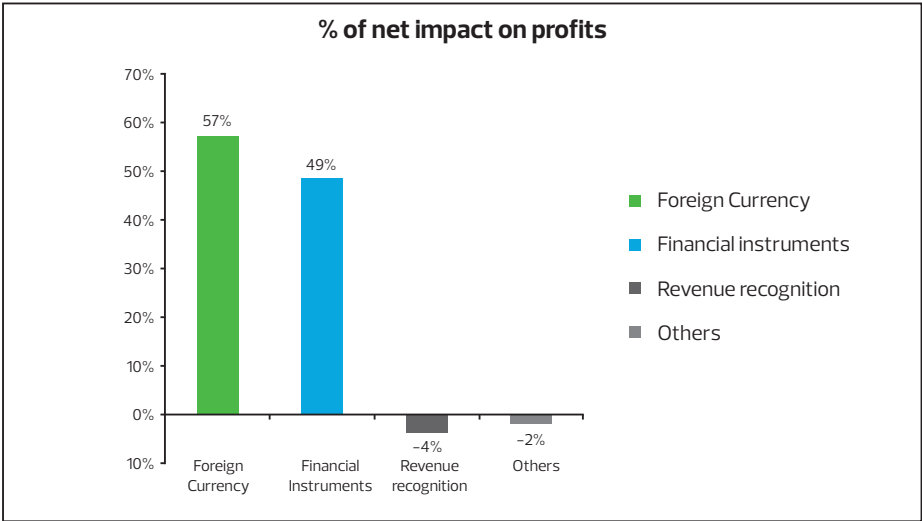
Under Indian GAAP, dividend proposed after the balance sheet date but prior to the approval of financial statements is considered as an adjusting event, and a provision for dividend payment is recognised in the financial statements of the period to which the dividend relates. Under Ind AS, dividend declaration is considered as a non-adjusting subsequent event and provision for dividends is recognised only in the period when the dividend is declared and approved. This impacted all the phase I companies that had proposed dividend for FY 2015–16 or FY 2014–15.



In this section, we take a closer look at the key Ind AS impact areas for each sector identified.

7.1 Automotive and auto components

Sample size – **13**, companies manufacturing commercial vehicles, passenger vehicles, including 2/3 wheelers, and automotive parts and equipment.



Foreign currency accounting

Under Indian GAAP, companies were allowed to adjust exchange differences arising on long-term foreign currency monetary items to the carrying value of depreciable capital assets (to the extent they relate to the acquisition of such assets) and were depreciated through P&L over the useful lives of the assets. If the long term foreign currency monetary item relates to other than acquisition of a depreciable capital asset, exchange differences are accumulated in the 'Foreign Currency Monetary Item Translation Difference Account' which is subsequently amortised through the P&L over the life of such long term asset or liability. Ind AS requires exchange differences arising on translation/settlement of all foreign monetary items, including long-term foreign currency monetary items, to be recognized in P&L for the period in which they arise.

Many automotive companies had opted for this option, 8 companies in our sample. Therefore, this difference was one of the major Ind AS adjustments in the sector. This caused a 69% increase in profit in case of an automotive major.

## ■ **Financial instruments**

### – **Fair valuation of investments**

Investments in equity shares of other companies (other than that in subsidiaries, joint venture and associates) and mutual fund units are required to be fair valued under Ind AS. Under Indian GAAP, they were generally classified as long term or current. Long term investments are measured at cost less other than temporary diminution in the value of investment. Current investments are measured at lower of cost or market price.

Many automotive companies invest their surplus funds in units of mutual funds, as a part of their treasury operations. Fair valuation of such investments constituted a significant impact area- constituting about 55% of the overall net Ind AS impact on the aggregated net profits of our sample companies. Profit of a large passenger vehicle company increased by 22% as a result of fair valuation under Ind AS.

### – **Expected credit loss (ECL) model**

Under Indian GAAP, there was no detailed guidance on methodology for determining the impairment of financial assets, such as loans and trade receivables. Ind AS introduces a new ECL model for impairment of financial assets. This model requires more forward looking information to recognize either a 12-month or a lifetime expected credit losses. Consequentially, provision for bad debts no longer depends on a company identifying a credit loss or a default event. Rather, a company always estimates an 'expected loss' considering a broader range of information including; past events such as, historical loss trend for similar assets; current economic and trade conditions; and, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the financial instruments.

This adjustment caused 16% decrease in the profits of a large commercial vehicle company in our sample.

#### ■ **Revenue – multiple-element sales**

Automotive companies often provide after-sales services to its customers in the form of 'free' servicing/maintenance or extended warranties, etc. Ind AS requires an entity to identify all such components or elements within a sale contract with the customer. Consequently, the accounting would be as though the company has sold vehicle and an additional element (e.g. after sales maintenance) together. Revenue from sale of vehicle would be recognized when at the point when risks and rewards are transferred while revenue from after-sales maintenance is recognized over a period of time when the services are rendered. Indian GAAP does not explicitly require such accounting for multiple-element sales and therefore, generally, the entire revenue is recognized on sale of vehicles.

Comparative period revenue of a passenger vehicle major declined by 62% on account of this adjustment.

#### ■ **Other Ind AS adjustments**

In addition to abovementioned impact areas, following Ind AS adjustments also impacted our sample companies:

- Actuarial gains/ losses on defined benefit employee benefits to be accounted in OCI
- Use of fair value- deemed cost exemption at the transition date
- Adjustment on account of retrospective restatement of business combinations- additional amortization charge on newly recognized intangible assets
- Government grant in the nature of promoter contribution, recognized in capital reserve under Indian GAAP, to be assessed as asset-related or income-related grant under Ind AS – deferred income balance to be set up and amortised in P&L over the period

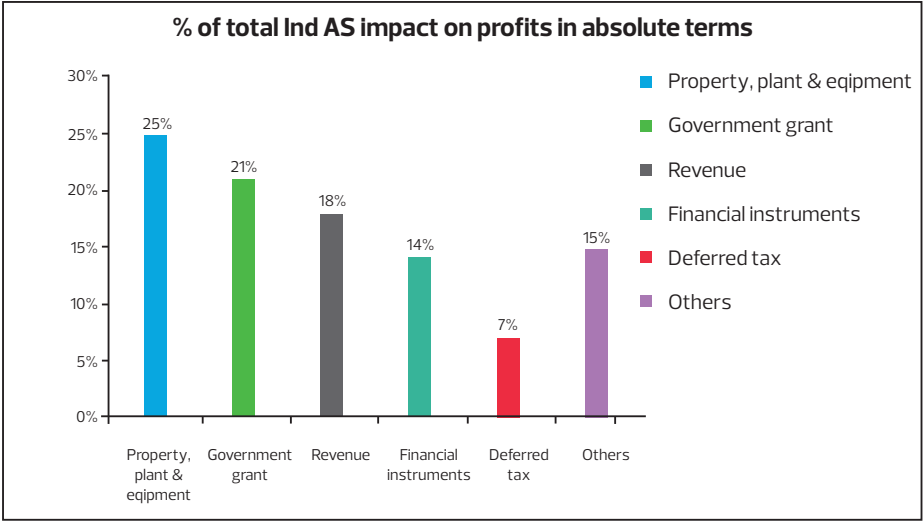


- Accounting for leases embedded in sale/purchase/ service/outsourcing contracts

7.2    Cement and allied products

Sample size- 4 companies

Following table provides an area wise contribution in % to the overall Ind AS profit impact in absolute terms:



■    Property plant and equipment (PPE)

PPE was one of the main impact areas and all the sample companies Ind AS adjustments on this account.

- **Major spare parts**  
  
Cement plants regularly require wear parts, resistance parts, mechanical and electrical spares for their normal operations. Major spares and stand-by equipment have been accounted for using divergent practices under Indian GAAP. Many cement companies treated them as inventory. Under Ind AS, all spare parts, stand-by and servicing equipment qualify as PPE if the company intends to use

these during more than a period of 12 months.

This capitalization constituted 19% of the total net IndAS P&L impact in case of one large cement company in our sample.

–      **Decapitalisation of foreign exchange difference**

Under Indian GAAP, allowed companies to adjust exchange differences arising on long-term foreign currency monetary items to the carrying value of depreciable capital assets (to the extent they relate to the acquisition of such assets) and are depreciated through P&L over the useful lives of the assets. Ind AS normally does not give an option to defer or to capitalize such exchange all foreign currency exchange difference has to be recognized in P&L. There are transition exemption provided in Ind AS 101.

This adjustment caused 6% increase in profits of one large cement company.

■      **Government grant**

Many state governments in India provide sales tax deferral schemes to encourage and ensure development of underdeveloped areas. Ind AS requires the benefit of a government loan at nil or below-market rate of interest to be treated as a government grant. Initially, the loan is measured at fair value. The difference between initial fair value of the loan and proceeds received is a government grant to be recognized over the future period depending on the nature of the grant i.e. asset-related or revenue grant. Going forward, the loan is measured at amortised cost using effective interest method. Indian GAAP does not require/allow fair valuation or discounting for such deferral schemes.

This adjustment caused 16% increase in the profit of one large cement company .

■      **Timing of revenue recognition**

Under Ind AS 18, revenue from sale of goods is recognized when an entity transfers the significant risks and rewards of ownership and gives up managerial involvement, usually associated with ownership or control, if economic benefits are likely to flow. This means that the accounting should reflect the economic

substance of transactions and not merely their legal form.

One cement company in our sample had to defer its revenue and related costs under Ind AS, in turn, causing decrease in more than 100% profit.

## ■ **Financial instruments**

Investments in mutual fund units are required to be fair valued under Ind AS. Under Indian GAAP, they were treated as current investments are measured at lower of cost or market price. Similarly, derivative contracts have to be fair valued through P&L under Ind AS.

These adjustments caused 11% and 14% increase in profits of two large cement companies .

## ■ **Other adjustments**

Some of the other areas of Ind AS changes would be as follows:

- Initial fair valuation of financial assets including interest free lease deposits, low interest or interest free loans
- Accounting for leases embedded in sale/purchase/ service/outsourcing / freight contracts
- Long term provisions arising on site restoration obligation are required to be initially measured at a discounted amount. Subsequently there is P&L charge on account of unwinding of the discount.
- Actuarial gains/ losses on defined benefit employee benefits to be accounted in OCI
- Measurement of financial liabilities such as loans and borrowings at effective interest method
- Accounting for financial guarantee provided for loans taken by group companies at fair value and subsequent unwinding through P&L

### 7.3 Fast Moving Consumer Goods (FMCG)

Sample size – **14** companies. There is one major FMCG company, with non-March year end, to whom Ind AS is not applicable for September 2016 quarter. We had to exclude these companies for the purpose of our survey.

Aggregated profit reconciliation for the sample companies covered in the sector:

Description	(Rs. Crores)
Profit after tax as per Indian GAAP	20,443
Share based payment	(514)
Financial instruments	(125)
Revenue	(23)
Intangible assets	16
Deferred tax	(34)
Others	47
Profit after tax as per Ind AS	19,810

#### ■ Share Based payments

Many FMCG companies, particularly, multinationals, give stock based or share based compensation to their employees. Under Indian GAAP, companies could have used intrinsic value method or fair value method to measure their share based arrangements. Ind AS requires the use of fair value method to measure the employee costs over the vesting period. Also, where parent company provides share based compensation to employees of the subsidiary, the subsidiary is required to recognize employee costs in its individual financial statements. This dented the profits of many companies in our sample.

#### ■ Financial instruments

##### – Fair valuation

As can be seen from above, the biggest impact area in the sample companies was financial instruments. Ind AS generally requires investments in equity shares (other than investments in subsidiaries, joint ventures and

associates), investment in mutual funds units and derivative instruments at fair value. For investments in equity shares, there is an irrevocable choice to measure at fair value either FVPL or FVOCI. If the FVOCI option is availed, fair value movement and gains/ losses on sale of the investments permanently escape P&L – all remeasurement changes other than dividend income are recognized in equity through OCI.

Many FMCG companies in our sample opted for the FVOCI option. Fair valuation of financial instruments caused 5–7% increase in reserves of the companies that opted to additionally disclose their 31 March 2016 equity reconciliations.

#### – **Redemption premium**

The other Ind AS requirement that caused impacts on the sample companies was on account of redemption premium on debentures/ redeemable preference shares. Two companies in our sample were charging redemption premium to securities premium account under Indian GAAP. Under Ind AS, these instruments are required to be measured at effective interest rate through a charge in P&L.

This change increased the finance cost of one of the sample companies by 50%.

### ■ **Intangible assets**

Under Indian GAAP intangible assets are amortised over their useful lives. There is a rebuttable presumption that the useful life can not exceed 10 years. Under Ind AS, an intangible can be assessed to have an indefinite useful life if there is no predictable time period over which it is expected to generate economic benefits for the company.

In practice, certain FMCG companies have assessed their brands with certain attributes to be having indefinite useful lives. This caused reversal of Indian GAAP amortization charge, increasing earnings of at least three sample companies.

■      **Employee benefits**

Under Indian GAAP, actuarial gains and losses on remeasurement of post-employment benefit plans are recognised immediately in the P&L. Under Ind AS, all such remeasurements are to be recognised in reserves through OCI. This increased the reported earnings of almost all the companies.

■      **Revenue**

Aggregated revenue reconciliation for the sample FMCG companies:

Description	(Rs. Crores)
Revenue under Indian GAAP	128,551
Excise duty	18,814
Sales promotion and trade schemes and cash discount	(3,862)
Others	(882)
Revenue under Ind AS	142,326

Revenue is an important performance metric for FMCG sector. Under Indian GAAP revenue was reported net of excise duty, while under Ind AS, it has been clarified that revenue would be gross of excise duty and excise duty is recognized as an expense. This alone caused 15% increase in the reported revenue for our sample companies. Apart from this, following were the IndAS impact areas for revenue

–      **Timing of revenue recognition**

Under Ind AS 18, revenue from sale of goods is recognized when an entity transfers the significant risks and rewards of ownership and gives up managerial involvement, usually associated with ownership or control, if economic benefits are likely to flow.

This deferral of revenue and related costs under Ind AS resulted in 16% decrease in profits of a leading FMCG company in our sample.

–      **Trade promotion schemes**

FMCG companies often provide extensive sales incentives, discounts,

rebates, consumer coupons and early settlement cash discounts to their customers, dealers, retailers or ultimate consumers in order to incentivize them to purchase the company's products. Under Indian GAAP, some of these costs were included in 'advertising and sales promotion' expenses. Under Ind AS, revenue is measured at the consideration received/receivable considering trade discounts, volume rebates, cash discounts and other incentives. Hence, under Ind AS, such customer incentives to achieve minimum threshold of purchase or early settlement of receivables, are recorded as a reduction from revenue rather than as expense. Since this is a reclassification, this would not affect the profits. However, key ratios such as gross margins, return on sales, etc, which are derived from revenue would be affected.

Revenues of three companies declined by 6 -10% due to this Ind AS adjustment.

#### ■ **Other Ind AS impact areas**

In addition to abovementioned impact areas, following Ind AS adjustments also impacted our sample companies:

- Actuarial gains/ losses on defined benefit employee benefits to be accounted in OCI
- Use of fair value- deemed cost exemption at the transition date
- Cash discount provided to customers to be estimated and deducted from revenue

## 7.4 Hospitality and leisure

Sample size– **3** companies including those involved in operating hotel and holiday management.

Aggregated profit reconciliation of the sample companies are as follows:

Description	(Rs. Crores)
Profit/(loss) after tax as per Indian GAAP	66
Financial instruments	(125)
Consolidation	(95)
Deferred tax	28
Revenue	(14)
Foreign currency	(13)
Employee benefits	5
Others	4
Profit/(loss) after tax as per Indian GAAP	(142)

It is evident from the table that Ind AS had a substantial impact of the net profits of our sample companies. This is mainly driven by the increase in net loss on a large hotel group in our sample by about 1091%. Following are the key areas of Ind AS differences.

### ■ Financial instruments

#### – Accounting for redemption premium and measurement using effective interest method

Hotel companies often have long term borrowings in the form of loans and debentures. Ind AS requires financial liabilities, such as loans and borrowing, to be initially fair valued, net of initial transaction costs, and subsequently to be measured at amortised cost with finance cost being recognized at effective interest rates in P&L.

Many companies issued debentures or redeemable preference shares which were required to be redeemed with a back ended redemption



premium. Under Indian GAAP, there was a practice of charging the redemption premium to securities premium account rather than to P&L. Under Ind AS, these instruments are required to be measured at effective interest rate with a charge in P&L. Depending on the length of balance tenure of the debenture/ redeemable preference shares at the date of transition to Ind AS, this may have a significant impact.

This change increased the loss of a sample company by 210% (at consolidated level).

- **Fair valuation of investments and derivative contracts**

Ind AS generally requires investments in equity shares (other than that of subsidiaries, joint ventures and associates), investment in mutual funds units and derivative instruments at fair value. For investments in equity shares, there is an irrevocable choice to measure at fair value – either FVPL or FVOCI.

A large hotel company opted to classify its investments in equity shares as FVOCI. As a result, there was a reversal of gain on sale of equity instruments that was earlier recognized in P&L. This increased its loss by about 300% Fair valuation of derivative instruments through P&L caused a further 152% increase in the loss of the company.

- **Consolidation**

Under Indian GAAP, the assessment of existence of control over a company and consolidation as a subsidiary is based on ownership of majority of the voting power or control over the composition of the board of directors. Under Ind AS, the assessment of control is not solely based on majority voting interest or ability to control the composition of the board of directors, but it is also based on existence of the investor's rights, exposure/rights to variable returns and ability to use rights over the investee to affect the amount of the investor's returns.

One large hotel group in our sample was impacted by this change in Ind AS and had

to consolidate entities that were not previously consolidated under Indian GAAP. This resulted in a 389% increase in the group's loss.

- **Deferred tax**

All Ind AS transition adjustment that cause in temporary differences between book base and tax base of assets and liabilities result in recognition of deferred tax assets or liabilities. This was an adjustment in all the sample companies affecting the aggregated profits by 45%.

- **Revenue– customer loyalty award schemes**

Almost all hospitality and leisure companies provide loyalty incentives to their customers. Under Indian GAAP, there was no specific accounting standard dealing with accounting for award credits and loyalty point schemes. As a result, divergent practices emerged. Certain companies made provision towards redemption of the award credits based on the actual costs that will be incurred to honor the award credits. Under Ind AS, award credits and other loyalty schemes are considered as a separate component of the main service transaction. Under this approach, the fair value of the award credits/points is separated, based on a fair value allocation of the overall revenue, and deferred. Such deferred income is subsequently recognised in P&L when the award credits/points are utilized by the customer or when the same lapse unutilized.

At least two hotel companies in our sample were affected by this change. The net loss of one company increased by 54%, while the net profit of the other company decreased by 11% due to this Ind AS adjustment. Also, the revenue from operations for half-year ending 31 September 2015 of the first company reduced by 4%, while that of the later reduced by 3%.

- **Foreign currency differences**

Under Indian GAAP, many companies were adjusting exchange differences arising on long-term foreign currency monetary items to the carrying value of depreciable capital assets (to the extent they relate to the acquisition of such assets) and depreciating the same through P&L over the useful lives of the assets. Ind AS

requires exchange differences arising on translation/settlement of all foreign monetary items, including long-term foreign currency monetary items, to be recognized in P&L for the period in which they arise. It does not give an option to defer or to capitalize exchange differences arising on long-term foreign currency monetary.

This change under Ind AS increased the loss of one large company by 67% (at consolidated level).

#### ■ **Employee benefits**

Under Indian GAAP, actuarial gains and losses on post employment benefit plans and other long term employment plans are to be recognised immediately in P&L. Under Ind AS, all actuarial gains and losses with respect to defined benefit plans employment benefit plans are to be recognised in equity through other comprehensive income and permanently escape P&L.

#### ■ **Other Ind AS adjustments**

In addition to abovementioned impact areas, following Ind AS adjustments also impacted our sample companies:

- Relaxation from straight-lining inflation-based rent escalations in operating leases
- Employee share based payment charge to be based on fair value method instead of intrinsic value method

## 7.5 Industrial products and heavy engineering

Sample size– **5** covering engineering companies including those manufacturing industrial products such as power transformers and heavy equipment.

Aggregated profit reconciliation of the sample companies:

Description	(Rs. Crores)
Profit after tax as per Indian GAAP	6,079
Business combinations and consolidation	(264)
Financial instruments	(527)
Others	20
Profit after tax as per Ind AS	5,308

### ■ Consolidation

Under Indian GAAP, there are separate standards that deal with amalgamation, consolidation and assets acquisition. Acquisitions through share acquisition are recorded at carrying values of assets and liabilities of the acquired company. Under Ind AS, all assets and liabilities acquired are recognized at fair value. Additionally, contingent liabilities and intangible assets not recorded in the acquiree's balance sheet are likely to be recorded in the acquirer's balance sheet on acquisition date. Ind AS prohibits amortization of goodwill arising on business combinations, and requires it to be tested for impairment annually. Due to these requirements, there would be difference between the gain/ loss arising on disposal of subsidiary recognized previously under Indian GAAP in the comparative period.

This change resulted consisted in 33% increase in the net Ind AS P&L impact in a leading engineering company in our sample.

### ■ Financial instruments

#### – Measurement at effective interest method

This sector is capital-intensive and has a fairly long operational cycle. Therefore, most companies borrow long term funds for projects and

operations. Ind AS requires financial liabilities, such as loans and borrowing, to be initially fair valued, net of initial transaction costs, and subsequently to be measured at amortised cost using effective interest rates.

This affected all the companies in our sample. The increase in the finance cost arising on account of this amounted to 8% of the net profit of a major engineering company in our sample.

#### – **Expected credit loss (ECL) impairment provision**

Under Indian GAAP, there is no detailed guidance on methodology for determining the impairment of financial assets, such as loans and receivables. Ind AS introduces a new ECL model for impairment of financial assets. This model requires more forward looking information to recognize either a 12-month or a lifetime expected credit losses. Consequentially, provision for bad debts no longer depends on a company identifying a credit loss or a default event. Rather, a company always estimates an 'expected loss' considering a broader range of information including; past events such as, historical loss trend for similar assets; current economic and trade conditions; and, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the financial instruments.

One major engineering group had to recognize incremental ECL based impairment provision to the tune of 3% of its Indian GAAP net worth as at 31 March 2016.

#### – **Accounting for spare parts**

Historically, spares and stand-by equipment have been accounted for using divergent divergence practices under Indian GAAP. Many companies accounted them as fixed assets, while others treated them as inventory. Under Ind AS, all spare parts, stand-by and servicing equipment qualify as PPE if the company intends to use these during more than a period of 12 months.

## ■ Other Ind AS adjustments

- Under Indian GAAP, performance linked remuneration schemes to employees are generally accounted on crystallization of the amount wherever there is no legal obligation to pay. Under Ind AS, provisions towards such schemes are required based on constructive obligation towards the employees.
- Long term provisions are required to be initially measured at a discounted amount. Subsequently there is P&L charge on account of unwinding of the discount.
- Employee share based payment charge to be based on fair value method instead of intrinsic value method.
- Revenue from bundled sale contracts, e.g., turnkey projects involving subsequent operations and maintenance required to be separately recognized and measured on the basis of an allocated sale consideration.
- Redeemable preference share capital issued to be classified as financial liability rather than equity.
- Minority interest regarded as non-controlling interest (as a part of equity) and losses in subsidiaries to attributable to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.
- Cash discount provided to customers to be estimated and deducted from revenue.
- Certain foreign currency convertible bonds are split in equity element and debt portion, as against, being entirely treated as debt under Indian GAAP. The debt portion is subsequently measured using effective interest method, resulting in higher finance cost.
- Fair valuation of property, plant and equipment on date of transition resulting in higher or lower subsequent depreciation.

- Fair value adjustments for assets and liabilities acquired in business combinations and acquisitions.
- Actuarial gains/ losses on defined benefit employee benefits to be accounted in OCI.
- Revenue and expenses to be grossed up for excise duty.

## 7.6 Infrastructure

Sample size – **7** companies representing BOT operators for road tolls, ports and airport

This sector typically has a structure of holding company investing in special purpose subsidiaries which have the BOT and similar service concessions for infrastructure projects such as toll highway, ports or airport. An analysis of the first and second quarter results of these companies would not necessarily provide the entire story, as the sample companies opted to present only stand-alone financial results. None of the sample companies presented equity reconciliations, sticking to the minimum mandatory reconciliations explaining the variations between the profit reported under Indian GAAP for the June 2015 and Sep 2015 quarters. Following table provides an aggregated profit reconciliation that we analysed.

Description	(Rs. Crores)
Profit after tax as per Indian GAAP	4,673
Financial instruments	75
Leases	(55)
Service concessions	(9)
Government grant	11
Others	(10)
Profit after tax as per Ind AS	4,685

### ■ Financial instruments

- **Interest free/subordinated loans**

The holding company has to often provide what is known as subordinated

loans to its subsidiaries which carry out the BOT agreements. These are generally interest-free and have long tenure – ranging from 25–35 years. All such financial assets have to be fair valued at inception under Ind AS. The initial difference on fair valuation of interest free loans to subsidiaries would be considered as equity contribution from the holding company to the subsidiary and added to the overall cost of investment in equity shares of the subsidiary. The loan is subsequently accounted at amortised cost using effective interest method – resulting in recognition of interest income in P&L of the holding company's separate financial statements.

This resulted in 1928% increase in the net profits of a large infrastructure company.

- **Financial guarantees**

Under Ind AS, financial guarantees issued in favor of bank on behalf of another company, for example, a subsidiary, are accounted for and are initially recognised and measured at fair value. Subsequently, the measurement is at the higher of: amount of loss allowance determined as per impairment requirements of Ind AS 109, and amount initially recognized less, where appropriate, cumulative amortization.

- **Service concession arrangements**

Service concession arrangements are arrangements between a public sector government agency and a private sector company /operator for construction of infrastructure assets, such as highways, ports and airports, in which the government agency controls or regulates the services provided with the infrastructure, controls their price, and controls any significant residual interest in the infrastructure.

- **Service concession accounting**

There is no mandatory Indian GAAP standard dealing with service concession agreements. Under Ind AS, the operator does not recognise the



fixed asset constructed as a part of the service concession arrangement. The operator is considered to have a right to access, rather than a right to use/right of ownership control over the infrastructure asset. This right is recognised either as an intangible asset or a financial asset depending on the terms of the arrangement. Ind AS considers the arrangement to be in the nature of a barter, wherein the operator initially provides construction services to the government agency earning a right to collect consideration either from public or from a government agency or partly from both. Subsequently, the operator is also required to render operating & maintenance services. Consequently, the arrangements have two phases – construction phase and operations & maintenance phase. During construction phase, the operator is required to recognise revenue as construction activity progresses, based on the fair value of the services performed (cost of constructing the infrastructure plus fair margin).

One company in our sample operating highway concessions that presented consolidated financial results, presented service concessions intangible assets constituting 783% of its net worth and 92% of total assets.

None of financial results in our sample revealed significant measurement impact visible in the financial results. This was mainly due to the first time adoption exemption to continue with the previous GAAP carrying value of its toll collection rights intangible assets as at the date of Ind AS transition, if it is determined that it is impracticable to restate past service concessions.

Accounting for service concessions has been one of the main discussion points amongst the infrastructure companies. This is due to multiple business implication that the Ind AS accounting may potentially have. For example, reclassification of the infrastructure assets may impact debt covenants; recognition of construction phase revenue at fair value may attract potentially MAT liability; reclassification as financial assets may possibly risk a company of being classified as NBFC under RBI regulations. In 2011, when Ind AS was to be originally introduced in India, this Ind AS requirement was deferred.

- **Negative Grants/ premium**

Certain arrangements include the provision for negative grants, wherein the operator is required to make the payment to the grantor during the duration of the arrangement. Negative grant may be either in the form of fixed payment (upfront or annual throughout the SCA) or in the form of a percentage of revenue earned during the arrangement. Under Ind AS, a company is required to evaluate whether upfront fixed payment should be treated as an intangible asset given that it is paid towards getting the right to earn revenues by running the infrastructure and in case of annual fixed payment, whether to recognize intangible assets by crediting the liability with present value of the annual amounts payable during SCA.

Three companies in our sample had an impact on account of this requirement.

- **Revenue-based amortization**

Indian GAAP allows revenue-based depreciation for toll roads created under a service concession arrangement. Ind AS prohibit use of revenue based depreciation. Ind AS 101 provides an option to continue with revenue based amortization for toll roads recognized in financial statements for period immediately before the beginning of the first Ind AS financial statements. For example, for a phase II company, the first Ind AS reporting is applicable from FY 2017-18. Its last Indian GAAP financial statements would be 31 March 2017. This option is only available for toll roads recognized in 31 March 2017 financial statements.

- **Embedded leases**

Indian GAAP does not provide explicit guidance on accounting for lease transactions which are embedded in purchase/sale arrangements. Such arrangements are generally recognised based on their legal form. Ind AS provides specific guidance for the identification of embedded leases. Once identified as a lease, the principles for classification and accounting of the embedded lease would

be the same as other leases.

Under Ind AS, leasing would extend to arrangements which, in substance, meet the definition of a lease, even though not be structured as 'lease'. These arrangements convey a right to use an asset or assets for an agreed period of time in return for a payment or series of payments.

This Ind AS adjustment caused a 14% decrease in the net profit of one of the sample companies.

#### ■ **Government grant**

Under Indian GAAP, government grants in the nature of promoter's contribution were to be credited directly to the shareholders funds (reserves). Grants related to depreciable assets were either treated as deferred income and transferred to the P&L in proportion to the depreciation; or deducted from the cost of the asset. Ind AS does not permit recognition of grants directly in reserves. Therefore, government grants will be recognized as income, on a systematic basis, over the periods necessary to match them with the related cost, which they are intended to compensate. Further, asset-related government grants are presented in the balance sheet only by setting up the grant as deferred income and not as a reduction from PPE.

If a company applies previous GAAP carrying amount under Ind AS on first time adoption, no further adjustment to the Indian GAAP carrying amount of PPE is permitted, other than that for decommissioning obligation. Therefore, if a company had asset-related grant in the past which was treated as promoter's contribution under Indian GAAP, as at the Ind AS transition date, the company has to set up a deferred income balance government grant without adjusting the carrying amount of the asset. The spare debit on the transition dates is made to retained earnings (reserves) and subsequently the government income is amortised based on the balance depreciation charge of the asset.

Two companies in our sample had P&L impact on account of this change under Ind AS.

■      **Other Ind AS adjustments**

- Broader concept of 'control'- consolidation based on new definition of control.
- Long term provisions are required to be initially measured at a discounted amount. Subsequently there is P&L charge on account of unwinding of the discount.
- Redeemable preference share capital issued to be classified as financial liability rather than equity.
- Minority interest regarded as non-controlling interest (as a part of equity) and losses in subsidiaries to attributable to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.
- Deemed cost fair valuation of PPE on date of transition resulting in higher or lower subsequent depreciation.
- Actuarial gains/ losses on defined benefit employee benefits to be accounted in OCI.

## 7.7 Iron and steel

Sample size– **3** companies

Aggregated profit and equity reconciliations of the sample companies are as follows:

Description	P&L reconciliation (Rs. Cr)	Equity reconciliation (Rs. Cr)
Profit/(loss) after tax/equity as per Indian GAAP	(5,168)	50,122
Property, plant and equipment	7,402	21,012
Financial instruments	(3,687)	5,997
Employee benefits	(1,707)	–
Deferred tax	1,158	(8,808)
Business combinations and consolidation	–	(7,700)
Others	(137)	2,910
Profit/(loss)after tax /equity as per Ind AS	(2,139)	63,533

### ■ Property, plant and equipment

Steel industry is characterized by high capital intensity and therefore, expectedly, PPE was a major impact area.

#### – Fair valuation as deemed cost for property, plant and equipment

On transition to Ind AS, instead of recalculating the carrying value of PPE under Ind AS, a company has certain choices with respect to PPE balances on the transition date. In the event that a company elects such a choice, the amounts so substituted are referred to as the 'deemed cost' of the PPE. One such choice is to revalue some or all items of PPE to their fair value as at the transition date with a corresponding adjustment in the retained earnings/ reserves. Subsequent depreciation charge is based on the fair valued asset base.

One large steel company in our sample used this exemption. The fair valuation uplift increased the 31 March 2016 equity (net worth) of the company by 42% and impacted net loss by 246%.

- **Accounting for major overhaul**

Mechanical and electrical equipment of power stations generally require regular overhauls, repair and refurbishment. Under Indian GAAP, generally, major overhaul expenses were charged off to P&L as incurred. Ind AS requires major repairs and overhaul expenditure to be capitalized as replacement costs, if they satisfy the recognition criteria.

- **Accounting for spares**

Major spares and stand-by equipment were generally treated as inventory under Indian GAAP. Under Ind AS, all spare parts, stand-by and servicing equipment qualify as PPE if the company intends to use these during more than a period of 12 months.

The changes in accounting for major overhaul and spare resulted in 6% impact in net loss of one of our sample company.

- **Financial instruments**

- **Fair valuation of investments**

Ind AS generally requires investments in equity shares (other than that of subsidiaries, joint ventures and associates), investment in mutual funds units and derivative instruments at fair value. For investments in equity shares, there is an irrevocable choice to measure at fair value either at FVPL or FVOCI. If the FVOCI option is availed, fair value movement and gains/losses on sale of the investments permanently escape P&L – all remeasurement changes other than dividend income are recognized in equity through OCI.

One steel company opted for FVOCI for its investments. As a result of this

the reversal of gain on sale of equity instruments in P&L amounted to 117% of its net loss.

- **Reclassification of perpetual bonds**

A couple of companies have issued perpetual non-redeemable callable bond with a fixed coupon rates. The bonds are normally redeemable only at the issuer's option. Coupon interest can be deferred in perpetuity at the issuer's option. Under Ind AS, if certain criteria are met, such instruments get classified as equity.

One company in our sample reclassified its perpetual bonds as equity causing 8% increase in its equity.

- **Measurement at effective interest method**

Steel companies borrow long term funds for projects and operations. Ind AS requires financial liabilities, such as loans and borrowing, to be initially fair valued, net of initial transaction costs, and subsequently to be measured at amortised cost using effective interest rates. This affected all the companies in our sample.

Measurement of financial liabilities at amortised cost caused 10% increase in net loss of a sample company.

- **Embedded derivatives- provisionally priced contracts**

Steel is traded on the London Metal Exchange (LME) or other exchanges. Many contracts in the industry are initially provisionally priced and subsequently finalized based on the on the future pricing observable on these exchanges. In many cases, these futures prices are not the same as expected future spot prices. Under Ind AS, at contract inception the entity is required to determine whether the provisional pricing mechanism represents an embedded derivative that needs to be separated from the host sales purchase/ sale contract.

- **Employee benefits**

Under Indian GAAP, actuarial gains and losses on postemployment benefit plans and other long term employment plans are to be recognised immediately in P&L. Under Ind AS, all actuarial gains and losses with respect to defined benefit plans employment benefit plans are to be recognised in equity through other comprehensive income and permanently escape P&L.

The net loss of a large steel company was impacted by 56% on account of this adjustment.

- **Deferred tax**

Deferred tax is recognized for the Ind AS transition adjustments giving rise to temporary differences. This impacted all the sample companies.

- **Business combinations**

- **Acquisition accounting**

Currently, Indian GAAP does not mandatorily require fair valuation of assets and liabilities acquired on amalgamation/acquisition. However, with the introduction of Ind AS, fair valuation of all assets and liabilities would be mandatory, except for those under common control.

This adjustment caused a 15% decrease in the 31 March 2016 equity (net worth) of a sample company.

- **Consolidation of employee welfare trust**

The concept of “control” under Ind AS is broader than that under Indian GAAP, and goes beyond the shareholding and board nomination rights. Under Ind AS, such SPEs, such as employee welfare trusts, may be required to be consolidated.

- **Other Ind AS adjustments**

In addition to abovementioned impact areas, following Ind AS adjustments also



impacted our sample companies:

- Foreign exchange fluctuations are charged to P&L
- Redeemable preference share capital issued to be classified as financial liability rather than equity
- Accounting for leases embedded in sale/purchase/ service/outsourcing / freight contracts

## 7.8 Jewelry & Gems

Sample size- **3** companies

Aggregated profit reconciliation of the sample companies is as follows:

Description	P&L reconciliation (Rs. Crores)
Profit after tax as per Indian GAAP	804
Property, plant & equipment	(23)
Employee benefits	8
Deferred tax	7
Financial instruments	(7)
Lease	4
Others	(1)
Profit after tax as per Indian GAAP	792

### ■ Fair valuation as deemed cost for property, plant and equipment

On transition to Ind AS, instead of recalculating the carrying value of PPE under Ind AS, a company has certain choices with respect to PPE balances on the transition date. In the event that a company elects such a choice, the amounts so substituted are referred to as the 'deemed cost' of the PPE. One such choice is to revalue some or all items of PPE to their fair value as at the transition date with a corresponding adjustment in the retained earnings/ reserves. Subsequent depreciation charge is based on the fair valued asset base.

This adjustment impacted two sample companies. The additional depreciation charge caused 35% decrease in the profit of one of a sample company.

- **Employee benefits**

Under Indian GAAP, actuarial gains and losses on postemployment benefit plans and other long term employment plans are to be recognised immediately in P&L. Under Ind AS, all actuarial gains and losses with respect to defined benefit plans employment benefit plans are to be recognised in equity through other comprehensive income.

- **Deferred tax**

All Ind AS transition adjustment that cause in temporary differences between book base and tax base of assets and liabilities result in recognition of deferred tax assets or liabilities. This was an adjustment in all the sample companies.

- **Financial instruments**

- **Measurement of financial asset and liability using effective interest method**

Borrowings and investments in debt instruments are financial instruments under Ind AS and are accounted for at amortised cost using effective interest method. Indian GAAP did not contain any such requirement and interest was generally accrued based on the stated interest rates.

- **Financial instruments– fair valuation of investments and derivative contracts**

Ind AS requires investments in equity shares (other than that of subsidiaries, joint ventures and associates) and derivative instruments at fair value. For investments in equity shares, there is an irrevocable choice to measure at FVPL or FVOCI.

- **Financial guarantees**

Under Ind AS, financial guarantees issued in favor of bank on behalf of another company, for example, a subsidiary, are accounted for and are initially recognised and measured at fair value. Subsequently, the measurement is at the higher of: amount of loss allowance determined as per impairment requirements of Ind AS 109, and amount initially recognized less, where appropriate, cumulative amortization.

- **Leases**

Indian GAAP requires lease rental escalations to be straight-lined over the lease term. In the Indian context, given the inflationary situation, Ind AS states that the straight lining of lease rentals may not be required in cases where periodic rent escalation is due to inflation. Indian GAAP did not contain this relaxation for straight lining.

- **Other Ind AS adjustments**

In addition to abovementioned impact areas, following Ind AS adjustments also impacted our sample companies:

- Deferral of revenue due to multiple-element deliverable arrangements
- Ind AS provides hedge accounting options – one of them being that of cash flow hedge accounting model. This applies in a hedge of the cash flow exposure relating to a recognised asset/ liability, firm commitment or a highly probable forecast transaction. For example, a forward contract taken for a highly probable forecast export transaction would qualify for consideration as a cash flow hedge. One company in our sample used this option and had cash flow hedge reserve.

## 7.9 Media and entertainment

Sample size– **3** companies, including companies involved in broadcasting.

Aggregated profit reconciliation of the sample companies are as follows:

Description	(Rs. Crores)
Profit after tax as per Indian GAAP	1,087
Financial instruments	(101)
Revenue	2
Others	1
Profit after tax as per Ind AS	989

### ■ Financial instruments

#### – Preference shares

Under Ind AS, the liability and equity classifications of financial instruments may change substantially. Redeemable preference shares, classified as part of equity under Indian GAAP, are treated as, partly or entirely, as debt under Ind AS. This is due to the nature of the instrument giving rise to redemption obligation at a future date. Such debt instruments are initially measured at fair value and subsequently amortised through P&L by booking finance cost. Dividend distribution tax payable on such debt instruments are charged to P&L as finance cost.

This resulted in 27% decrease in the net profit of a sample company.

#### – Fair valuation of investments

Ind AS generally requires investments in equity shares (other than that of subsidiaries, joint ventures and associates) at fair value. For investments in equity shares, there is an irrevocable choice to measure at FVPL or FVOCI.

Fair valuation through P&L caused 13% increase in the net profit of one of the broadcasting company in our sample.

- **Initial fair valuation of refundable deposits**

All financial assets including assets such as interest free lease deposits have to be fair valued at inception under Ind AS. The initial difference on fair valuation of interest free lease deposits relating to an operating lease is considered as prepaid lease rent to be amortised as additional lease expense over the lease term.

- **Revenue**

- **Sale contracts with extended credit period**

Under Indian GAAP, revenue is recognised at the contractual value of the consideration receivable. Ind AS requires measurement of revenue at fair value of the consideration receivable. If the seller offers an extended credit period to customers, revenue is recognised at the present value of future cash inflows. Subsequently, interest income is recognised over the credit period for the difference between the revenue recognised and the stated transaction value.

- **Non-cash consideration (barter advertising transactions)**

Arrangements in the sector at times involve non-cash consideration in the form of barter advertising. For example, a media company may provide advertisement to an advertiser (generally a startup) for a period of 2-3 years, partly or fully, in exchange of right to subscribe for the equity shares of the advertiser. There are several variations of such arrangements amongst the media companies. IndAS requires entities to measure the consideration at fair value whenever the arrangement includes non-cash consideration. This would require estimation of fair value of the non-cash consideration, i.e. the equity shares of the advertiser and recognize revenue over the period as and when the advertisement services are rendered.

- **Other impact areas**

Apart from the aforementioned adjustments following Ind AS differences were also

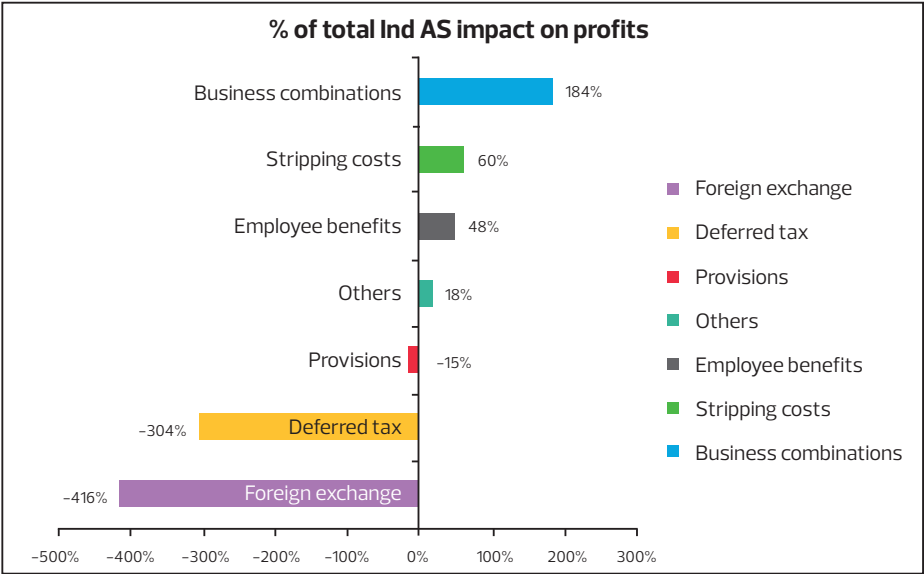
evident, although quantitatively they did not have significant P&L impact.

- Employee share based payment charge to be based on fair value method instead of intrinsic value method.
- Minority interest regarded as non-controlling interest (as a part of equity) and losses in subsidiaries to attributable to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.
- Actuarial gains/ losses on defined benefit employee benefits to be accounted in OCI.
- Deferred tax resulting from all the Ind AS transition adjustment.

7.10 Mining and metals

Sample size- **6** companies involved in metal mining and related operations.

The diagram below depicts the Ind AS area wise contribution to the net impact on the aggregated profits of sample companies:



- **Financial instruments– fair valuation of investments and derivative contracts**

Ind AS requires investments in equity shares (other than that of subsidiaries, joint ventures and associates), investment in mutual funds units and derivative instruments at fair value. For investments in equity shares, there is an irrevocable choice to measure at fair value either at FVPL or FVOCI.

Fair valuation of investments caused 33% increase in the net profit of a sample company – a large metal and commodities group. While the 31 March 2016 net worth of another large commodities company increased by 8% in our sample.

- **Foreign currency exchange differences**

Given the international nature of metals market, mining entities often enter directly into transactions that are denominated in foreign currencies; and conduct foreign operations through a subsidiary, an equity interest, a joint venture or a directly owned operation.

Under Indian GAAP, companies prepared their financial statements using Indian rupees. Under Ind AS, a company needs to determine its functional currency, which may not necessarily be the currency of the country in which it is domiciled. Thus, it is possible that the functional currency of an Indian company may be a foreign currency. Each within the group financial statements should undertake its own determination of functional currency based on its primary economic environment. Factors used for determining the functional currency include the currency that determines the sales price, currency in which costs of providing goods and services are incurred, currency of the country whose competitive forces and regulations mainly determine the sales prices of goods and services, and currency in which funds are raised and retained. In addition, factors such as, application of USD-based pricing in mining sector and significant costs in USD, may indicate USD to be the functional currency in many mining operations. An entity's functional currency may differ from its presentation currency, which is defined as the currency in which the financial statements are presented. This would be Indian Rupees under Companies Act.

Functional currency determination can have a considerable effect on the results and financial position of a company because Ind AS requires all foreign currency amounts (e.g., foreign currency assets, liabilities, revenues and expenses) to be translated into the functional currency.

The net profit of one large mining and metals group decreased by 24% on account of foreign exchange fluctuation accounting under Ind AS.

## ■ **Deferred tax**

As can be seen from the above, Ind AS adjustment on account of deferred tax has been one of the main impact areas in the sector. In aggregate, deferred tax resulted in 3% decrease in the aggregated net profit of our sample companies. In case of a sample company, the deferred tax Ind AS adjustment was as high as 18% of net profit.

### – **Deferred tax of Ind AS adjustments**

All Ind AS transition adjustment that cause in temporary differences between book base and tax base of assets and liabilities result in recognition of deferred tax assets or liabilities. This was an adjustment in all the sample companies.

### – **Deferred tax on undistributed profits of subsidiaries, joint ventures and associates**

The differences in tax base and carrying amount of investments would arise due to the existence of undistributed profits of a subsidiary, joint venture or associate. Under Ind AS, deferred taxes are recognized on such temporary differences, unless the parent or investor is able to control the timing of the reversal of the temporary difference; and it is probable that the temporary difference will not reverse in the foreseeable future. This exemption is generally available for undistributed profits of a subsidiary or a joint venture where the parent or investor controls distribution of dividends, and there is no current management intention to declare dividend from such



undistributed profits. Deferred taxes are recognised on the portion of undistributed profits of a subsidiary, which have already been proposed for or are intended for distribution as dividend.

The net profit of one large mining and metals group in our sample decreased by 10% on account of the Ind AS deferred tax adjustment on undistributed profits of subsidiaries.

- **Business combinations – reversal of goodwill amortization charge**

Indian GAAP required amortization of goodwill in the case of amalgamations. Many companies also followed the practice of amortization of goodwill arising of consolidation. Ind AS prohibits amortization of goodwill arising on business combinations, and requires it to be tested for impairment annually.

This reversal of goodwill amortization charge increased the net profit of a large mining and metals group in our sample by 11%.

- **Upstream accounting– stripping costs**

In surface mining operations, entities may find it necessary to remove mine waste materials ('overburden') to gain access to mineral ore deposits. This waste removal activity is known as 'stripping'. Ind AS set out the principles for recognition of stripping costs incurred during production phase and acknowledges that some of these costs will benefit production in future and sets out the criteria for capitalizing such costs. Indian GAAP did not specifically deal with such costs. Many companies used to either expense such costs as incurred or allocate them to inventory produced in the period.

Capitalisation of stripping cost under Ind AS caused 4% increase in the net profit of a sample company.

- **Employee benefits**

Under Indian GAAP, actuarial gains and losses on postemployment benefit plans and other long term employment plans are to be recognised immediately in P&L.

Under Ind AS, all actuarial gains and losses with respect to defined benefit plans employment benefit plans are to be recognised in equity through other comprehensive income.

### ■ **Other Ind AS adjustments**

In addition to abovementioned impact areas, following Ind AS adjustments also impacted our sample companies:

- Ind AS requires major repairs and overhaul expenditure to be capitalized as replacement costs, if they satisfy the recognition criteria.
- Under Ind AS, all spare parts, stand-by and servicing equipment qualify as PPE if the company intends to use these during more than a period of 12 months.
- Under Ind AS a company can measure PPE at fair value at the Ind AS transition date as deemed cost.
- Discounting of long term provision: Provision for long term mine restoration obligations are required to be initially measured at a discounted amount. Subsequently there is P&L charge on account of unwinding of the discount. Under Indian GAAP, such provisions were accrued at the gross values.
- The repurchase or buy back of own shares by a company is subject to the requirements of the Companies Act. However, in practice, many companies hold their own shares through consolidated or unconsolidated trusts. Many companies follow this to administer their employee share stock options and other share-based payments. Accounting practice varied under Indian GAAP on treatment of 'gains' that arise on any subsequent 'sale' of such shares. Ind AS requires consideration paid for repurchased shares (referred to as 'treasury shares') to be recognised as a deduction from equity. Further, no gain or loss is recognized in P&L on purchase, sale, issuance, re-issuance or cancellation of a company's own equity instruments.

## 7.11 Oil and gas

Sample size– **5** covering oil and gas extraction companies, oil refining and marketing & retailing companies.

Aggregated profit reconciliation of the sample companies are as follows:

Description	P&L reconciliation (Rs. Crores)
Profit after tax as per Indian GAAP	47,782
Impairment reversal due to changes in reversal of oil and gas assets	10,646
Foreign exchange	(946)
Deferred tax	(831)
Financial instruments	736
Employee benefits	686
Property, plant and equipment	354
Change in accounting policy for oil and gas assets	(136)
Others	(129)
Profit after tax as per Ind AS	58,162

### ■ Property, plant and equipment (PPE)

This sector is capital-intensive and, expectedly, the biggest impact area was around PPE.

#### – Fair valuation as deemed cost for property, plant and equipment and reversal of impairment provision on oil and gas assets

On transition to Ind AS, instead of recalculating the carrying value of PPE under Ind AS, a company has certain choices with respect to PPE balances on the transition date. In the event that a company elects such a choice, the amounts so substituted are referred to as the 'deemed cost' of the PPE. One such choice is to revalue some or all items of PPE to their fair value as at the transition date with a corresponding adjustment in the retained

earnings/ reserves.

Use of this option for land by an oil and gas major resulted in increase of the 31 March 2016 Indian GAAP consolidated net worth by 21%. The consequential impact on P&L on account of depletion and reversal of impairment charged under Indian GAAP increased net profits by 14%.

#### – **Accounting for enabling assets**

Companies, particularly, public sector undertakings, setting up their factories/ plant in remote places, incur significant expenditure on building roads (e.g. approach roads to factory) on land which is not owned by them. Under Indian GAAP, there was an EAC opinion issued a couple of years back which required such expenditure on construction of roads on land not owned by them to be expensed. Under Ind AS, if the expenditure is necessary for the item of PPE capable of operating in the manner intended by the management, it is capitalised. Having such approach roads are often necessary for the construction and running of the factory/ plant. Therefore, Ind AS would require capitalisation of expenditure on enabling assets such as roads as a component of the factory/ plant.

3 oil public sector undertakings in our sample had impacts on account of this change.

#### ■ **Change in accounting for extractive assets**

One oil & gas major in our sample change its accounting policy from full cost method to successful efforts method with a consequential impact at the date of transition in retained earnings/ reserves. This resulted in decrease in its opening reserves by 16% of its Indian GAAP net worth as on 31 March 2016.

#### ■ **Foreign currency accounting**

Under Indian GAAP, allowed companies to adjust exchange differences arising on long-term foreign currency monetary items to the carrying value of depreciable

capital assets (to the extent they relate to the acquisition of such assets) and are depreciated through P&L over the useful lives of the assets. If the long term foreign currency monetary item relates to other than acquisition of a depreciable capital asset, exchange differences are accumulated in the 'Foreign Currency Monetary Item Translation Difference Account' which is subsequently amortised through the P&L over the life of such long term asset or liability. Ind AS requires exchange differences arising on translation/settlement of all foreign monetary items, including long-term foreign currency monetary items, to be recognized in P&L for the period in which they arise. It does not give an option to defer or to capitalize exchange differences arising on long-term foreign currency monetary items.

This adjustment caused 10% increase in the loss of a sample company, an oil extraction major.

- **Deferred tax**

Deferred tax is recognized for the Ind AS transition adjustments giving rise to temporary differences. This impacted all the companies in the sample.

- **Financial instruments**

Investments in equity shares of other companies (other than that in subsidiaries, joint venture and associates) and mutual fund units are required to be fair valued under Ind AS. Under Indian GAAP, they are generally classified as long term or current. Long term investments are measured at cost less other than temporary diminution in the value of investment. Current investments are measured at lower of cost or market price.

This adjustment increased the 31 March 2016 net worth of a sample company by 7%.

- **Other Ind AS adjustments**

Due to the large sizes of the sample companies some of the Ind AS requirements

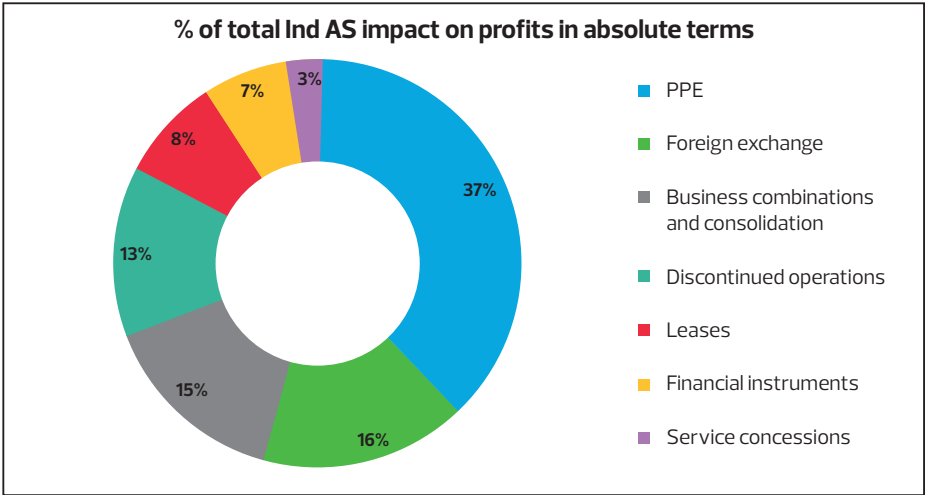
which are complex did not result in significant P&L impact. Some of these changes were as follows:

- Provisional pricing of sale and purchase agreements: Often sale and purchase contracts in the sector are on provisional pricing basis and are finalized based on average index rates for a period of supply. Ind AS requires such provisional pricing features in arrangements to be treated as what is known as embedded derivatives, which are required to be separated at the date of recognizing the purchase/ sale and subsequently remeasured through P&L based on the index movement until settlement.
- Long term provisions arising on site restoration obligation are required to be initially measured at a discounted amount. Subsequently there is P&L charge on account of unwinding of the discount.
- Actuarial gains/ losses on defined benefit employee benefits to be accounted in OCI.
- Measurement of financial liabilities such as loans and borrowings at effective interest method.
- Derivatives are required to be fair valued through P&L under Ind AS.
- Accounting for financial guarantee provided for loans taken by group companies at fair value and subsequent unwinding through P&L.

7.12    Power and utilities

Sample size– **8** companies, including companies involved in generation, distribution and transmission of power or gas.

Following chart provides an area wise Ind AS adjustment as a % of aggregated Ind AS impact (both in absolute terms):



■    Foreign exchange

Under Indian GAAP, allowed companies to adjust exchange differences arising on long-term foreign currency monetary items to the carrying value of depreciable capital assets (to the extent they relate to the acquisition of such assets) and are depreciated through P&L over the useful lives of the assets. Ind AS requires exchange differences arising on translation/settlement of all foreign monetary items, including long-term foreign currency monetary items, to be recognized in P&L for the period in which they arise. It does not give an option to defer or to capitalize exchange differences arising on long-term foreign currency monetary items.

Decapitalisation of foreign currency losses under Ind AS resulted in a 34% decrease in net profit of a large power company.

## ■ Consolidation of joint venture and associates

Under Indian GAAP, all joint ventures are classified into three types, jointly controlled assets, jointly controlled operations and jointly controlled entities. An entity's investments in joint controlled entities are accounted for using proportionate consolidation method. Ind AS classifies joint arrangements into two types, joint ventures and joint operations. An entity's interest in joint venture is accounted for by using equity method. Investments in associates are also accounted for using equity method. Consolidation of all the joint ventures and associates is based on their Ind AS financial statements.

Ind AS adjustments on joint venture and associates' share of profits resulted in 32% decrease in the net profits of a large power company in our sample.

## ■ Property plant and equipment

PPE was one of the main impact areas and all the sample companies Ind AS adjustments on this account. All companies in our sample had Ind AS adjustment on account of PPE.

### – Accounting for major overhaul

Mechanical and electrical equipment of power stations generally require regular overhauls, repair and refurbishment. Under Indian GAAP, generally, major overhaul expenses were charged off to P&L as incurred. Ind AS requires major repairs and overhaul expenditure to be capitalized as replacement costs, if they satisfy the recognition criteria.

### – Accounting for spares

Major spares and stand-by equipment were treated as inventory by many power companies. Under Ind AS, all spare parts, stand-by and servicing equipment qualify as PPE if the company intends to use these during more than a period of 12 months.

This adjustment resulted in 7% increase in net profits of a sample company.



- **Fair valuation as deemed cost for property, plant and equipment**

On transition to Ind AS, instead of recalculating the carrying value of PPE under Ind AS, a company has certain choices with respect to PPE balances on the transition date. In the event that a company elects such a choice, the amounts so substituted are referred to as the 'deemed cost' of the PPE. One such choice is to revalue some or all items of PPE to their fair value as at the transition date with a corresponding adjustment in the retained earnings/ reserves. If this choice is availed, the subsequent P&L depreciation charge is based on the fair valued asset base.

The additional depreciation charge arising on fair value deemed cost of PPE caused 35% decrease in the net profits on a major gas utility company in our sample.

- **Discontinuing operations**

Ind AS requires that non-current assets (or disposal groups) that meet criteria to be classified as held for sale to be carried at the lower of its carrying amount and fair value less cost to sell on the initial date of such identification. Ind AS also requires that a non-current asset classified as held for sale or forming part of disposal group should not be depreciated. These requirements are different from those under Indian GAAP which require that depreciation charge to continue.

This change caused 28% increase in the net profits of a large power company in our sample.

- **Financial instruments**

- **Fair valuation**

Ind AS generally requires investments in equity shares (other than that of subsidiaries, joint ventures and associates), investment in mutual funds units and derivative instruments at fair value. For investments in equity shares, there is an irrevocable choice to measure at fair value either through P&L or through OCI (FVOCI). If the FVOCI option is availed, fair value

movement and gains/ losses on sale of the investments permanently escape P&L – all remeasurement changes other than dividend income are recognized in equity through OCI.

Fair valuation of derivatives resulted in 20% increase in the net profit of a gas utility company, while the loss of fair valuation of FVOCI equity investments for the period recognized in OCI constituted 221% of its net profits.

#### – **Measurement of effective interest rate**

Borrowings and investments in debt instruments are treated as financial instruments under Ind AS and are accounted for at amortised cost using effective interest method. Indian GAAP did not contain any such requirement and interest was generally accrued based on the stated interest rates.

Measurement based on effective interest rate resulted in 16% decline in the net profits on one power company in our sample.

### ■ **Embedded leases**

Indian GAAP does not provide explicit guidance on accounting for lease transactions which are embedded in purchase/sale arrangements. Such arrangements are generally recognised based on their legal form. Ind AS provides specific guidance for the identification of embedded leases. Once identified as a lease, the principles for classification and accounting of the embedded lease would be the same as other leases. Under Ind AS, leasing would extend to many power purchase agreements which, in substance, meet the definition of a lease, even though not be structured as 'lease'. These arrangements convey a right to use an asset or assets for an agreed period of time in return for a payment or series of payments.

All the power companies in our sample had adjustments on account of embedded leases.

## ■ Other impact areas

Apart from the aforementioned adjustments following Ind AS differences were also evident, although quantitatively they did not have significant P&L impact.

- **Service concession arrangements:** There is no specific guidance under Indian GAAP for accounting for service concession agreements and accordingly, practice in this area varies significantly. Ind AS provides specific guidance for public-to-private service concession arrangements in which: the public sector entity controls or regulates the services provided with the infrastructure and their prices; and controls any significant residual interest in the infrastructure. The operator does not recognise the PPE constructed as a part of the service concession arrangement. As per the service concession agreement, the operator is considered to have a right to access, rather than a right to use/right of ownership over the infrastructure asset. This right is recognised either as an intangible asset or a financial asset based on terms of the arrangement.
- Employee share based payment charge to be based on fair value method instead of intrinsic value method.
- Redeemable preference share capital issued too to be classified as financial liability rather than equity.
- Minority interest regarded as non-controlling interest (as a part of equity) and losses in subsidiaries to attributable to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.
- Fair value adjustments for assets and liabilities acquired in business combinations and acquisitions.
- Actuarial gains/ losses on defined benefit employee benefits to be accounted in OCI.
- Waiver of interest on loan given to subsidiary treated as deemed investment in equity under Ind AS.

- Deferred tax resulting from all the Ind AS transition adjustment.
- Acquisition cost incurred on business combinations considered as investment costs charged to P&L under Ind AS.

### 7.13 Pharmaceuticals and life science

Sample size – **12** companies. Our sample companies ranged from generic drug manufacturers to clinical research companies.

Aggregated profit reconciliation for the companies covered in the sector based:

Description	(Rs. Crores)
Profit after tax as per Indian GAAP	9,164
Financial instruments	(134)
Deferred tax	792
Business combinations	16
Others	22
Profit after tax as per Ind AS	9,861

- **Deferred tax**

As can be seen from the above, Ind AS adjustment on account of deferred tax significantly impacted the sector. In aggregate, deferred tax resulted in 9% increase in the net profits of our sample companies. In case of one of the companies, the deferred tax adjustment was as high as 18% of net profits.

Under Ind AS, deferred taxes computations are based on the temporary differences rather than timing differences under Indian GAAP. This approach often results in more deferred tax to be considered for more items, which may be outside a company's P&L.

- **Deferred taxes on unrealized profits on intra-group transactions**

In pharma sector, the main reason for Ind AS adjustment for deferred tax is primarily due to consolidation related adjustment arising on elimination of unrealized profit on subsidiary. Most Indian pharma companies who export

their products, first sell their products to their foreign subsidiaries, who, in turn, subsequently sell the products locally. In the consolidated financial statements of the group, the unrealized profits on the unsold inventory at the subsidiary's books have to be eliminated.

Under Indian GAAP, deferred tax in the consolidated financial statements is the sum of the tax expense of the parent and the subsidiaries. Under IndAS, deferred tax adjustments are made on account of this inter company elimination of unrealized profits. When unrealized profits are eliminated on unsold inventory purchased by a subsidiary from a parent, deferred taxes are recognized for the temporary difference arising between the tax base (normally the invoiced value) and the carrying amount in the consolidated financial statements (the group's cost after eliminating the unrealized profits).

## ■ **Financial instruments**

### – **Fair valuation**

Pharma companies were also affected by the Ind AS requirement to fair value financial instruments such as investments in equity shares (other than that of subsidiary, joint venture and associate companies). There is an irrevocable option to designate investments in equity shares, not held for trading, as fair value through other comprehensive income (FVOCI). At least two companies in the sample used this option.

### – **Sales tax deferral scheme**

Under Ind AS, all financial instruments (including below market borrowings from the government) are initially recognised at fair value with reference to the market rate of interest for a borrowing with similar terms (currency, tenure, etc.) The difference between the initial carrying amount of the borrowing and the present value of future cash inflows and outflows discounted using the market rate of interest would be accounted for as a government grant. This government grant would be recognised as income

over the period of the loan. Sales tax deferral schemes are treated as borrowings from government at below-market interest rates. This impacted at least 3 companies in our sample.

## ■ **Business combinations**

### – **Purchase price allocation**

Currently, Indian GAAP does not mandatorily require fair valuation of assets and liabilities acquired on amalgamation/acquisition. However, with the introduction of Ind AS, fair valuation of all assets and liabilities would be mandatory, except for common control transactions. Accounting for amalgamation/ acquisition transactions in pharmaceutical sector under Ind AS would lead to recognition of several intangible assets by the acquirer/transferee companies. For example, know how and formulations, in-process research & development, distribution network of distributors, customer relationships and so on.

Retrospective application of Ind AS accounting for past acquisitions is voluntary – Ind AS 101 provides an exemption for business combinations arising prior to transition date. Atleast two companies in our sample opted to apply Ind AS business combinations accounting retrospectively. This resulted in 8% decline in the net profits of one of the companies.

### – **Reversal of goodwill amortization charge**

Indian GAAP required amortization of goodwill in the case of amalgamations. Ind AS 103 prohibits amortization of goodwill arising on business combinations, and requires it to be tested for impairment annually. This reversal of goodwill amortization charge increased the net profit of one of our sample companies by 8%.

## ■ **Revenue**

Although revenue does not feature in the above table as a high impact Ind AS area

of adjustments in quantitative terms, there have been several discussions and deliberations around revenue under Ind AS in the industry. Following are a few key issues.

- **Estimated sales returns**

One of the prevalent trade practices in the Indian pharmaceutical industry is for the drug manufacturers to accept from the distributors and retailers the returns of products whose shelf lives have either expired or are nearing expiry. Under Indian GAAP, AS 9 provides that when goods are sold with an unlimited right of return to the buyer, it would be appropriate to recognise revenue, but a provision for the anticipated returns based on past experience is required. Consequently, under Indian GAAP, this provision can be presented as a separate expense item in the P&L without any adjustment to revenue.

Under Ind AS, when the buyer has a right of return the goods and there is uncertainty about the possibility of return, revenue is not recognised until the shipment has been accepted by the customer or the goods have been delivered and the time period for rejection has elapsed. Under Ind AS 18, an adjustment would be made to revenue, cost of revenue, and inventories for estimated sales return based on past experience.

This impacted one pharmaceutical company in our sample, by reducing its Sep 2015 revenue by 2%.

- **Linked transaction/ multiple element transactions**

Many Indian pharmaceutical companies enter in to out licensing agreements for the purpose of selling their products overseas. Generally there are two deliverables – sale of product dossier based on which the customer gets 'market authorisation' and commitment to supply the products for sale in that specific country. Such arrangements take various structures and variations. Under Indian GAAP, revenue from sale of dossiers is generally recognized based on the contractual milestones while revenue from sale of

goods is recognised separately on supply of goods when risks and rewards of ownership are transferred for those goods.

Under Ind AS, it is necessary to apply the revenue recognition criteria to the separately identifiable components of a single transaction in order to reflect the substance of the transaction. Conversely, the recognition criteria are applied to two or more transactions together when they are linked in such a way that the commercial effect cannot be understood without reference to the series of transactions as a whole.

This resulted in 2% decrease in one large pharmaceutical company in our sample.

#### ■ **Other Ind AS impact areas**

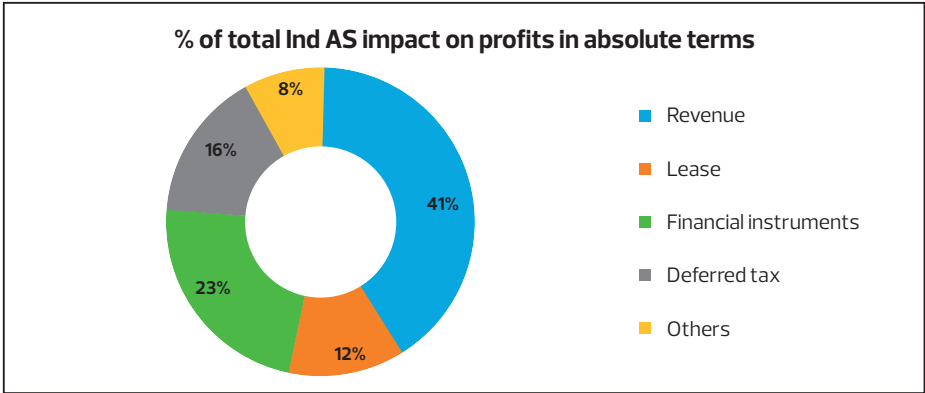
- Transition date option of fair valuation of items of PPE with consequential impact subsequent depreciation.
- Employee share based payment charge to be based on fair value method instead of intrinsic value method.
- Minority interest regarded as non-controlling interest (as a part of equity) and losses in subsidiaries to attributable to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.
- Cash discount provided to customers to be estimated and deducted from revenue.



7.14    Real estate and construction

Sample size- **3** companies, including companies involved in construction& development of real estate projects and/or renting out commercial properties.

Aggregated profit reconciliation of the sample companies are as follows:



■    Revenue

One of the major Ind AS issues in the sector is around revenue recognition for real estate development. In fact, one of the carve outs from IFRS is on account of non-inclusion of the equivalent of an IFRS interpretation, IFRIC 15 – *Agreements for the Construction of Real Estate*, under Ind AS. Instead, there is guidance note issued by the ICAI for real estate sales that is to be applied. As per the Ind AS GN, revenue is recognized generally by applying the percentage of completion method on the basis of the methodology explained in Ind AS 11 *Construction Contracts*. The treatment is similar to that given in the ICAI GN of real estate issued by the ICAI under Indian GAAP.

–    **Barters, joint development and other matters**

Real estate companies in India often enter into redevelopment agreements with residential flat owners/societies for the demolition and reconstruction of existing building. The developer gets the development rights are acquired by way of construction of built-up area. Real estate companies also enter into various types of joint development agreements (JDAs) with land

owners for permission to construct buildings in return for ownership of a part of the building. In practice such agreements are structured in different ways, often to optimize the tax impact or to facilitate fund-raising.

Under the Indian GAAP, most developers treated the construction cost as the acquisition cost of development rights. However, Ind AS requires intangible assets (development rights) acquired in an exchange transaction to be measured at the fair value of the asset given up. This resulted in fair value of the development right to be accounted for.

Real estate developers often provide add-on incentives to buyers in addition to the construction/ development of real estate – e.g, property management services, decorative fittings, etc. The practice under Indian GAAP was to club all the amenities along with revenue from flats, while applying the percentage of completion method. However, under Ind AS, some of such amenities will need to be evaluated for a multiple-element arrangement.

Such Ind AS differences resulted in 58% increase in net profit of one company in our sample, while the net profit of another company decreased by 15%.

## ■ Financial instruments

### – Measurement at effective interest method

Real estate companies are debt heavy. Ind AS requires financial liabilities, such as loans and borrowing, to be initially fair valued, net of initial transaction costs, and subsequently to be measured at amortised cost using effective interest rates. This affected all the companies in our sample. This adjustment caused 31% decrease in the net profit of a company in our sample.

### – Fair valuation

Ind AS generally requires investments in equity shares (other than that of subsidiaries, joint ventures and associates), investment in mutual funds

units and derivative instruments at fair value. For investments in equity shares, there is an irrevocable choice to measure at fair value either through P&L or through OCI (FVOCI).

### ■ Lease escalations

Lease accounting was one of the other impact areas in the sector. Indian GAAP requires lease rental escalations to be straight-lined over the lease term. In the Indian context, given the inflationary situation, Ind AS states that the straight lining of lease rentals may not be required in cases where periodic rent escalation is due to inflation. Indian GAAP did not contain this relaxation for straight lining.

The net profit of a sample company with operations in real estate and letting out property increased by 14% on account of this difference.

### ■ Deferred tax

Deferred tax is recognized for the Ind AS transition adjustments giving rise to temporary differences. This impacted all the sample companies.

### ■ Other Ind AS adjustments

In addition to abovementioned impact areas, following Ind AS adjustments also impacted our sample companies:

- **Consolidation of land owning companies:** There are legal caps on the area of land that a company estate companies in many parts of the country. To deal with such restrictions, real estate companies often float various special purpose entities (SPE) that purchase land from the market. The arrangements may take various structures, for example, the developer may holding exclusive rights to develop land and may invest large amount in the SPE, often, termed as advance for development rights. The concept of "control" under Ind AS is broader than that under Indian GAAP, and goes beyond the shareholding and board nomination rights. Under Ind AS, such SPEs may be required to be consolidated. At times, investments treated as subsidiaries under Indian GAAP may have to be reclassified as joint ventures due to the contractual terms and investor rights associated.

- Real estate entities often provide financial guarantees to related parties in respect of banks loans. Under Indian GAAP, such borrowings were disclosed as contingent liabilities in the financial statements of the issuer. Under Ind AS, financial guarantee contracts will be measured at fair value.
- Employee share based payment charge to be based on fair value method instead of intrinsic value method
- Redeemable preference share capital issued to be classified as financial liability rather than equity
- Certain foreign currency convertible bonds are split in equity element and debt portion, as against, being entirely treated as debt under Indian GAAP. The debt portion is subsequently measured using effective interest method, resulting in higher finance cost
- Actuarial gains/ losses on defined benefit employee benefits to be accounted in OCI

### 7.15 Retail

Sample size- **4** companies involved in retail of merchandise including through e-commerce platform.

Aggregated profit reconciliation of the sample companies is as follows:

Description	P&L reconciliation (Rs. Crores)
Profit/(loss) after tax as per Indian GAAP	26
Financial instruments	6
Revenue	(6)
Deferred tax	(2)
Share based payments	(1)
Others	2
Profit/(loss) after tax as per Indian GAAP	25

## ■ Financial instruments

### – Discounting of interest-free lease deposits

Retail companies, particularly those who have physical stores, largely take stores on lease basis. In India, interest-free refundable lease deposits are integral to the leasing arrangements. All financial assets including, interest-free lease deposit, have to be fair valued at inception under Ind AS. Subsequently, the deposit is measured using effective interest method and there is an interest income that accrues in the P&L due to unwinding.

The initial difference that arises from the fair valuation of such financial assets and liabilities is accounted for to reflect the substance of the underlying transaction. The initial difference on fair valuation of interest free lease deposits relating to an operating lease is considered as prepaid lease rent to be amortised as additional lease expense over the lease term. One large retail company had an Ind AS interest income on unwinding equivalent to 52% of its net loss. At the same time, an additional lease rental charge to the extent of 64% of the net loss on the aforesaid company. So although, the net impact on the bottom-line impact of adjustment was not so staggering, the company's key performance indicators, such as EBITDA, was impacted on account of this Ind AS requirement.

### – Fair valuation of investments and derivative contracts

Ind AS generally requires investments in equity shares (other than that of subsidiaries, joint ventures and associates), investment in mutual funds units and derivative instruments at fair value. For investments in equity shares, there is an irrevocable choice to measure at fair value either through P&L or through OCI (FVOCI).

Fair valuation of financial instruments caused 36% increase in the net profits of a large retail company in our sample.

### – Measurement at effective interest method

Ind AS requires financial liabilities, such as loans and borrowing, to be initially

fair valued, net of initial transaction costs, and subsequently to be measured at amortised cost using effective interest rates. This affected all the companies in our sample. Measurement of financial liabilities at amortised cost caused 10% increase in net loss of a major steel company in our sample. This decreased the net profit of one large retail company by 9%.

## ■ Revenue

### – **Deferral of revenue**

Retail companies often have sale– or–return (SOR) arrangements with vendors, wherein they have a right to return the unsold merchandise to the vendors. Such arrangement may have several variations. Under Ind AS 18, revenue from sale of goods is recognized when an entity transfers the significant risks and rewards of ownership and gives up managerial involvement, usually associated with ownership or control, if economic benefits are likely to flow. This means that the accounting should reflect the economic substance of transactions and not merely their legal form.

A leading retail company in our sample to deferred its revenue recognition and related costs under Ind AS, in turn, causing increase in it's net loss by 266%.

### – **Customer loyalty award schemes**

All retail companies provide loyalty incentives to their end–customers. Under Indian GAAP, there was no specific accounting standard dealing with accounting for award credits and loyalty point schemes. As a result, divergent practices emerged. Many retail companies made provision towards redemption of the award credits based on the actual costs that will be incurred to honor the award credits. Under Ind AS, award credits and other loyalty schemes are considered as a separate component of the main service transaction. Under this approach, the fair value of the award credits/points is separated, based on a fair value allocation of the overall revenue, and deferred. Such deferred income is subsequently recognised when the award credits/points are utilized by the customer or when the

same lapse unutilized.

■ **Deferred tax**

All Ind AS transition adjustment that cause in temporary differences between book base and tax base of assets and liabilities result in recognition of deferred tax assets or liabilities.

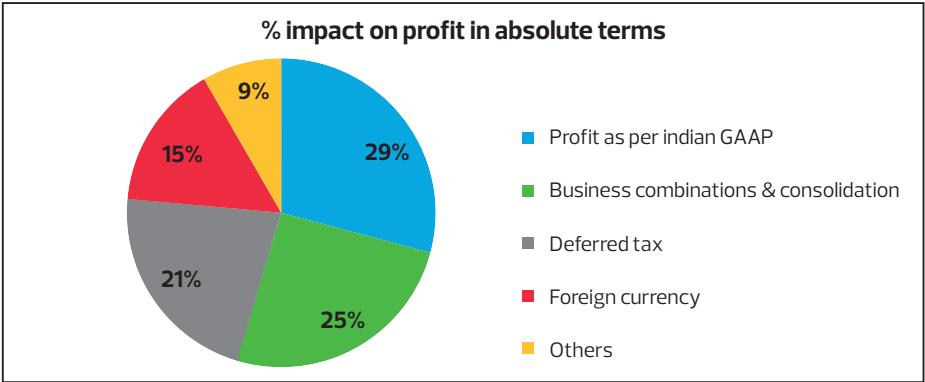
■ **Other Ind AS adjustments**

In addition to abovementioned impact areas, following Ind AS adjustments also impacted our sample companies:

- Indian GAAP requires lease rental escalations to be straight-lined over the lease term. Ind AS states that the straight lining of lease rentals may not be required in cases where periodic rent escalation is due to inflation. Indian GAAP did not contain this relaxation for straight lining.
- Lease incentives, including initial rent-free period are straight-lined over the lease term under Ind AS.
- Actuarial gains and losses with respect to defined benefit plans employment benefit plans are to be recognised in equity through OCI

7.16 **Technology and Information Technology enabling services**

Sample size – **8** companies. Our sample consisted of IT and business process outsourcing companies.



The sizes of the companies in our sample are quite big and many companies are listed abroad. Therefore, many had aligned their Indian GAAP accounting policies in lines with international practices. As a result, on an overall basis, Ind AS transition did not impact net profits of the companies significantly (less than about 1%). In this section, we discuss the main Ind AS impact areas that were individually significant as a percentage of total P&L impact.

- **Deferred tax**

Deferred tax consisted of more than half of the total net Ind AS impact on net profits of our sample companies. Technology companies generally have foreign subsidiaries, joint venture or associates in order to cater to clients overseas. Deferred tax on undistributed profits of such foreign operations was one of the most significant difference that impacted our sample companies.

- **Deferred tax on undistributed profits of subsidiaries, joint ventures and associates**

The differences in tax base and carrying amount of investments would arise due to the existence of undistributed profits of a subsidiary, joint venture or associate. Under Ind AS, deferred taxes are recognized on such temporary differences, unless the parent or investor is able to control the timing of the reversal of the temporary difference; and it is probable that the temporary difference will not reverse in the foreseeable future. This exemption is generally available for undistributed profits of a subsidiary or a joint venture where the parent or investor controls distribution of dividends, and there is no current management intention to declare dividend from such undistributed profits. Deferred taxes are recognised on the portion of undistributed profits of a subsidiary, which have already been proposed for or are intended for distribution as dividend.

- **Business combinations**

There has been fair deal of mergers and acquisitions in technology space in recent times. Intangibles such as customer contracts and relationships are one of the main value drivers in sector.



Under Indian GAAP, assets and liabilities acquired are recognised at carrying value in the books of the acquired entity. Under Ind AS, all assets including intangibles and contingent liabilities are recorded at fair value. Such intangibles are amortized over their useful life. This resulted in a decrease in the net profits in the sample companies.

#### ■ **Earn outs in an acquisition– contingent and deferred considerations**

Acquirers often have earnouts in their acquisition agreements wherein a variable consideration is agreed based on subsequent profits or revenues of the acquired companies is agreed upon in addition to the fixed consideration. The practice under Indian GAAP was that such contingent considerations were generally recorded as additional goodwill, when the contingency is resolved. Ind AS requires the fair value of the contingent consideration to be recorded upfront as a component of the total consideration. Any subsequent changes to the value of cash-settled contingent consideration are recorded in P&L.

Under Indian GAAP, any deferred consideration was recorded at the amount contractually payable. Under Ind AS, deferred consideration is recorded at its present value. Subsequent accrual of imputed interest expense for such deferred payments is recorded in P&L.

These GAAP differences impacted at least 3 sample companies.

#### ■ **Common control acquisitions**

A common control business combination transaction refers to a business combination involving companies or businesses in which all the combining companies or businesses are ultimately controlled by the same party or parties both before and after the business combination and such control is not transitory. For instance, an amalgamation of two companies controlled by the same parent would be considered as a common control transaction.

Indian GAAP does not differentiate between common control transactions and other acquisitions. In the case of common control business combinations Ind AS requires the assets, liabilities and reserves of the acquired company to be

recognised at their carrying values (the only adjustment allowed is for harmonisation of policies). The difference between the consideration paid and share capital of the acquired company is recorded as capital reserve. Comparative information is restated. This treatment is similar to the pooling of interests method prescribed under Indian GAAP.

The net worth of one of our sample companies reduced by 8% on account of the impact arising on account of the above difference for common control acquisition.

### ■ **Foreign currency**

Technology companies significantly operate in foreign countries and are thereby exposed to foreign currency exposures. Accounting for foreign currencies was another major impact area for the sample companies.

Under Indian GAAP, companies prepared their financial statements using Indian rupees. Under Ind AS, a company needs to determine its functional currency, which may not necessarily be the currency of the country in which it is domiciled. Thus, it is possible that the functional currency of an Indian company may be a foreign currency.

Determination of functional currency based on the primary economic environment in which the company operates. Factors used for determining the functional currency include the currency that determines the sales price, currency in which costs of providing goods and services are incurred, currency of the country whose competitive forces and regulations mainly determine the sales prices of goods and services, and currency in which funds are raised and retained. For foreign subsidiaries, one of additional factors include – whether the operations of the foreign company are an extension of the parent.

In practice, technology companies operate using a mixture of currencies, example costs are incurred in INR, while revenues are denominated in USD. The consideration of the above factors may not result in an obvious conclusion as to the company's functional currency. Further, in some cases, an analysis of the criteria may indicate mixed results and would involve management judgement.

Under Indian GAAP, translation of foreign currency financial statements to the reporting currency of the parent depends on the classification of the foreign operations as either integral or non-integral. Under Ind AS, the translation is driven by the determination of the functional currency of the foreign operation. The translation principles for a foreign operation whose functional currency is the same as the parent company is similar to the translation of an integral foreign operation under Indian GAAP. Similarly, translation of a foreign operation whose functional currency is the different from the parent company is similar to the translation of a non-integral operation under current principles.

■      **Employee benefits**

Technology sector is characteristically employee intensive. Therefore any GAAP difference around accounting for employee difference would affect the sector. Employee benefit accounting constituted about 71% of the net Ind AS impact.

Under Indian GAAP, actuarial gains and losses on postemployment benefit plans and other long term employment plans are to be recognised immediately in P&L. Under Ind AS, all actuarial gains and losses with respect to defined benefit plans employment benefit plans are to be recognised in equity through other comprehensive income and permanently escape P&L.

**7.17 Telecommunication**

Sample size- **5** covering telecom operators, infrastructure and transmission companies.

Aggregated profit reconciliation of the sample companies is as follows:

Description	(Rs. Crores)
Profit after tax as per Indian GAAP	8,884
Business combinations	2,744
Financial instruments	(529)
Deferred tax	(965)
Others	(989)
Profit after tax as per Ind AS	9,145

## ■ **Business combinations**

Indian telecom sector has witnessed several big-ticket mergers, acquisitions and cross-border deals in recent years. Aptly, the GAAP difference between Indian GAAP and Ind AS around accounting for business combinations caused the biggest P&L impact for our sample companies.

## ■ **Reversal of amortisation of goodwill**

Under Indian GAAP, there are separate standards that deal with amalgamation, consolidation and assets acquisition. Acquisitions through share acquisition are recorded at carrying values of assets and liabilities of the acquired company under AS 21. Under Ind AS 103, all assets and liabilities acquired are recognized at fair value. Additionally, contingent liabilities and intangible assets not recorded in the acquiree's balance sheet are likely to be recorded in the acquirer's balance sheet on acquisition date. Ind AS 103 prohibits amortization of goodwill arising on business combinations, and requires it to be tested for impairment annually. Indian GAAP, on the other hand, required amortization of goodwill in the case of amalgamations. Upon first-time adoption of Ind AS, application of Ind AS 103 to past business combinations prior to the date of transition to Ind AS is optional under Ind AS 101.

The Indian GAAP FY 2015–16 net profit of one telecom operator increased by 61% on account of reinstatement of previously amortised goodwill and the effect of restatement of past business combinations in accordance with Ind AS.

## ■ **Financial instruments**

Financial instruments such as investments in equity shares of other companies (other than that in subsidiaries, joint venture and associates) and investments in mutual fund units are required to be fair valued under Ind AS. Under Indian GAAP, they are generally classified as long term or current. Long term investments are measured at cost less other than temporary diminution in the value of investment. Current investments are measured at lower of cost or market price. The Indian GAAP FY 2015–16 net profit of one telecom operator decreased by 9% on account of fair valuation of financial instruments.

Fair valuation may also introduce P&L volatility, particularly on quarterly interim results, on account of market movements. Following table is based on the extracts of the financial results of one of the telecom operator, depicting the impact of the fair valuation adjustment in the quarterly results.

Particulars	Quarter ended (Rs. Crores)				Year ended (Rs. Crores)
	30 June 2015	30 September 2015	31 December 2015	31 March 2016	31 March 2016
Net profit as per Indian GAAP	2,588.3	581.5	895.2	391.6	4,456.6
Effect of measuring financial instruments at fair value	(422.4)	96.4	(79.6)	24.9	(380.7)

#### ■ Deferred tax

Under Indian GAAP, deferred taxes are recognised on timing differences based on what is known as the income statement approach. Under Ind AS, deferred taxes are recognised on temporary differences based on what is known as the balance sheet approach. Deferred tax is also recognized for the Ind AS transition adjustments giving rise to temporary differences. As can be seen from the above table, this impacted all the companies in the sample.

#### ■ Lease escalations

Lease accounting was one of the other impact areas in the sector. Long term arrangements, that are, in form, and/or, in substance, leasing arrangements is a typical feature of the sector. Indian GAAP requires lease rental escalations to be straight-lined over the lease term. In the Indian context, given the inflationary situation, Ind AS states that the straight lining of lease rentals may not be required in cases where periodic rent escalation is due to inflation. Indian GAAP did not contain this relaxation for straight lining.

The Indian GAAP net worth as at 31 March 2016 of one of the telecom

infrastructure companies in our sample reduced by 13% on account this adjustment.

- **Asset retirement obligations**

Telecom infrastructure companies often have asset retirement obligations (ARO) at network infrastructure sites. Under Ind AS, an ARO provision is created at the present value of the best estimate of future cost of dismantling/ removing the asset and is generally measured as the best estimate of the expenditure to settle the obligation as of the balance sheet date. Provisions for such constructive obligations are required even though they may not represent legal obligations.

## 7.18 Transportation and logistics

Sample size- **3** companies, including companies involved in civil air transportation, shipping and logistics.

Aggregated profit reconciliation of the sample companies are as follows:

Description	(Rs. Crores)
Profit after tax as per Indian GAAP	3,135
Financial instruments	(117)
Property, plant and equipment	80
Employee benefits	(8)
Others	(2)
Profit after tax as per Ind AS	3,088

- **Financial instruments**

This sector is capital-intensive and most companies are debt-heavy. Therefore, one of the main Ind AS impact areas was financial instruments.

- **Measurement at effective interest method**

Ind AS requires financial liabilities, such as loans and borrowing, to be initially fair valued, net of initial transaction costs, and subsequently to be measured

at amortised cost using effective interest rates. This affected all the companies in our sample.

- **Fair valuation**

Ind AS generally requires investments in equity shares (other than that of subsidiaries, joint ventures and associates), investment in mutual funds units and derivative instruments at fair value. Shipping companies generally contract in foreign currency derivatives to hedge their foreign currency exposure. This resulted in 18% decrease in the net profits of a shipping company in our sample.

- **Property, plant and equipment**

- **Accounting for dry dock/ major overhaul expense**

Ships and aircrafts have to regularly undergo major dry dock/overhaul. Under Indian GAAP, there were mixed practice for accounting for such costs. Broadly, there were two methods of accounting for dry-docking costs; capitalised cost method, i.e., capitalization of all costs related to dry-docking and depreciation of the same over the period until the next expected dry-dock; and the accrual method, i.e., estimating the cost of the next dry-docking and accruing for the same on a systematic basis up to the next dry-docking. Ind AS requires major repairs and overhaul expenditure to be capitalized as replacement costs, if they satisfy the recognition criteria.

- **Fair valuation as deemed cost for property, plant and equipment**

On transition to Ind AS, instead of recalculating the carrying value of PPE under Ind AS, a company has certain choices with respect to PPE balances on the transition date. In the event that a company elects such a choice, the amounts so substituted are referred to as the 'deemed cost' of the PPE. One such choice is to revalue some or all items of PPE to their fair value as at the transition date with a corresponding adjustment in the retained earnings/ reserves. Subsequent depreciation charge is based on the fair valued asset base.

The above two PPE adjustments under Ind AS caused 11% increase in net profits of a large shipping company in our sample.

### ■ **Employee benefits**

Under Indian GAAP, actuarial gains and losses on postemployment benefit plans and other long term employment plans are to be recognised immediately in P&L. Under Ind AS, all actuarial gains and losses with respect to defined benefit plans employment benefit plans are to be recognised in equity through other comprehensive income and permanently escape P&L.

### ■ **Other Ind AS adjustments**

In addition to abovementioned impact areas, following Ind AS adjustments also impacted our sample companies:

- **Revenue:** Under Indian GAAP, revenue on account of shipping voyages was accounted for either based on percentage of completion or the completed voyage method. Ind AS does not allow the completed contracts method; the percentage of completion method should be followed to recognise revenue from services.
- Ind AS requires exchange differences arising on translation/settlement of all foreign monetary items, including long-term foreign currency monetary items, to be recognized in P&L for the period in which they arise. It does not give an option to defer or to capitalize exchange differences arising on long-term foreign currency monetary.
- Redeemable preference share capital issued to be classified as financial liability rather than equity.
- Indian GAAP requires lease rental escalations to be straight-lined over the lease term. Ind AS states that the straight lining of lease rentals may not be required in cases where periodic rent escalation is due to inflation. Indian GAAP did not contain this relaxation for straight lining.



# Appendix – Key Changes in Indian GAAP

---

## Property, plant and equipment (PPE)

- Spares part, service equipment and standby equipment that meet the definition of PPE i.e. which are intended to be used for a period of more than 12 months, should be treated as PPE and not inventory.
- The amended PPE standard is based on unit of measure approach. This would enable capitalization of construction cost of approach roads on government land to facilitate construction of plant, which are otherwise available for the use general public, as a part of the project cost.
- Cost of an item of PPE purchased on a deferred payment basis, is the cash price equivalent. The difference between the cash price equivalent and the total payment treated as an interest cost.
- Initial estimated cost of dismantling/ retiring an asset and restoring the site is included in the cost of an item of PPE. The provision is measured at discounted amount.
- If revaluation model option is used for PPE, the entire class of assets should be revalued; revaluation is to be carried out with sufficient regularity.
- Useful lives and residual values of the items of PPE are reviewed periodically; change in depreciation method is to be accounted for as change in accounting estimate rather than change in accounting policy

## Investment property

Investment properties (properties held to earn rental income and/or capital appreciation) are required to be depreciated, using component approach, and tested for impairment, when there are impairment indicators

## Provision for proposed dividend

Dividends declared after the balance sheet date but before the financial statements are approved for issue are not recognized as a liability at the balance sheet date, but disclosed in the notes to accounts

## Consolidation

Where a company does not have a subsidiary, but has associate or joint venture company, it should prepare consolidated financial statements.

## Mergers and amalgamations

The disclosure in scenarios when the accounting as per the court schemes is different from that required in the accounting standards, does not apply to a scheme of amalgamation approved under Companies Act, 2013. Sections 230 and 232<sup>7</sup> of the Companies Act, require accounting treatment proposed in a scheme to be in conformity with the accounting standards.

<sup>7</sup> These sections have been notified vide MCA circular dated 7th December 2016.

## Appendix – Key Changes in Indian GAAP

These changes are by and large in lines with the Ind AS requirements. Due to these changes in Indian GAAP taking effect in FY 2016–17, the impact for phase II companies may be different from that experienced by phase I companies.

### Glossary

Terms	Definition
NBFCs	Non-banking financial companies
Ind AS	Indian Accounting Standards
IFRS	International Financial Reporting Standards
Indian GAAP	Indian Generally Accepted Accounting Principles – accounting standards notified in Companies (Accounting Standards) Rules, 2006
IRDA	Insurance Regulatory and Development Authority of India
SEBI	Securities and Exchange Board of India
IT	Information Technology
MCA	Ministry of Corporate Affairs
MAT	Minimum Alternate Tax under section 115 JB of Income Tax Act, 1961
GST	Goods and Services Tax
ICDS	Income computation and disclosure standards under Income Tax Act, 1961
FVTPL	Fair value through profit and loss
FVOCI	Fair value through other comprehensive income
OCI	Other comprehensive income
P&L	Profit and loss account
PPE	Property, plant and equipment
Ind AS 101	Indian Accounting Standard (Ind AS) 101 – <i>First time Adoption of Indian Accounting Standards</i>
ECL	Expected credit loss model under Ind AS 109 <i>Financial Instruments</i>
FMCG	Fast moving consumer goods
SPE	Special purpose entities



## **Mumbai**

13th Floor, Bakhtawar  
229, Nariman Point  
Mumbai – 400 021

3rd Floor, A Wing,  
Technopolis Knowledge Park  
Mahakali Caves Road, Andheri (E)  
Mumbai – 400 093

201, Shree Padmini  
Teli Galli Junction  
Andheri (E), Mumbai – 400 069

## **New Delhi – NCR**

2nd Floor, Tower-B  
B-37, Sector-1  
Noida – 201301

## **Chennai**

Abhinav Centre  
No. 4, Co-operative Colony  
Alwarpet, Chennai – 600 018

1A, Chamiers Apartments  
62/121, Chamiers Road  
R. A. Puram, Chennai – 600 028

## **Kolkata**

A-6, 12th Floor  
Chatterjee International Centre  
33A, Jawaharlal Nehru Road  
Kolkata – 700 071

## **Bengaluru**

Sujaya, No. 1007, 2nd Cross  
13th Main, HAL II Stage  
Bengaluru – 560 038

## **Surat**

DTA-2, G-02 to G-05 Plot  
Gujarat Hira Bourse  
Ichhapore-2  
Surat – 394 510

T-720, Belgium Tower  
Opp. Linear Bus Stop  
Ring Road, Surat – 395 002

B/604-605, Tirupati Plaza  
Athwa Gate, Nanpura  
Surat – 395 001

## **Hyderabad**

217, Maruthi Corporate Point  
Swapnalok Complex  
92, Sarojini Devi Road  
Secunderabad – 500 003

## **Ahmedabad**

B-504, Narnarayan Complex  
Navrangpura  
Ahmedabad – 380 009

## **Pune**

102, 1st Floor  
Shree Residency  
Baner Balewadi Road  
Balewadi, Pune – 411 045

## **Gandhidham**

Divyasarika, Plot No. 41  
Ward 10-A, Gurukul  
Gandhidham – 370 201

## **Jaipur**

346, 3rd Floor  
Ganpati Plaza, M.I. Road  
Jaipur – 302 001

For further information please contact:

**RSM Astute Consulting Pvt. Ltd.**

13th Floor, Bakhtawar, 229, Nariman Point, Mumbai – 400 021.

**T:** (91-22) 6108 5555 / 6121 4444

**F:** (91-22) 6108 5556 / 2287 5771

**E:** [emails@rsmindia.in](mailto:emails@rsmindia.in)

**W:** [www.rsmindia.in](http://www.rsmindia.in)

**Offices:** Mumbai, New Delhi-NCR, Chennai, Kolkata, Bengaluru, Surat, Hyderabad, Ahmedabad, Pune, Gandhidham and Jaipur.



[facebook.com/RSMIndia](https://facebook.com/RSMIndia)



[twitter.com/RSM\\_India](https://twitter.com/RSM_India)



[linkedin.com/company/rsm-india](https://linkedin.com/company/rsm-india)

RSM Astute Consulting Pvt. Ltd. (including its affiliates) is a member of the RSM network and trades as RSM. RSM is the trading name used by the members of the RSM network.

Each member of the RSM network is an independent accounting and consulting firm, each of which practises in its own right. The RSM network is not itself a separate legal entity of any description in any jurisdiction.

The RSM network is administered by RSM International Limited, a company registered in England and Wales (company number 4040598) whose registered office is at 50 Cannon Street, London, EC4N6JJ.

The brand and trademark RSM and other intellectual property rights used by members of the network are owned by RSM International Association, an association governed by article 60 et seq of the Civil Code of Switzerland whose seat is in Zug.

In this publication, we endeavour to bring out significant transition and first-time adoption (of Ind AS) related issues that are emerging in practice. In that context, we discuss various accounting options available under Ind AS, both, upon transition on first-time adoption of Ind AS, as well as those available on an ongoing basis. Information in this publication is in no way intended to replace or supersede independent or other professional advice. This publication should not be relied upon for taking actions or decisions without appropriate professional advice and it may be noted that nothing contained in this publication should be regarded as our opinion and facts of each case will need to be analysed based on specific facts. While all reasonable care has been taken in preparation of this publication, we accept no responsibility for any liability arising from any statements or errors contained in this publication.