Confidential

Ind AS – PRACTICAL ASPECTS

CONTENTS

- ✓ IND AS - ROAD MAP
- ✓ IND AS OVERVIEW
- ✓ KEY GAAP DIFFERENCES /CONCEPTS
- ✓ FEW PRACTICAL ASPECTS
- ✓ IMPACT ANALYSIS ON MAJOR CORPORATES

ROADMAP AND APPLICABILITY

ROADMAP FOR CORPORATES OTHER THAN NBFCs & Banks

PHASE 1

- Companies listed in India or Outside India(debt/equity) with net-worth INR 500 crore or more.
- Unlisted Companies with net-worth of INR 500 crore or more.
- Holding, subsidiary, JV or associate companies of aforesaid companies.

PHASE 2

- All other listed companies and unlisted companies with net worth of Rs. 250 crores or more.
- Holding, subsidiary, JV or associate companies of aforesaid companies.

Net worth shall be calculated as per standalone audited balance sheet of the company as on 31st March 2014 or first audited balance sheet for the accounting period which ends after that date.

ROADMAP FOR NBFCs

NBFC ABOVE 500 CRORES

- NBFC listed in or Outside India(debt/equity) with net-worth INR 500 crore or more.
- Unlisted NBFC with net-worth of INR 500 crore or more.
- Holding, subsidiary, JV or associate companies of aforesaid companies.

NBFC ABOVE 250 CRORES AND BANKS

- NBFC which are listed or in the process of listing
- NBFC with Net worth of INR 250 crores or more
- Holding, subsidiary, JV or associate companies of aforesaid companies.

Net worth shall be calculated as per standalone audited balance sheet of the company as on 31st March 2016 or first audited balance sheet for the accounting period which ends after that date.

Ind AS has been deferred for Banking Companies and Insurance Companies till further Notice.

- ✓ Net worth to be calculated as per Net Worth Definition given in Section 2 (57) of the Companies Act. Thus redeemable preference share capital which are borrowing as per Ind AS **to be reckoned** for calculation of Net Worth as the same is defined as Share Capital under Companies Act.

- ✓ Standalone financial to be considered.

- ✓ Net Worth = Paid-up share Capital + all reserves* out of profit & securities premium account –(accumulated losses + deferred expenditure + miscellaneous expenditure not written off)

  *Reserves created out of revaluation of assets and written back depreciation shall not be included in the net worth calculation.

Ind AS Overview

- ✓ Principle based and not rule based thus more judgmental
- ✓ Substance over legal form
- ✓ Use of fair valuation concept

Thus

- ✓ Requires **detailed understanding** of transaction, its substance and accounting treatment given, particularly with regard to areas where the same is resulting in increasing of net worth, profitability and net current assets level.
- ✓ The **increased disclosures**, such as areas where estimates are used for accounting treatment, assumptions behind fair valuation, disclosures of risks and its mitigation, information on customer concentration etc., required under Ind AS would support better analytical evaluation of the financial statements.

Benefits of Ind AS - Detailed Disclosure beneficial to User

- ✓ Ind AS 1 requires **disclosure of judgments** made by management while framing accounting policies.
- ✓ It also requires **disclosure of key assumptions** that have significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within next financial year.
- ✓ Ind AS also requires to disclose about **Financial Risk Management**, which would allow the user to understand the risk profile and its mitigation plans.
- ✓ Data and impact of sensitivity analysis with regard to Interest Rate Risk – variable/fixed and Foreign Currency Risk – Hedged/unhedged including currency wise break up.
- ✓ Credit Risk – ageing, risk base of customers, customer concentration, allowance movement and Liquidity Risk – Capital Management etc. are required to be disclosed.

Thus on overall basis greater visibility to the User and also by analysing the choices opted by peers, it provides more insights about the company and it's management.

KEY CONCEPTS OF IND AS

- ✓ Concept of Financial Assets and Financial Liabilities – Financial Instrument
- ✓ Expected Credit Loss - Provision for doubtful debts not on incurred basis but based on expectation.
- ✓ Interest to be charged based on effective interest rate.
- ✓ Rely more on fair valuation approach. Fair value is a solution to the accountants problem of income measurement.
- ✓ The proposed dividend is now to be accounted as liability only when members approves it and not at year end.
- ✓ Extended credit period than normal, Interest and revenue to be accounted for separately.
- ✓ Redeemable Preference shares are treated as liability – Substance over form
- ✓ Measurements based on time value of money – Provision for Liability etc.
- ✓ Interest free loan to be discounted and notional interest to be accounted.
- ✓ **Constructive Obligation instead of Legal Obligation** – Bonus expectation of employees based on past practice to be provided though legally not required as per Payment of Bonus Act.

- ✓ Provision for income tax is not a provision but a Liability.
- ✓ Under existing GAAP, Subsidiaries, Associates are defined based on certain rules i.e. holding more than 50% share, etc. Under IFRS, control over financial and operating policy, power to participate in Financial or Operating Policy, etc. would also form a criteria.
- ✓ Revenue to be recognized on fair value rather than contracted price
- ✓ **Statement of Changes in Equity** - Separate statement which incudes reconciliation of all items of Equity (erstwhile reserve and surplus schedule).
- ✓ Concept of Other Comprehensive Income - Profit and Loss to be bifurcated into two parts – comprehensive income and other Comprehensive Income - Actuarial gain/loss, revaluation surplus, Fair value of equity instruments etc. to be shown in OCI
- ✓ OCI is generally unrealized gain/loss which is transferred to profit and loss section on realization except few items which are not transferred to profit and loss.
- ✓ Value Date Vs Settlement Date - Disclosure Required

EFFECTIVE INTEREST RATE (EIR) –

- ✓ Under Ind AS all such financial assets and liabilities carried at amortized cost are required to be stated using effective interest method.
- ✓ Effective interest rate refers to the rate that exactly discounts estimated future cash payments through the life of a financial liability to its carrying amount.
- ✓ Primarily, the transaction costs have been deducted from the loan balance (when paid) and the interest has been recalculated on the effective Interest rate. Such calculation is done based on the EIR method using the goal seek function.
- ✓ Transactions costs are Fee and other costs including premium and discount which are integral part of transaction and related to origination of the transaction.
- ✓ In homogenous folio, component representing same risk – EIR can be computed on an average estimate and applied uniformly over the estimated period.

EFFECTIVE INTEREST RATE (EIR) – PRACTICAL ASPECTS

Nature	Whether integral part of EIR
Processing Fee	Yes
Premium/Discount	Yes
Brokerage/Commission paid	Yes
Professional Fee to Consultants	No, loan may or may not be obtained

For example loan amount is 70 Lakhs and processing Charge is 40000 and contracted interest rate is 14.50 % for 3 years payable on quarterly basis, the effective interest rate calculated to be 14.70%. As mentioned earlier the same can be calculated using Goal Seek function available in Excel.

It was also observed that few entities have amortised the processing fee based on tenure of loan on straight line basis and due to materiality the same is considered by auditors. However, the same is not correct principally.

Similarly, if the company is **NBFC** such processing fee received along with related transactions costs should become integral part of effective interest rate.

- ✓ **IMPAIRMENT** – Under Ind AS, provision for doubtful debt is required to be created when there is objective evidence of impairment, i.e. loan have some ageing, credit appetite of customer is impaired etc. Thus, the same is based on **Incurred.**

- ✓ For example if a company has a policy to provide debtors if it is due for six month or a year, so unless said period expires no provision is created.

- ✓ The Ind AS requires to create the provision for expected credit loss.

- ✓ Expected credit Loss = Cash flow due to the entity – Cash Flow the entity expects to receive

- ✓ Expectation should be based on **current condition and reasonable and supportable forward looking information**.

General Approach and Simplified Approach

- ✓ **General Approach** – General approach uses a dual measurement approach, under which the loss allowance is measured as 12-month **expected credit losses** for financial instruments where the credit risk not increased significantly since initial recognition and where the credit risk increased significantly since initial recognition lifetime expected credit losses is required to be recognised. Generally used for NBFC, Bank, Loans given.
- ✓ **Simplified Approach** – For trade receivables and contract assets that do not contain a **significant financing component**, it is a requirement to recognise a lifetime expected loss allowance.
- ✓ For practical expedients the period between when the entity transfers a promised good or service to a customer and when the customer pays for that good or service will be one year or less **significant financing component** is not considered.

Simplified Approach contd…

A provision matrix is used for calculating ECL as per simplified approach. A provision matrix is nothing more than applying the relevant loss rates to the trade receivable balances outstanding (i.e. trade receivable aged analysis). For example, an entity would apply different loss rates depending on the number of days that a trade receivable is past due. Following are major steps:

- **Determining Appropriate Grouping** – Based on credit risk characteristics, such as if customer base in big reputed corporates, government agencies and other customers, it can be safely presume that credit risk for Govt Agency, Reputed Corporates and General Customer are different as such these to be groups separately. Further grouping could be based on geographical region, customer rating etc.
- **Historical Loss Rate** – Once groups have been identified and the period over which loss data will be captured has been selected, an entity determines the expected loss rates for each sub-group sub-divided into past-due categories. (i.e. a loss rate for balances that are 0 days past due, a loss rate for 1-30 days past due, a loss rate for 31-60 days past due and so on).
- Practical Aspects – If any entity have very less customer say 5-10, the customer pattern and behaviour can be assessed individually.

Simplified Approach cont….

Following steps are involved in calculating ECL as per simplified approach; **(indicative)**

- ✓ Step 1 - Analysis of Receivable ageing – wherein receivables are grouped into bucket based on due date. To have a representative history same may be taken for 2 to 3 years on quarterly basis. A representative table for same;

Quarter ended	Total Rec.	Not Due	0-30 Days	30 – 90 Days	90 – 180 Days	180 – 1Year	1 – 2 Years	> 2 Years
Q1			B	D	F	H	J	L
Q2		A	C	E	G	I	K	M

- ✓ Step 2 - Secondly, we compute average default rate per time bucket wherein we compute the % movement of receivable quarter on quarter basis maximum being 100%.

Quarter ended	Not due /0-30 D	0 – 30 / 30 - 90	30 - 90 / 90 – 180	90 – 180 / 180 – 1 Y	180 – 1 Y / 1 - 2 Y	Uncollectible
Q1	NA	NA	NA	NA	NA	NA
Q2	B / A %	D / C %	F / E %	H / G %	J / I %	L / K %

Simplified Approach cont….

- ✓ Step 3 – for the rate computed for each quarter, compute the average default rate for each movement time. E.g. average of all the rates computed for Not Due to 1 – 120 days period and so on.
- ✓ Step 4 – the above computed default rate will be applied over the closing balance as at date.

Bucket	Not due /0-30 D	0 – 30 / 30 - 90	30 - 90 / 90 – 180	90 – 180 / 180 – 1 Y	180 – 1 Y / 1 - 2 Y	Uncollectible	Credit Loss Rate	ECL
Not Due	Avg. Rate 1	Avg. Rate 2	Avg. Rate 3	Avg. Rate 4	Avg. Rate 5	Avg. Rate 6	Product (Avg. R 1-6)	Rate * O/s Amt.
0 – 30 D	X	Avg. Rate 2	Avg. Rate 3	Avg. Rate 4	Avg. Rate 5	Avg. Rate 6		
30 – 90D	X	X	Avg. Rate 3	Avg. Rate 4	Avg. Rate 5	Avg. Rate 6		
90 – 180Y	X	X	X	Avg. Rate 4	Avg. Rate 5	Avg. Rate 6		
180 – 1 Y	X	X	X	X	Avg. Rate 5	Avg. Rate 6		
1 – 2 Y	X	X	X	X	X	Avg. Rate 6		
> 2 Years	X	X	X	X	X	X		
Total								

- ✓ Step 5 – The total of the Step4 will be discounted for a year at the **average earning rate of the Entity**. Generally borrowing rate.

General Approach cont.

Following steps are involved in calculating ECL as per General Approach; **(indicative)**
This is slightly complicated and lengthy approach. Generally used in NBFC, Banks etc.

✓ Step 1 – Calculation of EVER Probability of default (Ever PD) – computed to apply in for exposure in stage 2 and stage 3. Herein movement of exposure is considered over the life of the folio (generally 5 – 6 years or more as available). Some basics;
- It reflects positions of cases which has originated in the respective year.
- If new loan is under 30+ or 90+ anytime during the year then the same to be incl. in DPD 30 ever or DPD 90 ever respectively.

FY	No. of customer originated	DPD 30 ever	DPD 90 ever	Flow 30_90	Flow 00_30	Flow 00_90
	a	b	c	d = c / b	e = b / a	f = d*e
FY 1						
FY 2						
Total				PD Rate		

General Approach cont.

- ✓ Step 2 – Calculation of 12 months PD – computed to apply in for exposure in stage 1. Herein movement of exposure is considered over the 12 months for 0 DPD cases in the beginning of the first month of the month FY. Some basics;
  - Cumulative position is seen for cases at beginning of a year with dpd of 0 (origination in any month).
  - If that case is moved into 30+ anytime during the year then count is taken as +1.
  - If that case is moved into 90+ anytime during the year then count is taken as +1.

Book as at	No. of customer 0 DPD	DPD 30_12 months	DPD 90_12 months	Flow 30_90	Flow 00_30	Flow 00_90
	a	b	c	d = c / b	e = b / a	f = c / a
FY 1 – Apr						
FY 2 – Apr						
Total						PD rate

General Approach cont.

- ✓ Step 3 – Calculation of LGD (loss given default) – Either use the information based on entity's past record (sizeable information) i.e loss incurred in case of default or rate can be taken from Credit Default study published by rating agencies.
- ✓ Step 4 – The above computed PD and LGD is applied to stage wise exposure as at date to reach at the ECL amount.
- ✓ Step 5 – The ECL is also required to be computed on undisbursed commitment based on stage 1 rate as above. However, some credit conversion factor say 50% can be applied in same.
- ✓ Step 6 – The total of Stage 4 and Stage 5 is discounted for 1 year @ the weighted average rate of the underlying folio thus resulting into ECL.

✓ **IMPAIRMENT** - Under the extant IRAC norms, the provisioning is based on objective criteria fixed by the RBI/NHB. As per recent RBI Circular, a reserve needs to be created if provision as per extant circular are higher.
Ind AS uses, Expected Credit Loss Model for Impairment. The said model uses a dual measurement approach, under which the loss allowance is measured as 12-month expected credit losses for standard assets and lifetime expected credit losses for non performing assets.

Particulars	Stage 1	Stage 2	Stage 3
Interest	On Gross Basis	On Gross Basis	On Net Basis (Gross Carrying Value less loss allowance)
Default	NO default	30 days default	More than 90 days default
Existing GAAP	Standard assets are provided 0.40%/).25% of loan amount or as prescribed		NPA Rule Based

Expected Credit Loss Model in a Nutshell

Particulars	Stage 1	Stage 2	Stage 3
Also referred as	Performing	Under Performing – SMA-1 & SMA-2	Non Performing
Credit quality	Not deteriorated significantly since its initial recognition	Deteriorated significantly since its initial recognition	Objective evidence of impairment
Credit Risk	Low	Moderate to High	Very High
Recognize	12 Month ECL	Life Time ECL	Life Time ECL
ECL	Represents financial assets life time ECL that are expected to arise from default event that are possible within next 12 months.		

OTHER CONSIDERATION

- ✓ Ind AS 109 para B5.5.51 prescribes that Entities that have no, or insufficient, sources of entity-specific data may use peer group experience for the comparable financial instrument (or groups of financial instruments). Thus, the entities which have started business recently have to benchmark its ECL provisioning with comparable peers.
- ✓ Under IGAAP, NPA provision along with Standard asset provision has been disclosed under AS-29 Provisions, Contingent Liabilities and Contingent Assets, whereas under **Ind AS it is reduced from Loan**.
- ✓ ECL also to be calculated on **undrawn commitments**.
- ✓ The standard also requires companies to segment their loan outstanding based on the risk profiles and loans under same risk profiles can be grouped/pooled for ECL purpose and individual assessment is not required.
- ✓ Financial instruments to classify based on the business model in which they are held (SPPI or Hold Asset to Collect Cash (ARC)) and in accordance with the characteristics of the contractual cash flows of the instrument. Assets held under SPPI is valued at amortized cost less impairment others at FVTPL/FVOCI.

Interest Free Loan , Financial Guarantee without Commission

- Companies sometimes gives loan and advances to various related and other companies and does not charge any interest or charge an interest, which is below market rate. Loan to employees also falls in this category.
- Ind AS 109 Financial Instruments requires all such transactions to measure at fair value. When transactions are with **third parties or unrelated parties**, transaction price is itself **fair value**.
- Interest free loans often **lacks** the normal commercial terms.
- The interest should be **market interest rate** (for a similar instrument as to currency, term, type of interest rate and other factors with a similar credit rating) at the time of initial recognition.
- Similarly, financial guarantee for loan taken by subsidiary without charging guarantee fee/commission to be valued at Commission rate generally charged by Banks. **If, there is probability of default, the same should also be fairly estimated and liability to be recognised accordingly**.

Ind AS 109 requires mandatory fair valuation of few items:

- ✓ Investment in Equity Instruments of other entity except for Subsidiary, Associates and JV where the option for cost is also available.
- ✓ Units of Mutual Funds – at lower of cost or NAV under IGAAP.
- ✓ Derivative Financial Instruments
- ✓ Assets held for sale
- ✓ Even for Revenue Recognition

Fair Value Hierarchy – First – Market Based – Quoted, Second – Comparable Company Multiple – Rating, Third - DCF, Black Scholes for unlisted ESOP.

FVTPL and FVOCI – Equity Instruments not held for trading but for strategic purpose are generally designated as FVOCI.

Business Model - To collect contractual cash flows only SPPI, to Collect Contract Cash flow and selling of financial assets – FVOCI, Rest All - FVTPL

I. ***The parties to the contract have approved the contract (in writing, orally or in accordance with other customary business practices) and are committed to perform their respective obligations; - CONTRACT***

Thus, contract could be written, oral or customary business practice. Rights and obligation should be clearly identified. Commercial Substance and Payment Terms should be clearly spelt. Sales Order, Agreement, Sauda Slips to be properly documented.

II. ***The entity can identify each party's rights regarding the goods or services to be transferred - OBLIGATIONS***

- The performance obligation of each party to be identified. Points for consideration are EX Work, FOB, Point and Time of delivery, Distinction between Goods and Service, variable consideration, estimate for variable consideration, significant financing component to be identified.
- If as per purchase order delivery is at customer place, no revenue can be recognised till material is delivered to customer, invoice to be reverse and to be included in inventory at cost.
- Services after sales is built in price, the same should be properly spelt in contract. **Distinct goods and services should be accounted for as separate units of account.**

III. The entity can identify the payment terms for the goods or services to be transferred – TRANSACTION PRICE

Transaction price is the amount the entity expects to be entitled to in exchange for transferring promised goods or services to the customer. To Consider:

- Variable Consideration and Estimate for variable consideration - Performance incentive, Sales Return and Claims etc.
- Significant Financing Components - More than One year
- Non Cash Consideration, if any – Barter Deals based on Fair Value
- Consideration Payable to Customer – Redeemable Points to deduct. Discount etc to be deducted

IV. Allocate the transaction price to the separate performance obligations

- The transaction price (from step 3 is allocated to each performance obligation identified (from step 2).
- Depending on the specific circumstances, one of the following approaches would be used to allocate the transaction price to the performance obligations
  - ✓ On the basis of each performance obligation's stand alone selling price
  - ✓ Allocation of a discount or variability to a specific performance obligation (or a bundle of specific performance obligations) if certain criteria are met.

V. Recognize revenue when (or as) each performance obligation is satisfied.

Requires consideration of the following:

- Recognition of revenue when (or as) control of the good or service is passed to the customer (at a point in time or over time)
- **Over time** : Specific criteria needed to be met for satisfying performance obligations and recognizing revenue over time If recognizing revenue over time, a measure of progress should be used to determine the pattern of when to recognize revenue
- **Point in time** : If revenue is not recognized over time, it is recognized at a point in time. There are indicators of when performance obligations are satisfied and revenue recognized for performance obligations satisfied at a point in time.

Disclosure:

Dis-aggregate revenue to depict nature, amount, timing, uncertainty of revenue and cash flows affected by economic factor.

Practical Aspect : Table segregating revenue based on **geography, product, timing** etc to be given. Other to include in write up either in revenue related note or financial instrument trade receivable related note. **Concentration of revenue** also to be disclosed. For practical expedients above 10 % to one customer can be treated concentration.

Notional Interest on Rent Deposit

As per Ind AS 109 principle, a refundable security deposit given by an entity represents its contractual right to receive cash from the holder of the deposit, and hence it falls under the definition of financial assets in accordance with Ind AS 32. As per Ind AS 109, all financial assets, subsequently measured at amortised cost or FVTPL or FVTOCI. The same however, is required to be recognized at fair value initially.

Thus, where the effect of time value of money is material, the refundable security deposit should be shown at present value, by **discounting** all future cash receipts at the **market interest rate** (to be evaluated by the entity based on its **own facts and circumstances**).

The difference between the transaction price and fair value as determined needs to be accounted for as an expense, or a reduction of income.

Practical Aspect:

Similar period fixed deposits interest rate is considered most appropriate since as per Ind AS principle mentioned above the discount rate needs to be evaluated by the entity based on its own facts and circumstances, as such discount rate of SBI term deposit rate for similar period can be considered appropriate.

Under Indian GAAP unpaid future lease rentals are required to be disclosed in the Notes to Accounts and increase in lease rent is required to accounted for as rent equalization, if the same is higher than normal inflation related increase.

Practical Aspects

Para 5 of Ind AS 116 provides choice to lessee to not apply the requirement of Ind AS 116

- Short term leases – less than 12 months
- Leases where underlying assets is of low value – tablets, personal computers, small items of furniture, telephones etc.

In all other cases, at inception of a contract, an entity shall assess whether the contract is, or contains, a lease, A contract is, or contains, a lease if the contract conveys the right to control the use of an **identified asset** for a period of time in exchange for consideration.

Identified Assets is the most important word, lease payment should be exclusive with regard to identified assets and combination of identified assets with other service will not be considered as Lease.

Car with Driver, Printer with pages, Internet Equipment with related services etc.

Identified Assets

The asset that is the subject of a lease must be specially identified. This will be case if either of the following applies:

- An asset is typically identified by being **explicitly** specified in a contract.
- Asset is **implicitly** specified at the time that the asset is made available for use by the customer

Substantive substitution rights

Even if an asset is specified, a customer does not have the right to use an identified asset if the **supplier** has the substantive right to substitute the asset throughout the period of use.

A supplier's right to substitute an asset is substantive only if **both** of the following conditions exist:

a. Supplier has the **practical ability** to *substitute alternative assets* throughout the period of use.
b. Supplier would *benefit economically* from the exercise of its right to substitute the asset

Ind AS 116, requires Lessees to initially recognize a lease liability for the obligation to make lease payments and a right of use asset for the right to use the underlying asset for the lease term.

The lease liability is measured at the present value of the lease payments to be made over the lease term. The right of use asset is initially measured at the amount of the lease liability, adjusted for lease prepayments, the lessee's initial direct costs such as commissions etc.

Lessee increases the lease liability to reflect interest cost and reduce the same to reflect lease payments made over a period. Thus, the periodic rent payment is debited to lease liability account.

The corresponding right of use asset is depreciated in accordance with the depreciation requirements of Ind AS 16 Property, Plant and Equipment over a tenure of lease. Thus, the EBIDTA of the company increases.

Presentation Requirement

In the Balance Sheet - Right-of-use assets to disclose separately from other assets and lease liabilities to be disclosed separately from other liabilities.

In the Statement of Profit & Loss – Interest expenses as Finance Cost and Depreciation on Right to use Assets to disclosed under depreciation and amortization.

In the cash flow – cash payment towards interest and principal to be shown as financing activity.

Practical Aspect:

- As per transition provision lease contract as identified under erstwhile Ind As 17 shall be treated as Lease Contract as well.
- Covid Related Adjustment (Lease Modification) to be carried out, if lessee gets any concession.
- At present accounting standard not applicable on variable lease payment – Hotel with revenue sharing etc. IFRS recently amend to estimate the variable consideration.

- ✓ Under Ind AS, change in the depreciation method will be treated as a change in **accounting estimate** as opposed to a change in accounting policy. Consequently, change in the depreciation method will not require a retrospective adjustment.

- ✓ With respect to revaluation of assets, Ind AS requires the entire class of assets to be **revalued**. Further, increased charge in the form of depreciation arising on account of revaluation will have to be taken through the **Profit and Loss Account** (as opposed to an adjustment against the revaluation reserve done earlier).

- ✓ Companies will be required to carry out an annual year-end review of useful life, method of depreciation and residual value. If there is any change in useful life / residual value, the same will be treated as change in estimates and **accounting will be done prospectively.**

- ✓ **Major repairs** say required once in 4 years to be capitalized for that period, under IGAAP such cost are charged to profit and loss.
- ✓ Provision for decommissioning needs to be booked and the cost to be added to the cost of PPE. **On discounted value**.
- ✓ **Machinery spares** which are to be used in connection with the specific equipment needs to be capitalized. Typically, major spare parts qualify for capitalization and smaller parts continued to be carried as inventory. Earlier GAAP does not provides such clarity.
- ✓ Ind AS allows revaluation model (fair value) or cost model for valuation of PPE.
- ✓ As per Ind AS, incidental operation which are not necessary for bringing the assets to its location and condition necessary for its use intended by management, then such **income to be charge off to the profit and loss and not to reduce from cost of PPE, like scrap sales**. Open land given for car parking during period under construction to be booked in profit and loss.

- **Revenue Amortization Model for toll road not allowed** for toll road which were capitalized after 01.04.2016.
- Brand, Goodwill etc. not to be amortized but to be tested for impairment.
- Ind AS 38 permits an entity to choose either the cost model or the revaluation model as its accounting policy, whereas in the existing standard, revaluation model is not permitted.
- **Research to be expensed out**, development cost can be Intangible Assets if technical feasibility is completed and future economic benefit are probable.

Ind AS 19 - EMPLOYEE BENEFIT

- ✓ Actuarial gain/loss on defined benefit plan (both for present obligation and o plan assets) **to be recognized in OCI** instead of Profit and Loss. Further, this would not be recycled to profit and loss.
- ✓ However, actuarial gain/loss of other long term employee such leave encashment will continue to be recognized in profit and loss since not in the nature of retirement benefit, unless part of retirement benefit.

Ind AS 102 - SHARE BASED PAYMENT

- ✓ Existing AS allows the intrinsic method as per which the fair value not to be calculated for shares but market price can be used for accounting of share based payment. **Ind AS requires to use the fair market value option only instead of intrinsic value.** However, in previous GAAP fair value needs to be disclosed for reconciliation purpose. **The fair value as on grant date is not required to be remeasured subsequently.**

Ind AS 12 INCOME TAX

- ✓ **Deferred Tax to be calculated on all Ind AS adjustments**.
- ✓ Deferred tax to be calculated on balance sheet approach as against income approach advised by IGAAP. Land Indexing under Income Tax to be considered as Temporary Difference.
- ✓ Deferred Tax on unabsorbed depreciation and business losses to be recognised on **reasonable certainty** as against virtual certainty as required by IGAAP.

Format of FINANCIAL STATEMENT

MCA has amended Schedule III to the Companies Act, and inserted **Division II** which prescribes the format of Financial Statements for a Companies and **Division III** for NBFC preparing Financial Statements in compliance with the Companies Ind AS Rules.

Definition of Control is much wider than IGAAP which primary based on composition of Board and Shareholding Percentage.

The key concept of Ind AS 110 is the requirement that in order for an investor to have control over an investee, the investor must have all three of the following:

- ✓ Power over the investee;
- ✓ Exposure or rights to variable returns from its involvement with the investee; and
- ✓ The ability to use its power over the investee to affect the amount of the investor's returns.

Thus, the control is

Control = Power Over the Investee + Exposure or Rights to variable Returns + Ability to Use Power to affect the Investor's Return

Losses relating to subsidiaries have to be attributed to Minority Interest shareholders even it if it is results in a negative balance.

For Associates a rebuttable presumption of 20 percent or more voting rights is also considered under Ind AS for Significant Influence.

For Joint Arrangement, there are two type of arrangements a Joint Operation and a Joint venture.

Potential voting rights – share warrant etc. to be considered.

Consolidation of non-corporate entities such as Trust under ARC.

A parent shall present non-controlling interests in the consolidated Balance sheet within equity, separately from the equity of the owners of the parent.

- ✓ **Recognise** all assets and liabilities whose recognition is required by Ind-AS such Asset Retirement Obligation, Provision for Constructive Obligation, Derivative Financial Instrument etc.
- ✓ **Not recognise** items as assets or liabilities if Ind-ASs do not permit such recognition such as **Proposed Dividend**, **Prel. Expenses**, etc.
- ✓ **Reclassify** items that it recognised under previous GAAP – Investment FVTPL, FVOCI, Amortised Cost, Asset Held for Sale,
- ✓ **Apply** Ind-AS in measuring all recognised assets and liabilities – Receivable after ECL, Financial Instrument measurement, Property Plant Equipment.
- ✓ Prohibition on re-estimation after the outcome of a transaction is known i.e **Hindsight is Prohibited**.
- ✓ Reconciliations of its equity reported in accordance with previous GAAP to its equity in accordance with Ind-AS
- ✓ Voluntary exemption and Choice of Exemption – Commonly used are Deemed Cost of PPE, Subsidiary Associate valued at Cost, Lease Contract, OCI related to gratuity remeasurement subsequently, Designation of financial instrument etc.
- ✓ Business Combination to applied prospectively.

Reliance Industries Limited

Particulars	Amount (Crores)	Impact
Retained Earing as per IGAAP	240703	
1. Full Cost Method to Successful Effort Method	-39570	Ind AS allow only Successful Effort Method (SEM) as per which expenses on unproved wells, abandoned wells, and depletion on Proved Developed Reserve instead of Proved Reserve.
2. Revaluation of PPE	45272	33000 Acres land re-valued which has mitigate loss on SEM method
3.Fair Valuation of Financial Assets	4188	Mutual Fund, equity instruments fair value
4.Deferred Tax Liability	-13665	Due to Increase in revaluation
5.Others	-215	Discounting of Asset Retirement Obligation, Loan Processing Charge spread over tenure, Fair Value of ESOP etc.
Retained Earning as per Ind AS	236713	

Larsen & Toubro Limited

Particulars	Amount (Cr.)	Impact
Retained Earing as per IGAAP	40718.33	
1. Expected Credit Loss	-785.56	Expected credit loss on trade receivable which were hitherto booked on incurred basis.
2. Employee Benefit	-379.07	Constructive obligation concept for performance link bonus.
3.Fair Valuation of Financial Assets	172.49	Mutual Fund, equity instruments fair value
4.Increase in borrowing cost	-53.91	Effective Interest Rate and Higher accrual of Interest on FCCB due to debt and equity split at inception
5.Financial Instrument	153.20	Equity Component of FCCB
6. Deferred & Current Tax	359.49	Favourable as DTA on ECL provision, higher borrowing cost
Retained Earning as per Ind AS	42135.31	

Besides, due to equity method accounting for JV, the consolidated revenue, and expenses are reduced by Rs. 4000 crores approx and Rs. 3500 crores respectively and consolidated asset lower by Rs. 34000 crores approx.

TATA Steel Limited

Particulars	Stand alone	Consolidated	Impact
Equity as per IGAAP	70476	28478	
1. Fair valuation of financial assets and liabilities	3929	3904	Ind AS allows only directly attributable Cost
2. Deemed cost of PPE and Investments	-24582	21012	Standalone effected badly because investment in JV, Sub. & Associates valued at fair value which were significantly lower then their IGAAP price - Impaired.
3.Perpetual security as Equity	2275	2275	Perpetual security is in the nature of Equity as not to be refunded.
4. Fair Value of Business Combination	-	-7677	Seems that the assets acquired which were less when valued.
5. Tax Impact	-3700	-6262	
Retained Earning as per Ind AS	48912	44513	

Tata Steel also account for the foreign currency translation on consolidation through OCI. Besides long term quoted investments are also designated as FVOCI.

Reliance Infrastructure Limited

Particulars	Stand alone	Consolidated	Impact
Equity as per IGAAP	21447	27412	
1. Fair Valuation / re-measurement of Financial Instruments	-10802	-10617	Financial instruments have value much less than their fair value
2. Fair valuation of investment in JV, Sub. and Associate – Deemed cost	3978	-	One time option available for fair value has been used.
2. Fair Valuation of PPE	7462	9427	Revaluation model offset the loss
3. Service concession	-664	-965	Dividend Not to be provided
4. Long term power purchase agreement	-481	-379	Treated as finance lease thereby removing profit element
5. Service Line contribution	-189	-287	Recognized as deferred revenue not meeting the criteria
6. Deferred Tax on above	-1909	-2198	
7. Others	193	-999	
Retained Earning as per Ind AS	19035	21394	

Bharti Airtel Limited

Particulars	Stand alone	Consolidated	Impact
Equity as per IGAAP	84447	49744	
1. Foreign Exchange diff. on PPE	252		No future economic benefit expected
2. Fair Value as deemed cost for Investment in Subs.	25384*	-	Refer Note Below.
3. Restatement of amortized Goodwill and Business Combination Accounting	-	20846	Goodwill which is amortized as per AS restated as not required as per Ind AS.
4. Fair value of Financial Instrument	1033	935	Fair value of Financial Assets and Liabilities
5. Deferred Tax on above	-42	86	Tax Adjustments
6. Proposed Dividend	654	654	Dividend not a Liability
Retained Earning as per Ind AS	111729	72267	

It may be noted that as on June 30, 2016 reviewed result there was a fair valuation loss of Rs. 18626 Crores for investment in subsidiary as against gain of Rs. 25384 Crores.

THANK YOU