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Whitepaper on Indian Accounting Standard - Ind AS

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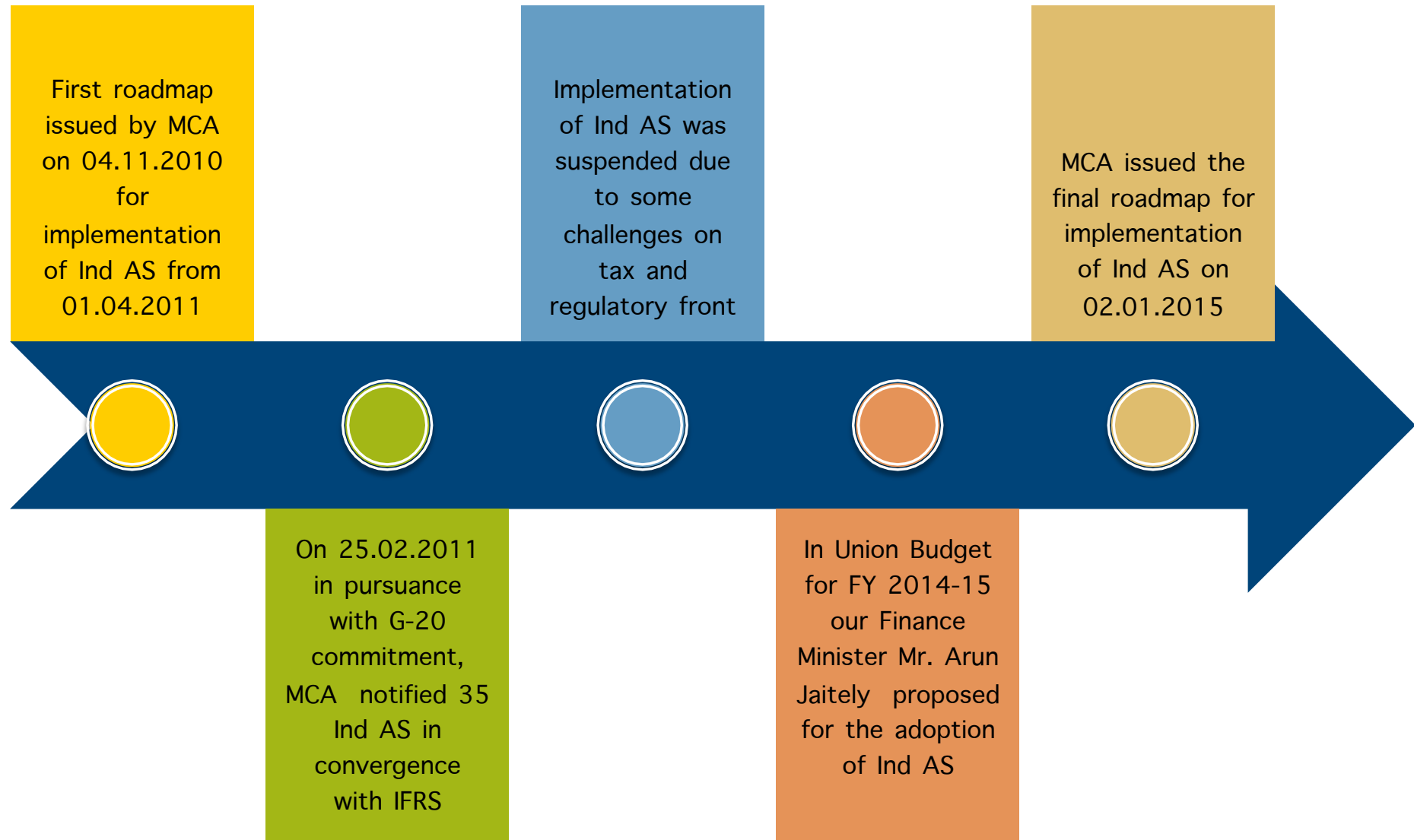


1. What is Ind AS?

- International Financial Reporting Standards (IFRS) are principles-based Standards, Interpretations and the Framework adopted by the International Accounting Standards Board (IASB). India being a member country is bound to adopt these standards.
- However, full adoption of these IFRS may pose a practical challenge because any changes in these IFRS would have an impact on the books of Indian companies and it would be hard for the companies to adopt these IFRS as and when amended.
- So to bridge the gap , MCA has reviewed the IFRS from the context of Indian business and regularity environment and made some changes.
- This amended/converged of IFRS have been named as Ind AS. Although Ind-AS are not IFRS as per the International Accounting Standards Board (IASB), and only an adaptation of those principles, but they are indeed closer to these international standards.



2. Background of Ind AS





3. Applicability criteria's for Ind AS

Threshold	First period of reporting	Comparative Information
Companies* with net worth of Rs. 500 crore or more (<i>whether listed or unlisted</i>)	Financial Year beginning on or after 1 st April 2016 (i.e. FY 2016-17)	Opening balance sheet as on or after 1 st April 2015 and financial year ending on or after 31 st March 2016 (i.e. FY 2015-16)
<i>Listed</i> Companies* (whether in India or outside India) with net worth of less than Rs. 500 crore (including companies which are in the process of listing)	Financial Year beginning on or after 1 st April 2017 (i.e. FY 2017-18)	Opening balance sheet as on or after 1 st April 2016 and financial year ending on or after 31 st March 2017 (i.e. FY 2016-17)
<i>Unlisted</i> companies* having net worth of Rs. 250 crore or more but less than Rs. 500 crore	Financial Year beginning on or after 1 st April 2017 (i.e. FY 2017-18)	Opening balance sheet as on or after 1 st April 2016 and financial year ending on or after 31 st March 2017 (i.e. FY 2016-17)

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



.....contd.

- MCA permits voluntary adoption of Ind AS a year earlier than the above mentioned timelines which seems to be unrealistic considering the time available.
- This roadmap is not applicable for banks, non-banking financial companies and insurance companies.
- Once a company opts to follow the Ind-AS, it shall be required to follow these standards for all the subsequent financial statements.
- Companies not covered by the above roadmap, shall continue to apply existing accounting standards prescribed in an annexure to the Companies (Accounting Standards) Rules, 2006.



4. Pressing reasons for Ind AS adoption?

- Implementation of Ind AS will **enhance the comparability of financial statements** of Indian companies with their global peers.
- Implementation of Ind AS will **boost investor confidence** in Indian regulatory framework.
- Implementation of Ind AS will **provide a fair view of financial position** to their stakeholders as the financial position will be measured at fair values.
- Ind AS will also aid as one of the measures to **improve the governance and transparency rankings** of India globally.
- Ind AS will **open up avenues for accessing capital** in international market as foreign players will perceive this change as an extremely positive step.



5. Global situation on IFRS adoption

- More than **120 countries** follow global accounting standards i.e. International Financial Reporting Standards (IFRS).
- Out of approx. 120 countries which permit or require IFRS for domestic listed companies, approx. **90 countries have fully adopted** the IFRS as issued by International Accounting Standard Board (IASB) and approx. **30 countries have converged the IFRS** according to their needs (just like Ind AS).
- Therefore there is a need to align Indian business reporting with global reporting to enhance the credibility and comparability of the financial statements.

6. Challenges in Adoption of Ind AS



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- Lack of technical knowledge of financial reporting staff regarding Ind AS seems to be one of the most significant challenge.
- For comparative information of previous financial year, Ind AS needs to be adopted a year earlier which is around the corner (FY 2015-16) for companies falling in the first phase of implementation.
- Initial cost of transition and compliance with Ind AS may be significant. However, it may go down after stabilization of process.
- In today's scenario Information Technology (i.e. ERP and integration of information from various sources) plays a big role in accounting environment and changes that are needed in IT systems for Ind AS implementation may be significant.



7. Dual Reporting in Ind AS

- Dual Reporting in Ind AS means preparation and presentation of financial statements of companies under two comprehensive bases of accounting.
- In simple words, after the implementation of Ind AS, companies have to prepare **two sets** of financial statements:
 - as per existing Accounting Standards (AS' s) for tax purposes ; and
 - as per Indian Accounting Standards (Ind AS' s) for statutory reporting to MCA.
- However, for many companies, adoption of Ind AS will result into **three sets** of financial statements:
 - as per existing Accounting Standards (AS' s) for tax purposes ; and
 - as per Indian Accounting Standards (Ind AS' s) for statutory reporting to MCA.
 - As per IFRS or converged form of IFRS of country belonging to the parent company for group reporting purpose.

8. Issues to be addressed



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- Date of measurement of net worth is one of the most significant issue which is yet to be addressed.
- Clarification regarding applicability of Ind AS on standalone or consolidated financial statements or both is still awaited.
- Another important area is clarity on the tax implications of this transition. Going by the budget announcement, it is expected that the government will also notify Income Computation and Disclosure Standards in time for this transition, to address the tax implications.

9. Steps for smooth transition



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- Companies need to have an operational plan for the transition (depending on the phase of coverage) addressing all the potential challenges involved in the implementation of Ind AS.
- Companies need to identify the team members for Ind AS implementation and provide them relevant trainings on Ind AS.
- Companies needs to identify necessary changes in the IT systems and engage their IT vendors to work out the implementation strategy.
- For smooth transition, companies may adopt Ind AS before the mandatory period on voluntary basis or only for internal reporting purpose to identify the challenges/ surprises early on.

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years

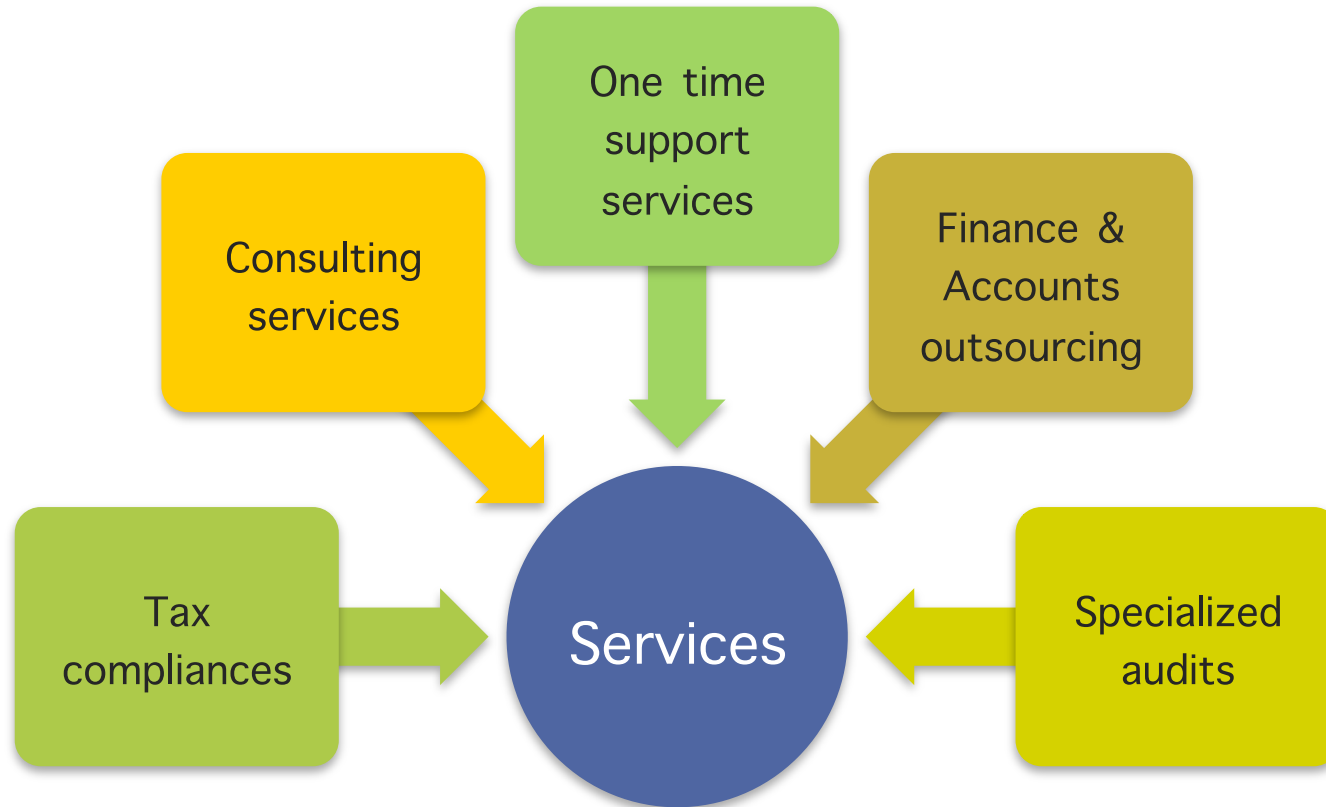
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