

# IFRS Notes

23 February 2015 | Issue 2015/02

## IFRS convergence – a reality now!

**MCA notifies Ind AS  
standards and  
implementation roadmap**



*cutting through complexity*





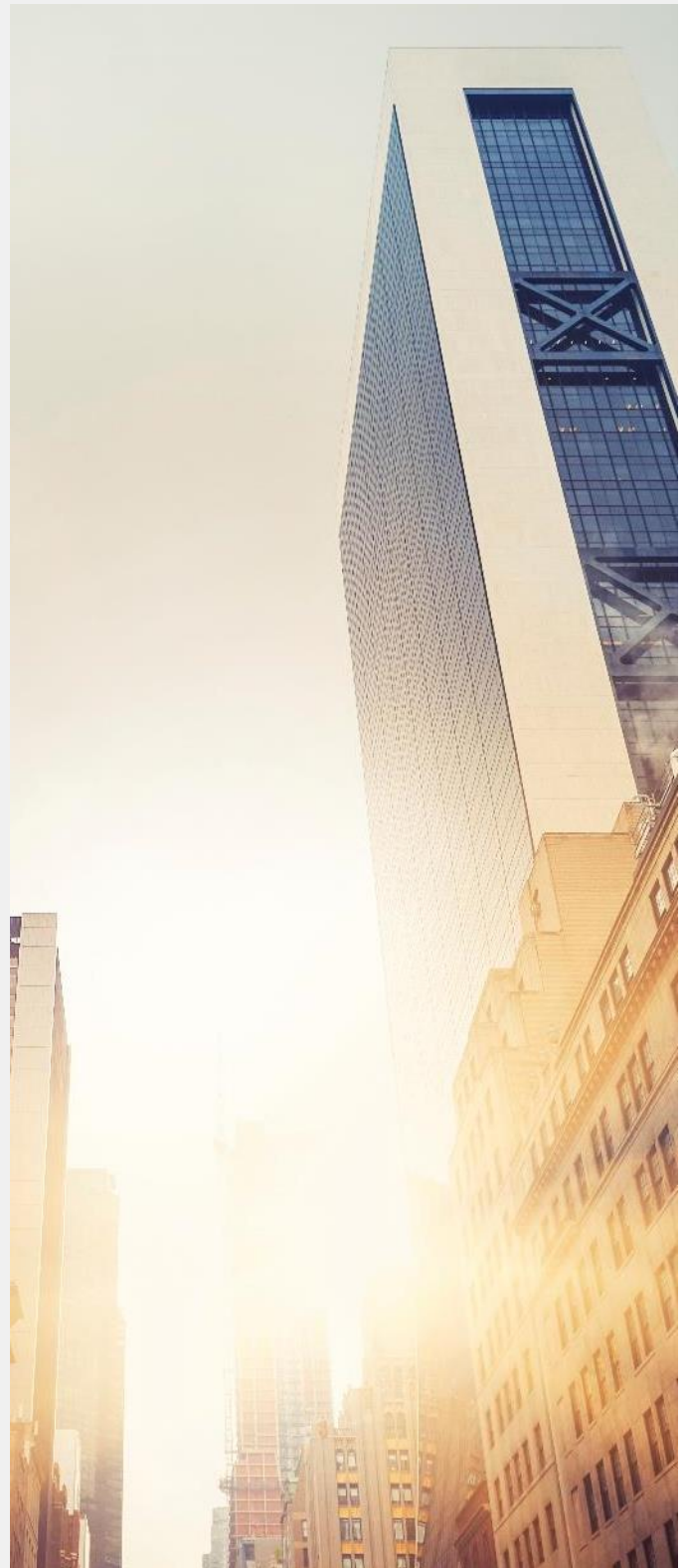
The Ministry of Corporate Affairs has finally notified the much awaited Indian Accounting Standards (Ind AS), which are converged with International Financial Reporting Standards (IFRS). The notification of these IFRS converged standards fills up significant gaps that exist in the current accounting guidance, and India can now claim to have financial reporting standards that are contemporary and virtually at par with the leading global standards. This will in turn improve India's place in global rankings on corporate governance and transparency in financial reporting.

With the new government at the Centre, there has been a flurry of activities which started off by the announcement in the Finance Minister's budget speech last year of an urgent need to converge with IFRS, which has now culminated with the notification of 39 Ind AS standards together with the implementation roadmap. With this notification, coupled with the progress made on finalising the Income Computation and Disclosure Standards (ICDS), the government has potentially addressed several hurdles which possibly led to deferment of Ind AS implementation in 2011.

With the notification of these standards, Indian financial reporting has undergone seismic shift by introducing the most contemporary standards. It is a paradigm shift that introduces several new and complex concepts, and will involve the application of significant judgement and estimates, accompanied by detailed quantitative and qualitative disclosures. On the whole, it would lead to a better reflection of the financial performance of an entity and more relevant information in the hands of users of financial statements.

However, implementation is a quantum leap from mere intent. With the standards and roadmap being notified, the Government has kept its date with IFRS convergence. The ball is now firmly in India Inc's court. The corporate sector will need to do its part to make the implementation a success, starting with an acknowledgement of the fact that this is not just an accounting change, but something that impacts the whole organisation and the way they do business. With less than 40 days to go, it is time for the corporates to make a holistic assessment of this change, and gear up for the implementation within the fairly short timelines.

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## Overview of the roadmap

### Background

The MCA through notification dated 16 February 2015 has issued the Companies (Indian Accounting Standards) Rules, 2015 (Rules) which lay down a roadmap for companies other than insurance companies, banking companies and non-banking finance companies (NBFC) for implementation of Ind AS converged with IFRS. The Rules will come into force from the date of its publication in the Official Gazette.

The Ind AS shall be applicable to companies as follows:

	Phase I	Phase II	Voluntary adoption
Year of adoption	FY 2016 - 17	FY 2017 - 18	FY 2015 -16 or thereafter
Comparative year	FY 2015 - 16	FY 2016 - 17	FY 2014 - 15 or thereafter
Covered companies			
(a) Listed companies	All companies with net worth >= INR500 crores	All companies listed or in the process of being listed	Any company could voluntarily adopt Ind AS
(b) Unlisted companies	All companies with net worth >= INR500 crores	Companies having a net worth >= INR250 crores	
(c) Group companies	Applicable to holding, subsidiaries, joint ventures, or associates of companies covered in (a) and (b) above. <i>This may also impact fellow subsidiary companies while preparing CFS of the holding company.</i>		

### Exceptions

Companies whose securities are listed or in the process of listing on the Small and Medium Enterprises (SME) exchanges will not be required to apply Ind AS and can continue to comply with the existing accounting standards unless they choose otherwise.

### Other significant matters

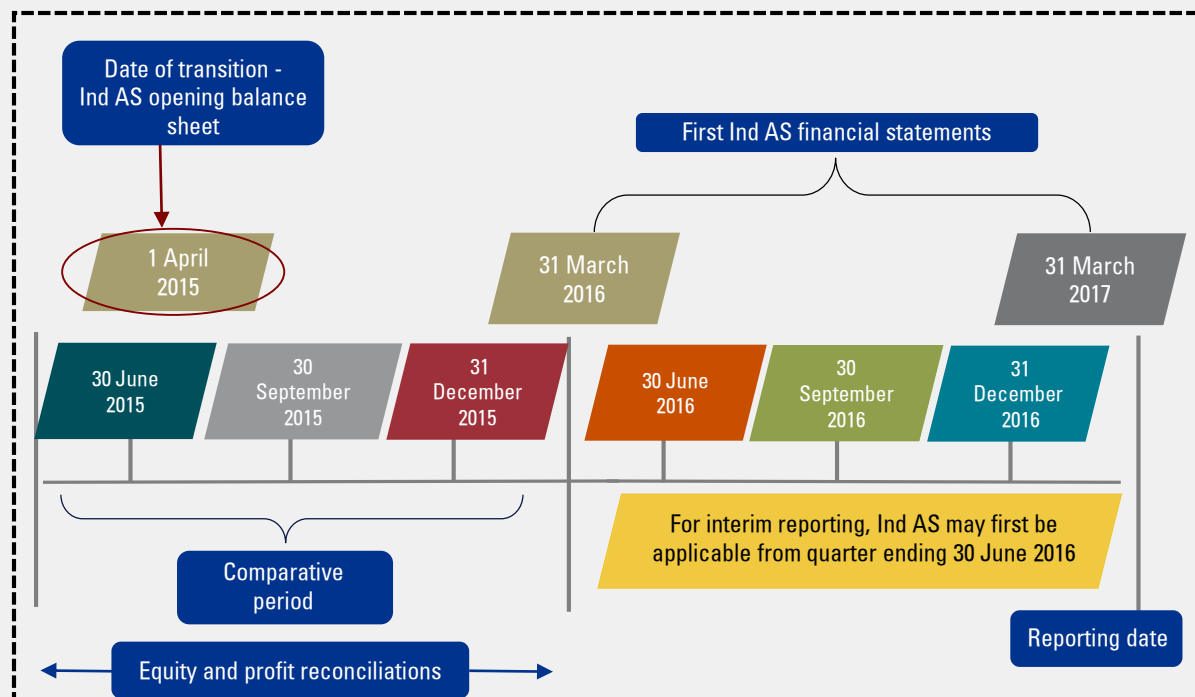
- The Ind AS would apply to stand-alone and consolidated financial statements (CFS).
- The Rules clarify that an Indian company :
  - having an overseas subsidiary, associate, joint venture and other similar entities, or
  - which is a subsidiary, associate, joint venture and other similar entities of a foreign company
 is required to prepare its financial statements, including CFS, where applicable, in accordance with the Rules.
- The net worth for implementation of Ind AS should be calculated based on the stand-alone financial statements of the company as on 31 March 2014 or the first audited financial statements for accounting period ending subsequently.

The net worth of companies which are not existing on 31 March 2014 or an existing company falling under any of thresholds for the first time after 31 March 2014 should be calculated based on the first audited financial statements ending after 31 March 2014.

- Net worth is to be calculated as defined in the Companies Act, 2013 and does not include reserves created out of revaluation of assets, write back of depreciation and amalgamation.
- Once a company applies Ind AS voluntarily, it will be required to follow the Ind AS for all the subsequent financial statements. Thus, no roll back is permitted.
- The above companies would not be required to prepare another set of financial statements in accordance with the accounting standards prescribed in the Companies (Accounting Standards) Rules, 2006 prescribed under the Companies Act, 1956.
- Words and expressions used in the Rules but not defined in the Rules would have the same meaning as assigned in the Companies Act, 2013.

## The roadmap for implementation of Ind AS

### Mandatory implementation – Phase I



### Mandatory implementation – Phase II

The above implementation timeline for phase II companies will have comparative period ending 31 March 2017 and annual reporting period ending 31 March 2018.

## Key differences between the current Indian GAAP and Ind AS

The Ind AS bring in several changes when compared to the current Indian GAAP, and many of these would have a significant impact on reported earnings, and net worth; but these changes are manageable, with adequate planning. This section summarises some of the critical GAAP differences that are likely to be pervasive with some companies and sectors being more impacted than others.

### Revenue recognition

Ind AS 115, *Revenue from Contracts with Customers*, introduces a single revenue recognition model, which applies to all types of contracts with customers, including sale of goods, sale of services, construction arrangements, royalty arrangements, licensing arrangements, etc. In contrast, under existing Indian GAAP, there is separate guidance that applies to each of these types of contracts. Ind AS 115 brings in a five-step model, which determines when and how much revenue is to be recognised based on the principle that revenue is recognised when the entity satisfies its performance obligations and transfers control of the goods or services to its customers, as compared to the current standards which focus on transfer of risks and rewards. There are two approaches to recognition of revenue under this standard, i.e. at a point in time or over a period of time, depending on whether the performance obligations are satisfied at a point in time or over a period of time.

Following are some of the key GAAP differences between Indian GAAP and Ind AS:

- New single five-step revenue recognition model
- Timing of recognition of revenue (right of return, dispatch vs. delivery)
- Incentive schemes
- Multiple deliverable arrangements (fair value of each component)
- Time value of money to be considered
- Linked transactions (to reflect the substance)
- Gross vs. net presentation (excise duty, other charges)
- Service concession arrangements – different accounting.



## Key differences between the current Indian GAAP and Ind AS

### Property, plant and equipment/intangible assets

The guidance in Ind AS 16, *Property, Plant and Equipment*, and Ind AS 38, *Intangible Assets* are largely similar to those under Indian GAAP. However, there are differences, including on determination of what elements of costs are eligible or required to be capitalised under Ind AS.

Following are some of the key GAAP differences between Indian GAAP and Ind AS:

- Eligible borrowing costs (debt vs. equity, stand-alone vs. consolidated)
- Capitalisation of administrative and general overheads
- Asset retirement obligation (to consider time value of money)
- Accounting for leases embedded in sale or service contracts
- Consideration of time value of money
- Indefinite useful lives for certain intangibles
- Restriction on revenue based amortisation.

### Consolidation

Under Indian GAAP, control is assessed based on ownership of more than one-half of the voting power or control of the composition of the Board of Directors. However, Ind AS 110, *Consolidated Financial Statements*, introduces a new definition of control and a single control model as per which an investor controls an investee when the investor is exposed, or has rights, to variable returns from its involvement with the investee, and has the ability to affect those returns through its power over the investee. Due to the fundamental difference in the definition of control, the universe of entities that get consolidated could potentially be different under the two frameworks.

Following are some of the key GAAP differences between Indian GAAP and Ind AS:

- Consolidation based on new definition of control:
  - Veto rights with minority shareholders
  - Potential voting rights
  - Structured entities
  - De facto control
- Joint venture – potential ‘one line consolidation’
- Acquisition of control in tranches
- Sale/dilution of stake (retaining vs. loss of control)
- Deferred tax on undistributed reserves
- Deferred tax on intercompany eliminations
- Mandatory use of uniform accounting policies.

### Mergers and acquisitions

Under Indian GAAP, there is no comprehensive guidance that addresses accounting for business combinations and the current accounting is driven by the form of the transaction, i.e. legal merger, share acquisition, business division acquisition, etc. which results in varied results based on the form of acquisition. Under Ind AS 103, *Business Combinations*, all business combinations are accounted for using the purchase method that considers the acquisition date fair values of all assets, liabilities and contingent liabilities of the acquiree. The limited exception to this principle relates to acquisitions between entities under common control.

Following are some of the key GAAP differences between Indian GAAP and Ind AS:

- Acquisition date when control is transferred – not just a date mandated by court or agreement
- Mandatory use of purchase method of accounting – fair valuation of net assets (including intangible assets and previously unrecognised assets)



## Key differences between the current Indian GAAP and Ind AS

### Mergers and acquisitions (cont.)

- Fair value of consideration transferred (earn-out arrangement, deferred and contingent consideration accounting on acquisition date)
- Post-acquisition amortisation of assets based on the acquisition-date fair values
- Transaction costs charged to the statement of profit and loss
- Goodwill to be tested at least annually for impairment – amortisation not permitted
- Demerger at fair value, in certain instances
- Common control transactions to be accounted using pooling-of-interest method.

### Equity and liability instruments

Under Indian GAAP, equity and liability instruments are largely based on the legal form of these instruments and also governed by legal and regulatory treatments permitted, such as utilisation of securities premium for redeeming instruments at a premium, etc. Ind AS 32, *Financial Instruments: Presentation*, requires that a financial instrument should be classified in accordance with the substance of the contractual agreement, rather than its legal form (substance over form). These changes can potentially have a significant impact on both the net worth as well as net income.

Following are some of the key GAAP differences between Indian GAAP and Ind AS:

- Redeemable preference shares classified as liability and related 'dividend' recognised as interest expense
- Convertible bonds split into their liability and 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
- Foreign exchange fluctuations to be immediately charged to the statement of profit and loss
- Treasury shares are presented as a reduction from equity
- No gain/loss on sale of treasury shares
- Equity share with put options, which do not allow issuer to avoid obligation to deliver cash or other financial asset is liability
- As above, compulsory convertible debentures may be classified as equity
- Any obligation to issue variable number of shares may be classified as a liability.

### Other financial instruments

Financial instruments is an area under Indian GAAP where there is no mandatorily applicable detailed guidance available currently. Ind AS 109, *Financial Instruments*, will fill this gap.

Under Ind AS 109, 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.

Under Ind AS 109, an entity should recognise all derivative instruments at fair value on the balance sheet.

Following are some of the critical GAAP differences between Indian GAAP and Ind AS:

- 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 (security deposits, employee loans, sales tax deferral, etc.)
- All investments (including unquoted equity shares) generally measured at fair value at each reporting period
- Loans and advances to be measured at amortised cost using effective interest rate
- 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
- Extensive qualitative and quantitative disclosure of various risks impacting the company
  - Credit risk
  - Liquidity risk
  - Foreign currency risk including sensitivity analysis
  - Interest rate risk including sensitivity analysis.

### Stock options

Ind AS 102, *Share-based Payment*, provides an extensive guidance on share-based payments. Currently, under Indian GAAP, there is a Guidance Note on Accounting for Employee Share-based Payments issued by the ICAI.

Following are some of the critical GAAP differences between Indian GAAP and Ind AS:

- Mandatory use of fair value and resultant increase in employee compensation costs
- Accelerated costs for options with graded vesting
- Consolidation of trusts dealing with employee share-based payment plans.

### Other areas

- Timing of recognition of proposed dividend
- Discounting of provisions
- Additional disclosure on related parties
- Extensive disclosures on segments – business view relevant
- Extensive disclosures on income taxes (component of taxes, tax rate reconciliation)
- Restatement of financial statements for prior period errors
- Fair valuation of biological assets
- Rate regulated assets/liabilities – recognition permitted.

## Key carve-outs in Ind-AS

Accounting area	Ind AS carve-outs	IFRS requirements
<b>Mandatory carve-outs</b>		
Law overrides accounting standards	Law would override accounting standards. It appears to imply that court schemes whereby expenses are charged to reserves may be grandfathered and also possibly for future schemes (subject to compliance with other regulatory requirements)	Not specifically covered
Previous GAAP	Ind AS 101 specifies previous GAAP as the GAAP applied by companies to meet their reporting requirements in India immediately before Ind AS i.e. existing notified standards	Previous GAAP is the basis of accounting that a first-time adopter used immediately before adopting IFRS
Foreign currency convertible bonds - treatment of conversion option	Recognition of embedded foreign currency conversion option as 'equity'	Conversion option treated as derivative and carried at fair value
Employee benefits – discount rate	Mandatory use of government securities yields for determining actuarial liabilities (except for foreign components)	Requires use of corporate bond rates as default
Business acquisitions – gain on bargain purchase	Recognition of 'bargain purchase gains' in a business combination as 'capital reserve'	'Bargain purchase gains' in a business combination recognised as income in the statement of profit and loss
Classification of loan with covenant breaches	Entities to continue classifying loans as non-current even in case of breach of a material provision if, before the approval of the financial statements, the lender agreed not to demand payment	Loans reclassified as 'current liability'
Lease rental recognition	No straight-lining for escalation of lease rentals in line with expected general inflation	Requires straight-lining of lease rentals
Investment in associates – gain on bargain purchase	Excess of the investor's share of the net fair value of the investee's identifiable assets and liabilities over the cost of investment to be transferred to capital reserve instead of in the statement of profit and loss	Excess recognised as income in the statement of profit and loss
<b>Optional carve-outs</b>		
Foreign exchange fluctuations	Option to continue the policy adopted for accounting for exchange differences arising from translation of 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 as per the previous GAAP	Requires recognition of exchange rate fluctuations on long-term foreign currency monetary items in the statement of profit and loss
Accounting policies of joint-ventures and associates	Option not to align the accounting policy of associates and joint ventures with that of the parent, if impracticable.	Requires alignment of accounting policies.

## Ind AS 101, *First-time Adoption of Indian Accounting Standards*

The objective of the Ind AS 101, *First-time Adoption of Indian Accounting Standards* is to:

- provide a suitable starting point for accounting in accordance with Ind AS,
- set out the procedures that an entity would follow when it adopts Ind AS for the first time as the basis for preparing its financial statements,
- transition at a cost that does not exceed the benefits, and
- ensure that the entity's first Ind AS financial statements contain high quality information that is transparent for users and comparable over all periods presented.

Ind AS 101 has certain differences as compared to the corresponding International Financial Reporting Standard (IFRS) 1, *First-time Adoption of International Financial Reporting Standards* including certain inclusion/modification of existing exemptions under IFRS 1 provide practical expedient to the Indian companies adopting Ind AS.

### General requirements

- An opening balance sheet is prepared at the date of transition, which is the starting point of accounting in accordance with Ind AS.
- The 'date of transition' is the beginning of the earliest comparative period presented on the basis of Ind AS.
- At least one year of comparatives is presented on the basis of Ind AS, together with the opening balance sheet.
- Equity and profit reconciliations to be provided by the first-time adopters.

### Selection of accounting policies

- Accounting policies are chosen from Ind AS effective at the first annual Ind AS reporting date.
- Generally, those accounting policies are applied retrospectively in preparing the opening balance sheet and in all periods presented in the first Ind AS balance sheet.
- Ind AS 101 prescribes mandatory exceptions and optional exemptions for first-time adopters of Ind AS thereby facilitating a smooth transition to Ind AS. In the absence of these exceptions/exemptions, all the standards forming part of Ind AS would have been required to be applied with retrospective effect thereby posing significant challenges (such as availability of necessary information, impracticability of application of some of these requirements with retrospective effect, etc.) in the process of transition to Ind AS. Accordingly, careful consideration of these exceptions/exemptions and their impact on the first and subsequent Ind AS financial statements would be required.

### Recognise adjustments from previous GAAP to IFRS

The accounting policies that an entity uses in its opening Ind AS balance sheet may differ from those that it used for the same date using its previous GAAP. The resulting adjustments arise from events and transactions before the date of transition to Ind AS. Therefore, an entity shall recognise those adjustments directly in retained earnings (or, if appropriate, another category of equity) at the date of transition to Ind AS.

### Key mandatory exceptions

#### Estimates

To be consistent with estimates made under the previous GAAP unless:

- there was an error, or
- the estimate and related information under previous GAAP is no longer relevant because the entity elects a different accounting policy on the adoption of Ind AS.

#### Derecognition of financial instruments

- derecognition requirements are to be applied prospectively
- entity may apply the derecognition requirements in Ind AS 109 retrospectively from a date of the entity's choosing, provided that the information needed to apply Ind AS 109 to financial assets and financial liabilities derecognised as a result of past transactions was obtained at the time of initially accounting for those transactions.

#### Hedge accounting

Prevents the use of hindsight from retrospectively designating derivatives and qualifying instruments as hedges

#### Classification and measurement of financial assets

Assessment needs to be made based on the conditions that exist at the date of transition.

#### Impairment of financial assets

Impairment requirements as per Ind AS 109 are to be applied retrospectively, subject to certain exceptions.

#### Government loans

Requirement of Ind AS 20, *Accounting for Government Grants and Disclosure of Government Assistance* and Ind AS 109 are applied prospectively. May be applied retrospectively, if information was obtained at the time of initial recognition.



## Optional exemptions

A number of exemptions are available from the general requirement for retrospective application of Ind AS accounting policies. Some of the key optional exemptions from other Ind AS are as follows:

### Business combinations

This exemption applies to all business combinations that occurred before the date of transition, or before an earlier date if so elected. Applies also to acquisitions of associates and interests in joint ventures.

If a first-time adopter does not restate its previous business combinations, then the previous acquisition accounting remains unchanged. However, some adjustments - e.g. to reclassify intangibles and goodwill - may be required.

### Deemed cost

The deemed cost exemption permits the carrying amount of an item of property, plant and equipment to be measured at the date of transition based on a deemed cost. If it is elected, then the deemed cost exemption may be based on any of the following:

- Fair value
- A previous GAAP revaluation that was broadly on a basis comparable to fair value under Ind AS
- A previous GAAP revaluation that is based on a cost or depreciated cost measure broadly comparable to Ind AS adjusted to reflect, for example, changes in a general or specific price index

- An event-driven valuation - e.g. when an entity was privatised and at that point valued and recognised some or all of its assets and liabilities at fair value.

Ind AS 101 also includes a choice to consider previous GAAP carrying values as 'deemed cost' for property, plant and equipment, intangible asset, or investment property acquired prior to the transition date.

### Long term foreign currency monetary items

Ind AS 101 provides an option to a first-time adopter to continue the policy adopted for accounting for exchange differences arising from translation of 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 as per the previous GAAP.



## Impact

### Paradigm shift in financial reporting

The adoption of Ind AS would entail a significant change in the financial reporting framework used by Indian companies to report their financial results. As a consequence, the reported earnings (net income) and financial position (net worth) reported by all these companies would undergo a change. Impact of this change would vary from sector to sector and company to company, with some sectors/companies being significantly impacted.

### Benefits of the move to Ind AS

The move to Ind AS standards will significantly enhance the quality of and transparency in financial reporting by Indian companies. It will also enhance the international comparability of financial statements of Indian companies and make the Indian capital markets more attractive. It will also reduce capital costs and facilitate international fund-raising by Indian companies. Applying IFRS converged standards has significant benefits for Indian multinationals operating across the world and for multinationals operating in India.

### Broad coverage of implementation roadmap

The Ind AS standards apply not only to the company which fulfils the net worth criterion but also to its holding, subsidiary, associate and joint ventures. An important point is in case of corporates that have NBFC and insurance companies as subsidiaries. Although, NBFCs and insurance companies per se are not required to report under Ind AS for their statutory reporting they will have to prepare Ind AS financial statements for consolidation by the parent.

### First to adopt certain global standards

With these Ind AS standards, India will be adopting some of the latest global standards before the rest of the world does. While India has been working on IFRS convergence, IFRS itself, as a body of standards, continues to evolve. Recently, the International Accounting Standards Board (IASB) issued new standards on revenue recognition and financial instruments, and these standards are mandatorily applicable internationally only from 2017 and 2018 respectively.

The notified Ind AS standards are converged with these newer standards, including those on revenue and financial instruments, considering the timing of India's move to IFRS. Early adoption of these standards as compared to the global adoption timelines, would not only ensure that our standards remain current with or ahead of their IFRS equivalents, but also provide a stable platform of reporting for Indian companies for a period of time after they move to Ind AS. If these standards are not early adopted, Indian companies would have to adopt these newer standards a year or two after they move to Ind AS, potentially hampering comparability and increasing cost of compliance.

However, Indian companies will have to gear up to adopt these standards ahead of global timelines and closely monitor developments by bodies such as the Transition Resource Group of the IASB.

### IFRS convergence, but not IFRS yet!

India's efforts towards convergence with IFRS is a giant leap forward and to make Indian standards contemporary. However, due to the existence of certain carve-outs or deviations from IFRS, these standards would not be considered as equivalent to IFRS, even though the carve-outs are relatively minor. While some of these carve-outs are optional, there are certain mandatory carve-outs, which may prevent companies from being able to state dual compliance with IFRS as per the IASB. Ability to state full compliance with IFRS would be relevant for several Indian companies that are raising funds from global investors, including from leading global capital markets.

The MCA and the ICAI have done laudable efforts towards minimising the carve-outs as compared to those that existed in the 2011 version of the Ind-AS standards. Going forward, the MCA and the ICAI should continue to work closely with the IASB to eliminate these carve-outs in a time bound manner by either getting the IASB to change the IFRS requirements or align the Indian requirements with IFRS.

Companies on their part should endeavour to minimise the use of carve-outs, so that their financial reports are as close to or the same as it would be under IFRS.

### Tax issues

In order to make the transition to Ind AS smooth, the related tax issues also need to be addressed. In this regard, the Ministry of Finance had issued drafts of 12 ICDS in January 2015. It is expected that these standards will get notified shortly, and will therefore provide an independent framework for computation of taxable income, which is delinked from the statutory financial reporting by companies. However, the basis for 'minimum alternative tax' (MAT) computation for companies reporting under Ind AS still remains an issue to be addressed.

### Impact beyond accounting

The transition to Ind AS has an organisation wide impact, and not just accounting. Companies need to plan in advance and invest time. Given the pervasive nature of the impact of these new standards, in addition to the financial reporting impacts, companies will also have to assess impact on other stakeholders such as investors and analysts. Companies would also have to determine the impact of the standards on areas such as tax planning, compliance with loan covenants, incentive plans, new arrangements for acquisitions, funding, etc. This would also require changes to systems and processes including, sales and contracting processes, IT systems, internal controls, etc.

## Next Steps

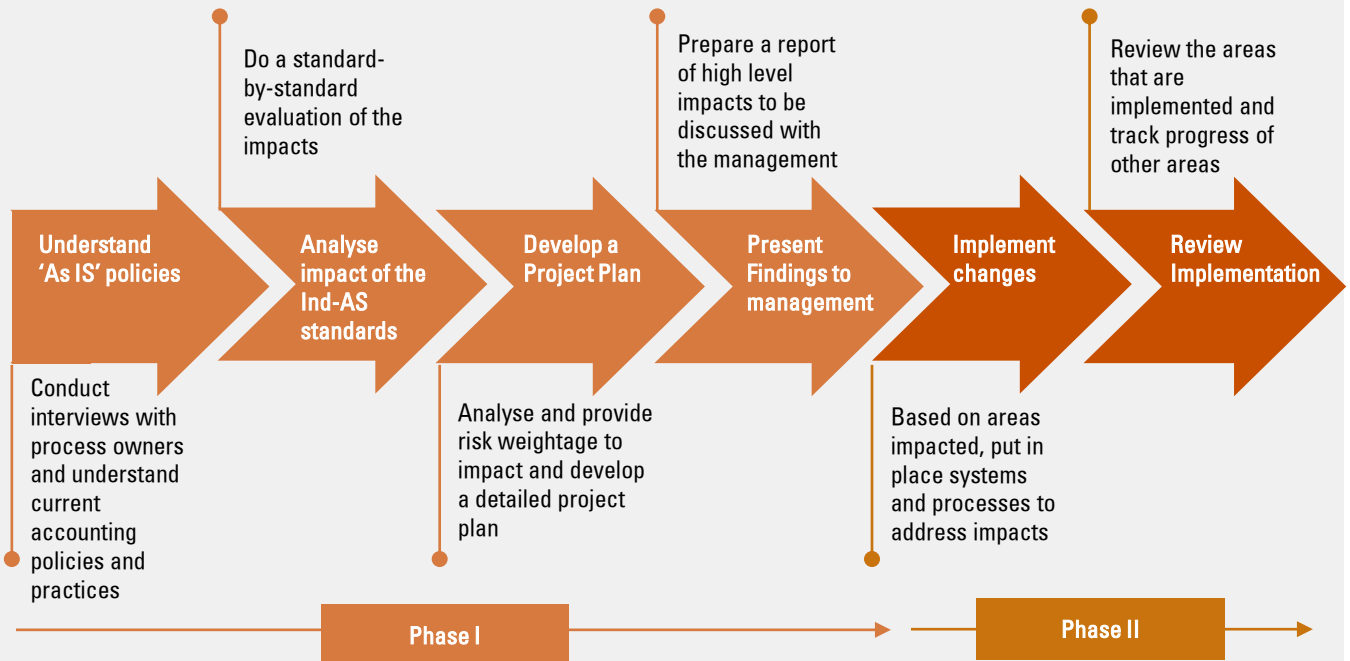
For Indian companies, there is very limited time for this transition, with the mandatory transition date of 1 April 2015 being just under 40 days away for companies covered under phase I. This change has an organisation wide impact, and is not just an accounting change. The devil is in the detail. Companies will, therefore, need to plan in advance and invest time.

Given the pervasive nature of the impact of these new standards, in addition to the financial reporting impacts, companies will also have to assess impact on other stakeholders such as investors and analysts.

Companies should immediately undertake a holistic assessment, and gear up with a robust implementation plan to deal with a change of this magnitude within the fairly short timelines.

## Be prepared for new standards

## Overview of the Ind AS conversion process



Ind-AS conversion is more than just an accounting exercise and has far reaching impacts on areas other than financial reporting as well. An effective Ind-AS conversion therefore may consider the following:

## Accounting, tax and reporting

- Identify differences resulting from changes to accounting standards or framework
- Identify changes to disclosure requirements
- Develop new accounting policies and practices
- Prepare for increased level of effort resulting from greater amount of judgment and estimates
- Evaluate existing chart of accounts and revise as needed
- Identify resources to analyse historical transactions as part of retrospective adoption
- Design and implement templates for data gathering
- Build technical financial reporting capabilities

## Systems and processes

- Identify information and data 'gaps' for implementation
- Evaluate changes needed to internal controls over financial reporting
- Engage the IT team in appropriately modifying data collection processes
- Design and implement process changes; can involve departments outside of accounting, tax and reporting



- Develop communication plans and reduce surprises for all stakeholders, such as investors and analysts
- Reassess internal management reporting and business measurement metrics
- Evaluate impact on management compensation metrics
- Assess impact of accounting change on general business issues such as contractual terms, pricing practices, lease vs. buy decisions, debt covenant compliance etc
- Modify third-party contracts to coincide with new reporting metrics

- Develop and execute training plans for employees across functions and locations
- Revise performance evaluation targets and measures and communicate to affected personnel
- Assign project management team with adequate resources, technical skills and cross-functional representation
- Set realistic timescales and accountabilities
- Create a project team with dynamic work plan and work streams

## Business

## People and change



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## Introducing KPMG in India IFRS Institute



KPMG in India is pleased to re-launch IFRS Institute - a web-based platform, which seeks to act as a one-stop site for information and updates on IFRS implementation in India.

The website provides information and resources to help board and audit committee members, executives, management, stakeholders and government representatives gain insight and access thought leadership publications on the evolving global financial reporting framework.

## Voices on Reporting



KPMG in India is pleased to present Voices on Reporting – a monthly series of knowledge sharing calls to discuss current and emerging issues relating to financial reporting.

In this month's call, we provided an overview and approach for formulation of Income Computation and Disclosure Standards (ICDS) as issued by the Ministry of Finance (MOF) on 8 January 2015. We also covered the revised draft ICDS in-depth and discussed implications on companies.

## Missing an issue of Accounting and Auditing Update or First Notes?



The January 2015 edition of the Accounting and Auditing Update captures the recent press release by the Ministry of Corporate Affairs on updated timeline for adoption of Ind AS in India and another important announcement by the Ministry of Finance regarding the revised drafts of Income Computation and Disclosure Standards (ICDS). The publication of the revised draft ICDS is quite timely and important, especially considering that the timelines for adoption of Ind AS.

This month we discuss some of the issues faced by the liquor industry and assess sector specific accounting and reporting issues. We also provide an overview of key highlights of the annual AICPA conference held in the United States focusing on current U.S. SEC and PCAOB developments.

We also examine accounting aspects for income taxes focusing on the area of uncertain tax positions. In addition, we highlight the salient aspects of the recently issued exposure draft of the guidance note on derivative contracts issued by the Institute of Chartered Accountants of India.

As is the case each month, we cover key regulatory developments during the recent past as well as summarise key changes to Non-Banking Finance Company regulations issued by the Reserve Bank of India.



## The Ministry of Finance issues revised drafts on tax computation standards

The Ministry of Corporate Affairs had earlier announced a roadmap for transition to Indian Accounting Standards (Ind AS) from 1 April 2011. To address lack of clarity of tax implications on the adoption of Ind AS by companies, the Central Board of Direct Taxes (CBDT) constituted a committee to harmonise the accounting standards issued by the Institute of Chartered Accountants of India with the provisions of the Act. In August 2012, the committee, after deliberations issued 14 draft tax accounting standards. These accounting standards are now termed as Income Computation and Disclosure Standards (ICDS). Considering the draft ICDS (2012) by the CBDT had significant differences with generally accepted accounting principles, the Ministry of Finance reworked on the standards and on 8 January 2015 issued revised drafts of 12 ICDS (2015) for public comments. Our First Notes provides an overview of key revisions made in the revised draft ICDS (2015).

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