



Grant Thornton

An instinct for growth™

Indian Accounting Standards (Ind AS) – India Converging to IFRS

Defining the roadmap for an efficient transition to the changing financial reporting environment in India



With global corporate integration leading to exponential growth for Indian companies, financial reporting in an internationally accepted framework is inevitable. For dynamic Indian businesses, the challenge to catapult into the next phase of growth magnifies with the ever increasing focus on quality and transparency of financial reporting by various stakeholders.

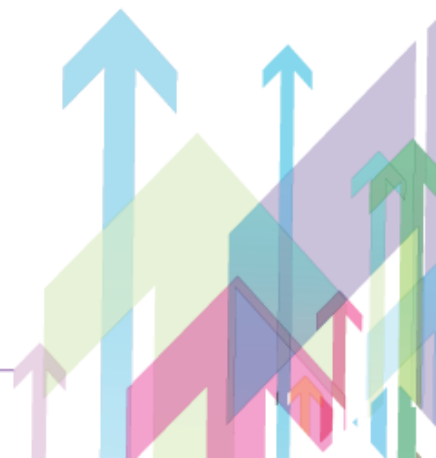
In the last few years, the regulatory framework for financial reporting in India has evolved significantly and the movement towards adoption of globally accepted financial reporting standards, referred to as International Financial Reporting Standards (IFRS) has gathered pace. India, is among those developing economies that have voiced their commitment for adoption of standards converged with IFRS.

To keep up to its commitment at G-20 forum, the Institute of Chartered Accountants of India (ICAI) in 2011 issued IFRS converged standards, referred to as Indian Accounting Standards or “Ind AS”. The adoption of Ind AS was delayed due to certain challenges on the tax and regulatory front.

The ICAI has recently issued a road map recommending adoption of Ind AS for preparing consolidated financial statements (to address taxation related matters) for accounting year beginning on or after 1 April 2016, along with comparatives for previous financial year. The final road map from the Ministry of Corporate Affairs (MCA) is still awaited.

At Grant Thornton, we understand the importance of aligning business and financial reporting with regulatory changes and the need for accurate financial reporting.

Our professionals have significant expertise in delivering bespoke solutions as they capitalise on their technical knowledge to help dynamic businesses transition to the new financial reporting framework in India.



IFRS Converged standards in India – Dawn of a new era

The Council of the Institute of Chartered Accountants of India (ICAI), in its meeting held in March 2014, proposed the road map for adoption of IFRS converged standards – Indian Accounting Standards or (Ind AS). The road map recommends that Ind AS be implemented for the preparation of consolidated financial statements for accounting year beginning on or after 1 April 2016, with previous year comparatives, of all listed companies and unlisted companies having net worth in excess of Rs 500 crore. Considering the revisions and changes made to IFRS by International Accounting Standards Board (IASB) since the issue of existing Ind AS in 2011, ICAI is also in the process of updating Ind AS to bring them in line with IFRS.

The need for immediate adoption of Ind AS was further echoed by the Union Finance Minister in his budget speech on 10 July 2014, proposing adoption of Ind AS by the Indian companies from financial year 2015-16 voluntarily and from financial year 2016-17 on a mandatory basis.

Recently, the new Companies Act, 2013 passed by the Parliament has introduced new provisions including requirement to prepare consolidated financial statements, which would facilitate implementation of Ind AS.

However, the dynamic business landscape and growing business complexities pose significant challenges in converging to changing financial reporting framework for Indian corporates. The drivers of these challenges are diverse, inter-alia:

- increasing size and complexity of business transactions
- increasing pressure to publish financial information quickly
- continuously evolving accounting standards, guidance and references
- multiplicity of accounting practices and standards across subsidiaries and segments
- quality of accountants for data processing and validation

Accordingly, it is imperative for a company to define a process whereby the following is achieved:

- choice of appropriate accounting policies and consistency in application thereof across subsidiaries, segments, jurisdictions and sectors
- well defined systems for timely and accurate financial reporting
- reliance on processes rather than on people



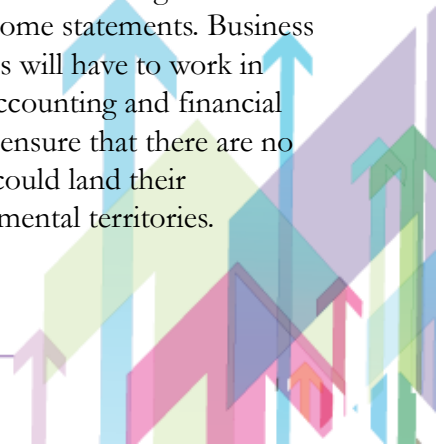
Transition to Ind AS – key considerations

Based on our study of the provisions of Ind AS and our experience with similar IFRS transition processes across the globe, following are the top five points for companies planning similar transition:

- 1. Accounting for financial instruments,** will undergo a comprehensive change which on the one hand affects the balance sheet ratios due to changes in classification of instruments as liability or equity and fair valuation of financial instruments, and on the other hand affects the operational performance measures, due to accounting for fair value changes and interest and other transaction costs on effective interest rate method. Companies will need to be extremely cautious while drafting their financing contracts in order to avoid undesirable accounting implications.
- 2. Group structures are likely to include more entities,** which were hitherto not consolidated. The definition of ‘control’ will go through a paradigm shift, making the evaluation of holding-subsidiary relationships more judgmental than ever before. Terms of loans and guarantees given for financing businesses as well as existence of potential voting rights in equity/preference share instruments will need to be monitored to determine whether or not such businesses get consolidated.
- 3. Use of fair values** is going to be extensive and complex. There are numerous instances in the new accounting literature where fair valuation is mandated.

This will not only involve huge expenditure in determining fair values, it will also bring a great degree of volatility to the income statements and subjectivity to the financial statements as a whole. Besides, Ind AS financial statements will have massive disclosures around use of fair values (with a separate standard on fair value disclosures in Ind AS, the efforts involved in preparing financial statements cannot be over-emphasised).

- 4. Accounting for business acquisitions** will become more challenging as Indian business houses become more global and explore acquisition opportunities outside India. Unlike present accounting practices, which involve the use of book values, Ind AS mandates recognition of assets acquired and liabilities assumed at fair values on acquisition date. Further, the new accounting standards will require seeing through an acquisition transaction to identify hidden or unsaid elements therein which may further complicate accounting.
- 5. Revenue recognition** will witness certain high-impact changes. Whether it is accounting for multiple element arrangements or identification of principal-agent relationships, both of which are likely to be a rollercoaster ride for companies, revenue contracts will need to be carefully drafted to avoid unintended negative impacts on the income statements. Business development teams will have to work in tandem with the accounting and financial planning teams to ensure that there are no loose ends which could land their companies in judgmental territories.



Our service – Preparation of consolidated financial statements in accordance with Ind AS

Our team comprises financial reporting and accounting experts, each having several years of hands-on practical experience across GAAPs and sectors. Our professionals uniquely combine their technical expertise with the intuition, insight and confidence gained from their extensive practical experience to develop a systematic, reliable, efficient and scalable reporting framework for converging from Indian GAAP to Ind AS.

This will entail a careful and well-documented evaluation (and suitable modifications) of the financial reporting process, in order to achieve an optimal balance between transparency, consistency, accuracy, reliability and speed, while also controlling costs.

DIAGNOSTIC REVIEW

- Understand the 'as-is' reporting framework, nature of the transactions and the reporting/ consolidation process
- Obtain financial statements and perform a detailed diagnostic review to identify preliminary GAAP differences between Indian (local GAAP) and Ind AS
- Perform detailed review of contracts, agreements, policy documents, etc. to identify the potential GAAP differences

IMPLEMENTATION

- Create accounting position papers on technical analysis and conclusions for accounting positions for all GAAP differences
- Designing templates and working notes for mathematical computations of GAAP adjustments

- Mapping of existing chart of accounts (CoA) to standard Ind AS CoA
- Design standard operating procedures for carrying out GAAP computations and CoA mapping

REPORTING

- Preparing an opening balance sheet as of transition date to Ind AS
- Preparation of financial statements for the reporting period with comparatives
- Conducting a series of workshops and trainings for supporting the implementation
- Finalisation, hand-holding and transfer of work papers

SUPPORT SERVICES

- Provide 'on-ground' support for a lifecycle of reporting including preparation of interim reporting
- Conducting knowledge sessions and tests for accounting personnel through implementation workshops to build in-house accounting expertise
- Providing regular updates on evolving changes in the accounting literature that are likely to have an effect on an ongoing basis
- Access to online accounting dashboard and query discussion platform - <http://mygaap.grantthornton.in>

Benefits that our solution brings to dynamic businesses

Operational (Accounting / Reporting personnel)	Strategic (CFO/ Financial Controller)	Governance (Board of Directors)
<ul style="list-style-type: none">• enhanced productivity and minimal wastage of manpower, resulting from streamlined process• enhanced understanding of process and improved accuracy in standard (and non-standard) reporting• support for the first time implementation of Ind AS forming the basis for the future reporting• reduced dependence on people / greater reliance on processes	<ul style="list-style-type: none">• improved accuracy and reduced time to compile financial statements/ management reports• ease of reporting to foreign stakeholders/ for business combinations• enhanced visibility of process and functioning there of• consistent application of group accounting/ reporting policies across subsidiaries/divisions• effective utilisation of the existing systems• reduced adjustments (eg: arising from standard and non-standard transactions)	<ul style="list-style-type: none">• incorporation of global best-practices (improved corporate governance)• defined framework to ensure that adequate diligence is performed at the transaction and review level• effective utilisation of existing systems• compliance and consistency in principles across subsidiaries, segments, jurisdictions and sectors



About Financial Reporting Advisory Services

Our Financial Reporting Advisory Services “FRAS” group is a set of professionals who have significant hands-on experience in providing end-to-end solutions and support services relating to complex financial requirements in a wide range of scenario. Our suite of services in FRAS includes:

Conversion services

FRAS professionals can assist in various ways in an entity's conversion process including:

- performing end-to-end conversion from local GAAP to International GAAP (IFRS/ US GAAP)
- conversion from International GAAP to Indian GAAP for Indian consolidation
- high level diagnostic review of GAAP differences
- suggest appropriate accounting treatment where International GAAP provides an option to choose between alternative accounting treatments
- providing profit/ equity reconciliation from local GAAP to International GAAP

Transaction-based services

FRAS professionals can assist proactively through the following Transaction-based services:

Capital raising

- assistance in the preparation of financial information (consolidated/ combined/ pro forma/ carve out)
- getting up to speed for financial reporting to meet regulatory compliance on quarterly and annual basis

Business acquisitions

- assistance in drafting/ review of share purchase agreement/ asset purchase

agreement to address and assess the impact on financial reporting

- assistance in Purchase Price Allocation and its accounting and preparation of opening balance sheet
- assistance in consolidation and tax accounting –developing the accounting policies and procedures manual for the acquired entity

Financial instruments and hedging

- review of draft investment agreement to address and assess the impact on financial reporting (such as debt vs. equity classification, investment classification, accounting options available)
- assistance in setting up the hedge accounting platform including establishing risk management policies, hedge documentation, and effectiveness of testing templates and accounting entries

Share-based compensation plans

- review of draft stock compensation plans to address and assess the impact on financial reporting
- advice on valuation and accounting for share-based transaction

Post transaction advisory and support

- developing group accounting policies and procedures manual
- assistance in managing the global consolidation process
- develop process and templates for collating information for dual GAAP reporting and MIS

Other advisory services

- On call advisory
- Industry/ technical training programs (such as basic and advanced training in financial instruments, full day IFRS/ US GAAP trainings, etc.)

About Grant Thornton in India

Grant Thornton in India is one of the largest assurance, tax, and advisory firms in India. With over 2,000 professional staff across 13 offices, the firm provides robust compliance services and growth navigation solutions on complex business and financial matters through focused practice groups. The firm has extensive experience across a range of industries, market segments, and geographical corridors. It is on a fast-track to becoming the best growth advisor to dynamic Indian businesses with global ambitions. With shorter decision-making chains, more senior personnel involvement, and empowered client service teams, the firm is able to operate in a coordinated way and respond with agility.

Over the years, Grant Thornton in India has added lateral talent across service lines and has developed a host of specialist services such as Corporate Finance, Governance, Risk & Operations, and Forensic & Investigation. The firm's strong Subject Matter Expertise (SME) focus not only enhances the reach but also helps deliver bespoke solutions tailored to the needs of its clients.

NEW DELHI National Office Outer Circle L 41 Connaught Circus New Delhi 110 001	AHMEDABAD BSQUARE Managed Offices 7th Floor, Shree Krishna Center, Nr. Mithakali Six Roads, Navrangpura, Ahmedabad 380009	BENGALURU “Wings”, 1st floor 16/1 Cambridge Road Ulsoor Bengaluru 560 00	CHANDIGARH SCO 17 2nd floor Sector 17 E Chandigarh 160 017
CHENNAI Arihant Nitco Park, 6th floor, No. 90, Dr. Radhakrishnan Salai, Mylapore Chennai 600 004	GURGAON 21st floor, DLF Square Jacaranda Marg DLF Phase II Gurgaon 122 002	HYDERABAD 7th floor, Block III White House Kundan Bagh, Begumpet Hyderabad 500 016	KOCHI 7th Floor Modayil Centre point Warriam Road junction M.G. Road Kochi 682016
KOLKATA 10C Hungerford Street 5th floor Kolkata 700 017	MUMBAI 16th floor, Tower II Indiabulls Finance Centre SB Marg, Elphinstone (W) Mumbai 400 013	MUMBAI 9th Floor, Classic Pentagon Nr Bisleri Factory Western Express Highway Andheri (East) Mumbai 400 099	NOIDA Plot No. 19A, 7th Floor Sector – 16A Noida 201301
PUNE 401 Century Arcade Narangi Baug Road Off Boat Club Road Pune 411 001	For further information, please contact our subject matter experts:		
	Ashish Gupta E Ashish.Gupta@in.gt.com M +91 98117 22626 T +91 124 462 8000	Siddharth Talwar E Siddharth.Talwar@in.gt.com M +91 98109 30906 T +91 124 462 8000	Keyur Dave E Keyur.Dave@in.gt.com M +91 99200 30880 T +91 22 6626 2600



Grant Thornton

An instinct for growth™

© Grant Thornton India LLP. All rights reserved

Grant Thornton India LLP (formerly Grant Thornton India) is registered with limited liability with identity number AAA-7677 and its registered office at L-41 Connaught Circus, New Delhi, 110001

Grant Thornton India LLP is a member firm within Grant Thornton International Ltd (“Grant Thornton International”).

Grant Thornton International and the member firms are not a worldwide partnership. Services are delivered by the member firms independently.

For more information or for any queries, write to us at contact@in.gt.com

www.grantthornton.in