Government announces roadmap for implementation of Ind AS
On the heels of the budget announcement, the finalisation of this keenly awaited revised roadmap is a welcome step as it brings more certainty to India’s efforts towards convergence with IFRS.

The adoption of these IFRS converged standards can go a long way in enhancing transparency and quality of financial reporting by the Indian corporates as Ind AS is expected to fill many gaps in Indian GAAP. Ind AS will also aid as one of the measures to improve the governance and transparency rankings of India globally.

Sai Venkateshwaran
Partner and Head,
Accounting Advisory Services, KPMG in India

Implementation of Ind AS along with other proposed changes such as Income Computation and Disclosure Standards as well as key changes made in the Companies Act, 2013, could bring about a substantive change in the financial reporting framework. Indian companies would need to ensure appropriate planning and consider wider implications beyond just the external reporting, for a smooth transition.

Madhu Sudan Kankani
Partner,
Accounting Advisory Services, KPMG in India
Overview of the revised roadmap

Background
The MCA, through a press release, on 2 January 2015 issued a revised roadmap for companies other than banking companies, insurance companies and non-banking finance companies for implementation of Ind AS converged with IFRS.

The Ind AS shall be applicable to companies as follows:

On voluntary basis
For accounting periods beginning on or after 1 April 2015, with the comparatives for the periods ending 31 March 2015 or thereafter.

On mandatory basis

Phase I
(i) For accounting periods beginning on or after 1 April 2016, with comparatives for the periods ending 31 March 2016, or thereafter:
   (a) companies having net worth of INR500 crore or more whether their equity and/or debt securities are listed or otherwise
   (b) holding, subsidiary, joint venture or associate companies of the class of companies covered in (a) above.

Phase II
(ii) For the accounting periods beginning on or after 1 April 2017, with comparatives for the periods ending 31 March 2017, or thereafter:
   (a) companies whose equity and/or debt securities are listed or are in the process of being listed on any stock exchange in India or outside India and having net worth of less than INR500 crore
   (b) unlisted companies having net worth of INR250 crore or more but less than INR500 crore
   (c) holding, subsidiary, joint venture or associate companies of the above class of companies.

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 matters
• Once a company opts to follow the Ind AS, it will be required to follow the Ind AS standards for all the subsequent financial statements.
• Companies not covered by the revised roadmap could continue to apply existing accounting standards prescribed in the Indian GAAP.

Mandatory implementation – Phase I

Date of transition
Ind AS opening balance sheet

1 April 2015

30 June 2015
30 September 2015
31 December 2015

First Ind AS financial statements

31 March 2016
31 March 2017

Comparative period

For interim reporting, Ind AS may first be applicable from quarter ending 30 June 2016

Reporting date

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.

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Our views

The following are important points to note:

- **Comparatives required**: Unlike the earlier roadmap, there is a requirement for companies to present financial information for the comparative year as well. This is a very significant and positive change, as users of financial statements may not be able to comprehend and compare the performance and financial position of the companies reporting under Ind AS, unless the comparative year is also presented using the same measures, especially considering the magnitude of the changes. In the earlier roadmap, comparatives were not required.

- **Wider coverage of entities**: Apart from covering companies meeting the size thresholds, this roadmap also covers all its related entities, such as holding, subsidiary, joint venture and associate companies, even if such companies would not have otherwise met the thresholds. Thus, on the one hand it would increase the financial reporting requirements of these entities, especially, if they are smaller companies, while on the other hand, the entire group can now look to apply one single set of accounting standards irrespective of size thereby bringing in efficiency in the group’s financial reporting processes.

- **Two phased simplified implementation with lower thresholds**: As compared to a three phased approach earlier, the revised roadmap envisages a two phase implementation. The roadmap ensures that over a period, all listed companies and large unlisted companies are covered under Ind AS implementation while providing relaxation to smaller companies. There seems to be an irrevocable choice of moving to Ind AS earlier (i.e. from 2015-2016 with comparatives of 2014-2015) on voluntary basis to all companies. Further, the thresholds have been unified and only one yardstick has been prescribed for determining coverage.

- **Areas requiring further clarity**: The revised roadmap has not specified the financial statements (consolidated or standalone) and reference date for calculation of the net worth. Further, the roadmap does not indicate whether the Ind AS reporting would be restricted to consolidated financial statements or apply to standalone financial statements as well. While it is expected that the notification would provide clarity on these matters, our expectation is that the net worth thresholds would be reckoned with a reference to the standalone financial statements of companies, and that these reporting requirements would apply to both the standalone and consolidated financial statements.

Impact

The announcement of the roadmap is just the beginning, and a lot more that needs to be achieved before the Ind AS can be implemented as per the timelines indicated. Most importantly, the Ind AS standards need to be notified by the MCA, at the earliest which will enable companies that are covered to assess impact of the Ind AS standards.

Companies that seek early voluntary implementation need to plan and take steps on an immediate basis.

Another important pre-requisite 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. We expect to see a lot more developments on these fronts in the coming weeks to make this effort towards Ind AS implementation a success.

There may be certain implementation questions on the roadmap such as the date when the threshold needs to be looked at, definition of holding companies and whether subsidiaries need to be considered as per the Companies Act, 2013 or accounting standards, etc. We hope that relevant clarifications would be prescribed to avoid any confusion.

Next steps

The press release is shortly expected to be followed by a formal notification by the government.

We expect the National Advisory Committee on Accounting Standards and the MCA to review the Ind AS and notify the final Ind AS in the coming months. On similar lines, the Ministry of Finance is expected to issue Income Computation and Disclosure Standards to address the computation of income tax under the Income-tax Act, 1961.

For seamless implementation of Ind AS, the Institute of Chartered Accountants of India has issued an exposure draft on Ind AS compliant Schedule III to the Companies Act, 2013 for companies other than non-banking finance companies. The comment period ends on 20 January 2015.
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.

On 20 November 2014, we covered the following three topics:

1. Roadmap for IFRS convergence in India
2. Exposure draft on Ind AS 101, First-time Adoption of Indian Accounting Standards
3. An overview on the Ind AS convergence process.

The December 2014 edition of the Accounting and Auditing Update contains an anthology of our articles, on the key aspects of the Companies Act, 2013. These articles have been updated to include clarifications and implementation related insights that have been gained as companies have sought to apply in practice this landmark legislation.

As is the case each month, we covered key regulatory developments during the recent past as well as highlight the salient aspects of the recently issued guidance note by the Institute of Chartered Accountants of India on the area of internal financial controls.

The Union Cabinet proposes certain amendments to the Companies Act, 2013

The Companies Act, 2013 (the Act) is largely operationalised from 1 April 2014. The MCA has been issuing various amendments and clarifications to the Act and the corresponding Rules in order to address the implementation challenges faced by corporates and professionals.

Continuing with the endeavour for effective implementation of the Act, the Union Cabinet, on 2 December 2014 introduced the Companies (Amendment) Bill, 2014 in the Parliament to make certain amendments to the Act. Changes proposed include approval process of related party transactions, fraud reporting by auditors, areas where the Rules overreached the Act, and other procedural relaxations.

This issue of First Notes provides a list of the amendments proposed in the Act.