

CHAPTER 5

Impact of Accounting Standards on Financial Reporting

5.1 Introduction

Accounting primarily involves recording, classification, and summarizing financial information. However, the key function of accounting comes after this, communication of results of business to its prospective users. Accounting is considered as the language of business and financial reporting is a crucial area of accounting. Financial reporting consists of all those activities from the recognition of each item and transactions, its measurement, and the disclosure in the statements. It's a comprehensive procedure in its own way. The companies publish the following statements as per section 2(40), the companies act 2013 including.

1. A balance sheet at the end of the year.
2. A profit and loss account or in the case of a company carrying on any activity not for profit, an income and expenditure account for the financial year.
3. Cash flow statement for the financial year.
4. A statement of equity, if applicable; and
5. Any explanatory notes annexed to or forming part of any document referred to in sub clause (i) to sub clause (iv).

The major objective of financial reporting is the timely availability of information with accuracy and credibility. The Indian financial reporting system is primarily governed by the requirements of companies' act 2013 and the guidelines issued by the SEBI. In 1998, Government has made the accounting standards statutory and made it compulsory that the financial statements should be published in accordance with the accounting standards issued by ICAI and approved by NACAS (National Advisory Committee on Accounting Standards).

Accounting standards essentially serve as guidelines for compiling financial reports. They establish the structure within which financial statements are prepared. They have provided the set of conditions for recognition, methods for measurement and format of disclosure, however, it is mentioned that in any circumstances the standards are to contradict the companies act, the act has a higher hand. Accounting standards help in providing the qualitative aspects in the corporate financial reporting. Accounting standards have a direct implication on the reliability, transparency, comprehensiveness and projecting the true and fair view of the business.

In India, the generally accepted accounting principles, and policies (GAAP) form basis for the accounting standards and various other documents issued under Section 133 of the Companies Act, 2013. Schedule III to the Companies Act includes certain disclosure requirements for the preparation and presentation of financial statements. These instructions do not exhaustively cover the accounting principles and policies to be adopted on various accounting issues and the disclosure requirements for corporate financial reporting in a transparent manner. Accordingly, it becomes necessary to follow accounting standards and other pronouncements of the ICAI.

5.2 General features of Financial Statements

(1) Presentation of true & fair view

Financial statements are expected to provide an accurate and fair representation of the entity's balance sheet, profit & loss statement, and cash flow. The use of Indian Accounting Standards (Ind ASs), along with necessary disclosures, is assumed to yield financial statements that offer a true and fair view.

Ind AS requires that a company includes a compliance statement in its annual report, affirming that the financial statements adhere to Ind AS. In very rare situations, a company may diverge from Ind AS, provided it makes certain disclosures.

(2) Going concern

Ind AS I require that the company should assess its ability in continuing as a going concern based on available information about future, at least 12 months from the end of the reporting period.

And in case management concludes that the entity is not a going concern, financial statements should not be prepared on going concern basis and Ind AS I require more disclosures.

(3) Accrual basis for accounting

The books of accounts except the cash flow statement are prepared based on accrual concept. The items receivable / payable related to the corresponding financial year is recognized even though it is not received / paid.

(4) Materiality & Aggregation

Aggregation is allowed in the case of similar items. It is advisable to report the material items by avoiding too much detailing.

(5) Offsetting

In usual cases, offsetting of assets, liabilities, income & expenses against each other are not allowed unless required or permitted by an Ind AS.

(6) Frequency of reporting

Ind AS advocates annual reporting along with comparative figures from last year.

(7) Consistency of presentation

Ind AS requires that the entities should present and classify the items in consistent manner in the regular course of business.

5.3 Structure & Content

Schedule III of companies Act prescribes the format for financial statements standard therefore does not provide a specific format but prescribes certain line items.

However, accounting standards and other pronouncements of the ICAI are different on many counts with the international accounting standards and accordingly, even if the accounts are prepared following Indian accounting standards and other GAAPs (Generally Accepted Accounting Principles), it is unlikely to be considered as “fair” in many developed countries including the USA, the EU, and the UK

In Indian context, the financial statements shall reflect true and fair view if the following conditions are fulfilled:

- Balance Sheet is drawn up as per the requirements of Schedule III and in the form given in Part I of the said Schedule.
- Profit and Loss Account is drawn up as per the requirements of Part II of Schedule III;
- Proper books of account are maintained as required in section 128; i.e., proper books of account are maintained with respect to
 - a. All sums of money received in respect of receipts and all sums of money paid in respect of expenditure,

- b. All sales and purchases of goods by the company,
- c. Assets and liabilities of the company, and
- d. Cost records relating to utilization of material or labor or to other items of costs in case of companies engaged in the production, processing, manufacturing or mining activities, if required by the Central Government; Proper books of account are to be maintained following double entry system of book-keeping and accrual basis of accounting; Balance Sheet and profit and loss account are prepared following generally accepted accounting principles and policies, i.e.,

- (i) Accounting policies adopted by the company are consistent with generally accepted accounting principles and policies,

- (ii) Financial statements reflect substance of the transactions and events that took place during the financial year, and

- (iii) Disclosures are consistent with the accounting standards and other relevant pronouncements of the ICAI. Section 129 of the Companies Act, 2013 requires that every profit and loss account and balance sheet comply with the accounting standards.

5.4 Indian Accounting Standards

The Accounting Standard collectively establishes a set of rules for recognition, measurement, and disclosure that all adhering enterprises must follow. This ensures the comparability and accurate representation of Financial Statements. High-quality accounting standards are essential for a robust Capital Market System. The increase in cross-border capital acquisitions and investment transactions necessitates the development of high-quality international accounting standards for global financial reporting. The differences in accounting practices can be attributed to a variety of factors, including culture, traditions, economic development, mode of economic growth, inflation, and the legal system.

The diversity demands unification to the extent possible to develop Generally Accepted Accounting Practices (GAAP). Indian GAAP comprises of a set of pronouncements issued by various regulatory authorities mostly in consultation with the ICAI. The accounting Standard i.e., Indian GAAP is supplemented by Guidance notes, Interpretation, General Clarification and/or revision from time to time.

5.5 International Financial Reporting Standards (IFRS)

International Financial Reporting Standards (IFRS) is a set of accounting standards, introduced by the International Accounting Standards Board (IASB), which is gradually considered as international standard for the preparation of books of accounts. International Financial Reporting Standards (IFRS) is formulated with a view to harmonize different accounting policies and practices used in various countries. The objective of IFRS is, therefore, to reduce the accounting intricacies in the preparation of financial statements within the countries and across the countries thereby ensuring comparability of financial statements of different endeavour with a view to provide meaningful information to various users of financial statements and enable them to make the best economic decisions.

The Institute of Chartered Accountants of India has also recognized the issues at global level and the corresponding developments, subsequently they have decided to converge the existing accounting standards with the IFRS. Such standards are known as Indian Accounting Standards (Ind AS). At present we are having 41 Ind ASs notified in India. It is interesting to know the changes in the standards and its implications in the financial reporting of the companies.

The conversion to Ind AS is not a mere accounting exercise; it is a process of change management. Adopting Ind AS can have significant impact in the different facets of an organization beyond financial reporting. (Example: ERP systems, bonus to employees, distribution of dividend, valuation of share, MAT, and corporate tax). However, both transition process and its implication widely vary amongst companies. The transition to Ind AS need to the general impact on financial reporting.

The researcher has tried to identify the implications of the standards regarding their aspects towards recognition, measurement, and disclosure. As the standards cannot be analysed without due reference to companies act and schedule iii, it is also mentioned wherever necessary.

The company's act was issued in 1956 and it was considered as the rock base for preparation and presentation of financial statements and the schedule via issued in 1958 formed the basis for disclosure. The guidance notes for the terms used in the schedule were approved by ICAI. But with the need of time and to cope up with the developments in the global scale in 2011, this schedule was revised as a pioneer to the adoption of IFRS in India. Subsequently in 2013 companies act was revised and 2015

marked the beginning of Ind AS era of financial reporting system as converged accounting standards.

5.6 Ind AS and its theoretical impact

- **Principle based**

The new standards are formed from IFRS and hence it has given importance to principles rather than rules. The new standards have set some broad guidelines rather than clear cut requirements. Companies have given ample freedom to choose for themselves but anyhow they need to justify themselves. For instance, Ind AS merely states that the investments should be recorded at their fair value, without defining the methods for arriving at the fair value. The company is given the freedom to choose the appropriate method according to the circumstances.

- **Substance over form**

The new standards focus on the substance of the contract rather than the form of contract. This is highly important with respect to leases, joint venture, and the recognition of subsidiary units. This principle has made huge impact in case of consolidated financial statements. It has redefined the term control for the consolidation. In case of goods sold on extended credit basis, it is now necessary to show the implied interest amount as finance cost.

- **Time value of money**

Time value of money has been held as the long-discussed question around accounting. It has always posed a question of the reliability of the historic cost-based accounting system. Ind AS recognizes this need of the hour and has introduced a fair value measurement system and the mandatory discounting of cash flows of investments. Also, the introduction of other comprehensive income (OCI) is regarding the time value of money.

- **Recognition of major items of financial statements**

It is to be noted that the researcher has been analysing the changes with respect to the companies' act 1956, schedule vi and the corresponding guidance notes

with the companies act 2013, Division II of schedule III and the corresponding guidance notes. Even though there was an accounting framework under AS, the schedule was given more power hence, the framework remained silent. But with the enactment of new companies' act, the standards have given their power and freedom. Hence the accounting framework will play a major role in the financial reporting. In compliance with the requirements of the 2013 act, including Ind AS applicable to the companies, requires changes in the presentation or disclosure in the Ind AS financial statements. The following table shows the recognition and measurement of items of financial statements under the new reporting system.

5.6.1 Elements of Financial statements

Elements	Definition	Recognition
Assets	“An asset is a resource controlled by the unity because of past events from which future economic benefits are expected to flow to the entity”. (conceptual framework)	“It is probable that future economic benefit will flow to the entity. Asset has a cost or value that can be reliably measured”. (conceptual framework)
Liabilities	“A liability is a present obligation of an entity arising from past events, the settlement of which is expected to result in outflow from the entity of resources embodying economic benefits.” (conceptual framework)	“It is probable that outflow of resources embodying economic benefits will result from the settlement of present obligation. The amount of which settlement will take place can be measured reliably”. (conceptual framework)
Equity	It is the residual interest in the assets of the entity after deducting all its liabilities.	It is the residual interest in the assets of the entity after deducting all its liabilities.
Income	Income encompasses both revenues & gains. It is simply the enhancement of assets or decrease of liabilities.	Increase in future economic benefits related to increase in asset or decrease in liabilities. It could be measured reliably.
Expenses	“Expenses encompasses both losses & expenses. It shows decrease in economic benefits in the form of decrease in inflows. Depletion of assets or increase in liabilities”. (conceptual framework)	“A decrease in future economic benefits related to a decrease in asset or an increase of a liability has arisen that can be measured reliably”. (conceptual framework)

5.6.2 Measurement of Items

BASIS	ASSETS	LIABILITIES
Historical Cost	“Cash or cash equivalents paid, or fair value of consideration given to acquire the assets”. (conceptual framework)	“Proceeds received in each of obligations or each or cash equivalents expected to be paid to satisfy the liability”. (conceptual framework)
Current Cost	“Cash / Cash equivalents that would have been paid if the same asset is procured currently”. (conceptual framework)	“Undiscounted cash or cash equivalents that would be required to settle obligation”. (conceptual framework)
Realizable value	“Cash or Cash equivalents that would be received by selling the asset in the normal course of business”. (conceptual framework)	“Cash / Cash equivalents that would be paid to settle the liability in the normal course of business”. (conceptual framework)
Present value	“Discounted value of future cash & inflows that the amount might generate in normal course of business.” (conceptual framework)	“Discounted value of future net cash outflows that are expected to settle liability in normal course of business.” (conceptual framework)
FV	Amount at which the assets would be exchanged in the most advantageous market	Amount at which liabilities would be exchanged in the most advantageous market

5.7 General Impact of Ind AS

This section briefly discusses the theoretical changes brought in by Ind AS and how they might affect the preparation of financial statements.

- **Revenue**

Revenue is one of the most important measures of efficiency. Under Ind AS, the revenue is shown as a gross amount of revenue and taxes, which is different from AS, where net revenue was shown in the statement of profit and loss. This, however, may not change anything in the quantitative sense, but it does have an impact on various profitability ratios. Also, the revenue-based contracts have been treated only based on fulfilment of all the aspects of the contract and that too separately. Under AS, this distinction was not fine lined. “Ind AS requires a careful assessment of principal-agency relations with the seller. Although, under Indian GAAP, revenue recognition has been on similar basis, there was no specific guidance”.

- **Fair valuation**

Fair valuation is used in recognition of assets including financial instruments. This has a rippling effect on Statement of Profit and Loss. And to efficiently manage the fluctuations of fair valuation, other comprehensive income has been introduced as part of statement of profit and loss account. Under AS, the diminution of long-term assets didn't have a detailed methodology, but Ind AS prescribes Expected Credit Loss Model (ECL) for calculating impairment of financial assets. The provision provided under Ind AS takes into consideration of time value, and therefore the discounted value is considered.

- **Intangible assets and Goodwill**

Theoretically Ind AS 38 and AS 26 provide similar definitions in recognition and measurement of Intangible assets. However, some changes are being brought in by Ind AS. One of them is internally generated goodwill; it was previously recognized in the balance sheet. Under Ind AS, this is not recognized as it is difficult to measure the cost of generating goodwill. Internal goodwill can be a result of multiple reasons and hence, it cannot be measured reliably and comprehensively. Only the goodwill arising out of business combinations are recognized. In case if good will already exists in the balance sheet on the date of transition, it is shown as a separate line item apart from intangible assets. Thus, goodwill is given a special status. Also, instead of amortizing over 5 consecutive years, goodwill is tested for impairment. It is assumed to have indefinite useful life.

- **Consolidation of financial statements**

Ind AS brought in certain changes regarding consolidated financial statements. The parent company is supposed to prepare consolidated financial statements, however, under AS, this is not mandatory. Unlike AS, Ind AS gives guidance notes regarding the preparation of separate financial statements by subsidiaries, associates, and jointly controlled entities. The concept of control is defined on principle based under Ind AS and states that "control, is power to govern the operating and financial policies of the entity for obtaining the benefits from its activities. This also encompasses the capability to utilize power for financial and other advantages, as per Ind AS 110. In contrast, AS determines control based on voting power. Minority interest, which was

previously disclosed separately from equity and liabilities under AS, is now represented as a component of equity under Ind AS, under the category of non-controlling interest.

- **Financial instruments**

The recognition and treatment of financial instruments significantly differ in Ind AS. Ind AS, investments are either recognized under Fair Value Through Other Comprehensive Income (FVTOCI) in case of long-term investments and in case of short-term investments, it is mostly valued using Fair Value Through Profit and Loss (FVTPL). Debt instruments are mostly valued using amortized cost and interest on them is calculated using EIR method. The impairment of financial instruments has also gone through a lot of changes. AS have not given clear guidance about hedge accounting. The financial instruments accounting prescribed by Ind AS have kept a separate section for hedge accounting.

- **Proposed dividend and deferred tax assets**

The proposed dividend is not recognized under Ind AS. It is treated as an event occurring after the reporting period. As a result, the provisions maintained under AS are not required under Ind AS. These provisions are reversed during the transition period. The proposed dividend is not recognized as liability under Ind AS.

- **Employee based share payments.**

A whole new standard has been brought in by Ind AS for accounting for share-based payments to employees. It has become mandatory to use fair value for measuring the share-based payments under Ind AS. Under GAAP, companies used either intrinsic value method or fair value method. Most Indian companies followed intrinsic value method. They had to shift to fair valuation. Fair value is measured using option pricing models which has created an increase in the employee stock option schemes shown in the profit and loss account. Under Indian GAAP, straight line method was used to amortize the payments.

- **Actuarial gains and losses**

“Actuarial gain or loss refers to an increase or decrease to a company’s estimate of the Present Value of Obligation or the Fair Value of Plan Assets as a result of either change in assumption or experience adjustments / variance.”(What Are Actuarial Gains or Losses?, n.d.) Under AS, these gains and losses were charged to profit and loss account. Now it is recognized in equity through other comprehensive income. The calculation of actuarial assumption involves discount rate and the volatility in discount rates affects the valuations as well. Hence, to reduce the volatility caused by market forces in the statement of profit and loss, it is channelized through other comprehensive income.

- **Leases**

The major change brought in by Ind AS regarding leases are the guidance system for embedded leases. Under GAAP, the focus was on the form of the contract and not on the substance of the contract. Ind AS has shifted that focus to substance of contract. So, after implementation of Ind AS, it is necessarily the responsibility of the company to recognize the existence of embedded lease in the contract. Even though over paper it might seem to be like a simple contract, but if the substance underlying means otherwise, it must be taken care of and recognized properly under leases.

5.8 Impact of Ind AS in disclosure requirements

Ind AS mandates comprehensive levels of disclosure regarding each line item of the financial statement. Ind AS requires more than 3000 disclosures from a reporting entity. When the level of disclosure increases, it naturally contributes to an increase in transparency of the financial statements and reports. Increased transparency helps the various stakeholders of the entity to make informed decisions. The disclosure related to fair valuation is extremely comprehensive and conclusive. There are three levels for fair valuation and Ind AS mandates that the reporting entity must disclose the relevant bases on which fair value is calculated. Similarly, Ind AS disclosure requires conclusive disclosure of share-based payments, investments, hedging activities etc. when the entity provides extensive disclosures, it helps the

investors to know their company in a true and fair view. Thus, higher level of disclosure promotes better transparency in the company.

5.9 Impact of Ind AS in compliance.

When a new standard is introduced, compliance among the reporting entities is of utmost importance. Even though the standards propose groundbreaking proposals, unless the reporting entities comply with the accounting standards, these rules and principles tend to remain on paper. This study undertakes an analysis of harmonisation of accounting practices because of Ind AS implementation in Part II of Analysis chapter. It is found that even though the rules related to various accounting practices remain under both AS and Ind AS, harmonisation of accounting policies have improved. As the compliance is mandatory, it ensures better quality in financial reports.

5.10 Exemptions on first time adoption of Ind AS

Financial reports in India are prepared according to Accounting Standards as notified by Ministry of Corporate Affairs (MCA) popularly known as Generally Accepted Accounting Principles (IGAAP). In 2016, the companies are directed to adopt IFRS converged Ind AS instead of IGAAP. It is expected to achieve full retrospective applications of all Ind AS. This is a tedious task and, in many situations, almost impracticable to practice. These sudden changes can cause certain difficulties for the companies to cope up. Hence, they are allowed certain exemptions at the time of preparation of the opening Balance Sheet.

- **Accounting Policies**

“An entity shall use the same accounting policies in its opening Ind AS Balance sheet and throughout all the periods presented in its first Ind AS financial statements. Those accounting policies shall comply with each Ind AS effective at the end of its first Ind AS reporting period.” (*Ministry Of Corporate Affairs - Indian Accounting Standards*, n.d.)

In case the entity uses different policy, the adjustments arising shall be directly shown in retained earnings.

- **Estimates**

“An entity’s estimates in accordance with Ind ASs at the date of transition to Ind ASs shall be consistent with the estimates made for the same date in accordance with previous GAAP (after adjustments to reflect any difference in accounting policies) unless there is objective evidence that those estimates were in error. When an entity receives new information after the date of transition to Ind ASs about estimates that it had made under previous GAAP, it is treated as a non-adjusting event under Ind AS 10, Events after Reporting period. When an entity makes new estimates under Ind AS that were not required under GAAP, they shall be made under the existing circumstances of the date of conversion.”(*Ministry Of Corporate Affairs - Indian Accounting Standards*, n.d.)

Ind AS provides certain exemptions at the time of first-time adoption while preparing opening balance sheet. Ind AS 101, “First time adoption of Ind AS” deals with the same. To understand the implications of the changes brought in by the introduction of Ind AS, it is necessary to understand the exemptions available for the companies during their initial adoption. There are two broad categories of accounting options available under this standard.

- Mandatory exemptions which prohibit the retrospective applications of certain provisions under Ind ASs while preparing the opening balance sheet. These accounting options are available for the companies on an ongoing basis.
- Optional exemptions provide certain concessions for the companies with regard to the retrospective application of Ind AS. These are available single time only at the time of initial adoption. Optional exemptions are usually provided for the smooth transition from IGAAP to Ind AS.

5.10.1 Mandatory Exemptions

1. “De-recognition of Financial Assets and Liabilities.

The financial assets and liabilities which are already de-recognized under GAAP shall remain de-recognized itself. Ind AS will consider recognizing those assets and liabilities only if new information on them is available”.

2. Hedge Accounting.

Under Ind AS, at the time of transition, the entity should,

- “Measure all the derivatives at fair value.
- Eliminate all deferred losses and gains arising on derivatives that were reported in accordance with previous GAAP as if they were assets or liabilities.

An entity shall not reflect in its opening balance sheet a hedging relationship of a type that does not qualify for hedge accounting under Ind AS 109.” (*Ministry Of Corporate Affairs - Indian Accounting Standards*, n.d.)

3. Non-Controlling Interest.

The separate financial statements are prepared by keeping the Investments in subsidiaries, associates, and joint venture at cost value or fair value.

4. Classification and measurement of financial assets

“Ind AS provides three categories for classifying financial assets and debt instruments- amortized cost, fair value through other comprehensive income (FVOCI), fair value through profit and loss (FVPL)”. (*2020 - First-Time Adoption of IND AS.Pdf*, n.d.)“The entity shall assess each instrument based on the conditions existing at the time of transition. Any new knowledge obtained later shall not be considered. And if it is impracticable to assess the fair value of the instrument, contractual cash flow characteristics of the instrument is assessed at the time of conversion.” (*Ind-as-Pocket-Guide-2016.Pdf*, n.d.)

5. Impairment of Financial Asset

Financial assets can be tested for impairment at the time of transition only when it is possible for the entity to determine the credit risk of the assets at the time of issue. If the company does not possess adequate information regarding the conditions existing at the time of issue of the financial asset, it shall not account for impairment at the time of transition.

6. Embedded Derivatives

“A first-time adopter must evaluate if an embedded derivative needs to be detached from the main contract and treated as a separate derivative. This evaluation should be based on the circumstances that were present at the later date of when they initially entered into the contract or when a reassessment was made.”(*Ministry Of Corporate Affairs - Indian Accounting Standards*, n.d.)

7. Government Loans

Government grants related to income are presented under other income of statement of profit and loss as a separate heading. Later they are deducted in reporting the related expense”.(Ind_AS.Pdf, n.d.)

5.10.2 Optional Exemptions

1. Share based payments.

“Employee stock options that have already vested as on the transition date need not be accounted under the purview of fair valuation.” However, if enough information is available to the entity, it is always encouraged to apply Ind AS 102 retrospectively.

2. Insurance Contracts

Even though the earlier application of Ind AS 104 is advisable, it is permitted to apply the standard for annual periods starting from the date of transition is the entity applies the standard for an earlier period, it should disclose that fact.

“When an insurer changes its accounting policies for insurance liabilities, it is permitted, but not required, to reclassify some or all of its financial assets as ‘at fair value through profit and loss’. This reclassification is permitted if an insurer changes accounting policies when it first applies Ind AS 104 and if it makes a subsequent policy change permitted by the same standard. The reclassification is a change in accounting policy and Ind AS 8 applies.” (*Ministry Of Corporate Affairs - Indian Accounting Standards*, n.d.)

3. Deemed Cost

At the time of transition to Ind AS, an entity may elect to measure an item of Property Plant and Equipment (PPE) from the following choices.

- Re-measure the item at their fair value on the transition date and use it as the deemed cost on that date.
- In case, assets have been previously revalued under GAAP, those revalued amount can be treated as deemed cost provided that those revalued amounts are comparable with
 - Fair value; or
 - Cost or depreciated cost in accordance with Ind ASs adjusted to accommodate the changes in price index.
- Carrying value under GAAP is also considered to be deemed cost, there is no change in the company's functional currency.
- This option is available in measurement of Intangible assets, exploration and evaluation assets.

4. Leases

“Ind AS 101 provides an exemption when a lease contains both land and building element. A first-time adopter may assess the classification of each element at the transition date based on the facts and circumstances existing at that date. If there is a land lease newly classified as finance lease under Ind AS at the transition date, then the first-time adopter may recognize the asset and liability on fair value on that date with any difference between the fair values recognized in retained earnings”. (*Ministry Of Corporate Affairs - Indian Accounting Standards*, n.d.)

5. Cumulative Translation Differences

A first-time Ind AS adopting company need not comply to the requirements of Ind AS 21 with respect to cumulative translation differences that existed at the time of transition if the entity opts for this exemption.

- “At the date of transition to Ind ASs, all the translation differences from foreign operations are deemed to be zero including cumulative translation differences. The cumulative translation differences”.

- “The profit or deficit from the future sale of an international business should not consider translation variances that occurred prior to the switch to Ind ASs, but should account for translation differences that emerged afterwards.” (*Ministry Of Corporate Affairs - Indian Accounting Standards*, n.d.)

6. Long term foreign currency monetary items

“A first-time adopter shall continue the policy adopted for accounting for exchange differences arising from translation of long-term foreign currency monetary items recognized in the financial statements under GAAP.”(*Ministry Of Corporate Affairs - Indian Accounting Standards*, n.d.)

7. Investments in subsidiaries, joint ventures, and associates.

On transition to Ind AS, a company is permitted to recognize an investment in the subsidiary either at the cost of the investment or at deemed cost. “The deemed cost may be computed based on the fair value as at the transition date or based on the Indian GAAP carrying value”.(*Ind-as-Pocket-Guide-2016.Pdf*, n.d.) This deemed cost option may be applied selectively to each investment on a case-by-case basis.

8. Compound Financial instruments

Compound Financial instruments shall be split into equity portion and liability portion and accounted likewise. However, a first-time adopter is not required to separate these two portions of the compound financial instruments if the liability component is not payable/due at the date of transition to Ind ASs.

9. Decommissioning Liabilities

A first-time adopter has exempted from the decommissioning liabilities which occurred before the date of conversion. In case if the entity is opting for this exemption, then, it shall.

- “Measure the liability on the transition date as per Ind AS 37
- Calculate the accumulated depreciation on the basis of current estimates of useful life of the asset.

- Capitalize the amount by discounting the liability using historical risk adjusted discount rate.”(2020 - *First-Time Adoption of IND AS.Pdf*, n.d.)

10. Business Combinations

At the time of transition to Ind AS, a company has the following three options to treat the business combinations occurred before the transition date.

- “Not to re-state business combinations before the transition date and apply Ind AS only to subsequent business combinations. Here no further adjustments are required in the books of accounts. The goodwill acquired from the business combination is tested for impairment.
- Re state all past business combinations before the transition date.
- Re state all past combinations done after a chosen date, prior to transition date.”(2020 - *First-Time Adoption of IND AS.Pdf*, n.d.)

In case of re stating, “Ind AS 101 provides voluntary exemptions whereby goodwill and fair value adjustments of foreign operations are treated as the assets and liabilities of the acquirer company and not the acquiree company.”(*Ministry Of Corporate Affairs - Indian Accounting Standards*, n.d.)

5.11 Carve outs from IFRS.

▪ Law overrides accounting standards

The companies’ act overpowers the accounting standards in cases of disagreements. “It appears that the court schemes whereby expenses are charged to reserves may be grandfathered and also possibly for future schemes (subject to compliance with other regulatory requirements)”. (kpmg.pdf) IFRS does not cover this aspect.

▪ Deemed Cost

“Ind AS 101 allows an additional choice to consider previous GAAP carrying values as ‘deemed cost’ for Property, Plant and Equipment, Intangible Assets or investment property acquired before prior to the transition date.”(*Ministry Of*

Corporate Affairs - Indian Accounting Standards, n.d.) IFRS 1- First time adoption of IFRS does not provide this option.

- **Foreign currency convertible bonds**

Ind AS recognises the foreign currency conversion option as equity. Under IFRS, conversion option is treated as derivative and carried at fair value.

- **Employee benefits**

The discount rate used in the calculation of defined benefit plans and actuarial liabilities should be government security interest rate. Under IFRS, corporate bond rates are used as default rates.

- **Business acquisitions**

“Ind AS recognises the ‘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” (2020 - *First-Time Adoption of IND AS.Pdf, n.d.)*

- **Loan with covenant breaches**

“Under Ind AS, the entities have the permission to continue disclosing loans as noncurrent even in case of breach of an important provision in case if it happens before the approval of the financial statements and the lender agreed not to demand payment. The same type of loans reclassified as ‘current liability’ under IFRS”.(*Ind-as-Pocket-Guide-2016.Pdf, n.d.)*

- **Rental Lease Recognition**

“IAS 17 mandates that all lease rentals should be recorded on a straight-line basis in the profit and loss statement for operating leases, unless a different systematic approach better reflects the pattern of the user’s benefit, regardless of the payment structure to the lessor. An exception has been made to allow lease rentals for operating leases to be charged to the profit and loss statement as per the lease agreement, unless the payments to the lessor are designed to rise with anticipated general inflation to offset the lessor’s projected inflationary cost increases. If the

payments to the lessor fluctuate due to reasons other than general inflation, this condition is not satisfied. Companies engage in various lease agreements to acquire the right to use a lessor's asset. Given the inflationary environment in India, lease agreements often include periodic rent increases. Therefore, if there is a periodic rent increase in line with expected inflation to compensate the lessor for anticipated inflationary cost increases, the rentals should not be straight-line.” (*ICAI - The Institute of Chartered Accountants of India*, n.d.)

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