

**Integrated Case study on practical
implementation**

XXX Limited “ the Company”



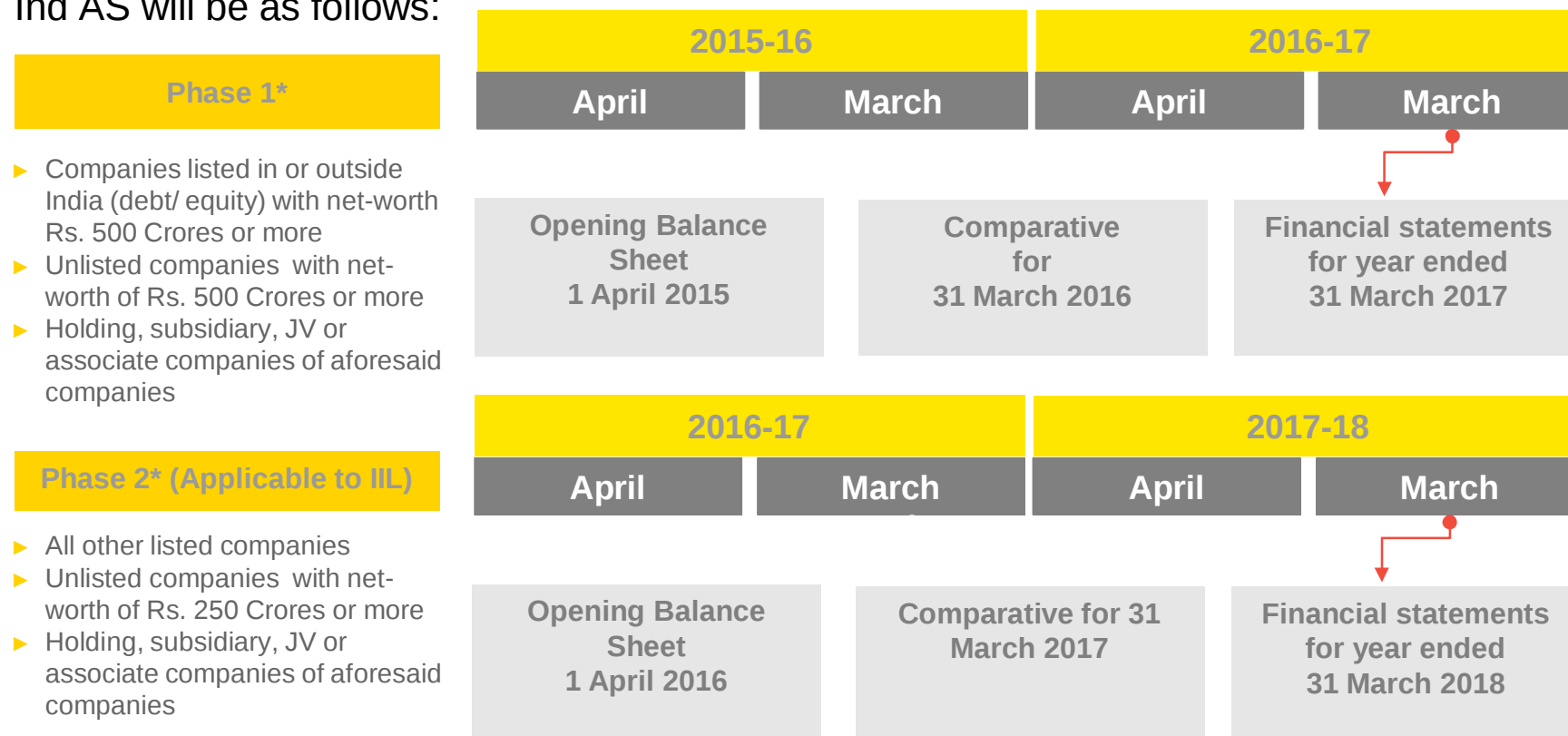


Contents

- ▶ Suggested Approach to Transition
- ▶ Case Study - Sample Ind AS report

MCA Roadmap on Conversion to Ind AS

As per MCA notification issued on 20th February, 2015, implementation roadmap for Ind AS will be as follows:



Net worth for the company is to be calculated in accordance with its stand-alone financial statements as on 31 March 2014 or the first audited financial statements for accounting period which ends after that date.

* Those entities who are required to prepare FS as per Ind AS is also required to prepare CFS (if applicable) as per Ind AS

Applicability to XXX Limited

NET Worth as at March 31, 2015 (in millions)

Description	Amount (in millions)
Equity share capital	500
Reserves and surplus	10000
Total	10500

As at 31 March 2015, the Company has net worth of more than INR 500 crores and is a listed entity as well.

As per the roadmap, listed Companies having net worth more than INR 500 crores will be covered in Phase 1.

XXX Limited will be required to apply Ind AS for the financial statements for the year ending 31 March 2017 with comparatives for the year ended 31 March 2016.



**Ind- AS compliant
Schedule III issued by
ICAI**



Ind AS compliant Schedule III (Issued by ICAI)

ICAI has issued Ind AS compliant Schedule III to The Companies Act, 2013 for companies other than NBFCs.



IND AS Schedule
III

Corresponding IFRS and Ind-AS



Corresponding Ind AS and IFRS

Ind AS	Title	Corresponding IFRS
Ind AS 101	First Time Adoption of Indian Accounting Standards	IFRS 1
Ind AS 102	Share Based Payment	IFRS 2
Ind AS 103	Business Combinations	IFRS 3
Ind AS 104	Insurance Contracts	IFRS 4
Ind AS 105	Non-current Assets Held for Sale and Discontinued Operations	IFRS 5
Ind AS 106	Exploration for and Evaluation of Mineral Resources	IFRS 6
Ind AS 107	Financial Instruments: Disclosures	IFRS 7
Ind AS 108	Operating Segments	IFRS 8
Ind AS 109	Financial Instruments	IFRS 9
Ind AS 110	Consolidated Financial Statements	IFRS 10
Ind AS 111	Joint Arrangements	IFRS 11
Ind AS 112	Disclosure of Interest in Other Entities	IFRS 12
Ind AS 113	Fair Value Measurement	IFRS 13
Ind AS 114	Regulatory Deferral Accounts	IFRS 14
Ind AS 18	Revenue	IAS 18
Ind AS 1	Presentation of Financial Statements	IAS 1
Ind AS 2	Inventories	IAS 2
Ind AS 7	Statement of Cash Flows	IAS 7
Ind AS 8	Accounting Policies, Changes in Accounting Estimates and Errors	IAS 8
Ind AS 10	Events after the Reporting Period	IAS 10

Corresponding Ind AS and IFRS

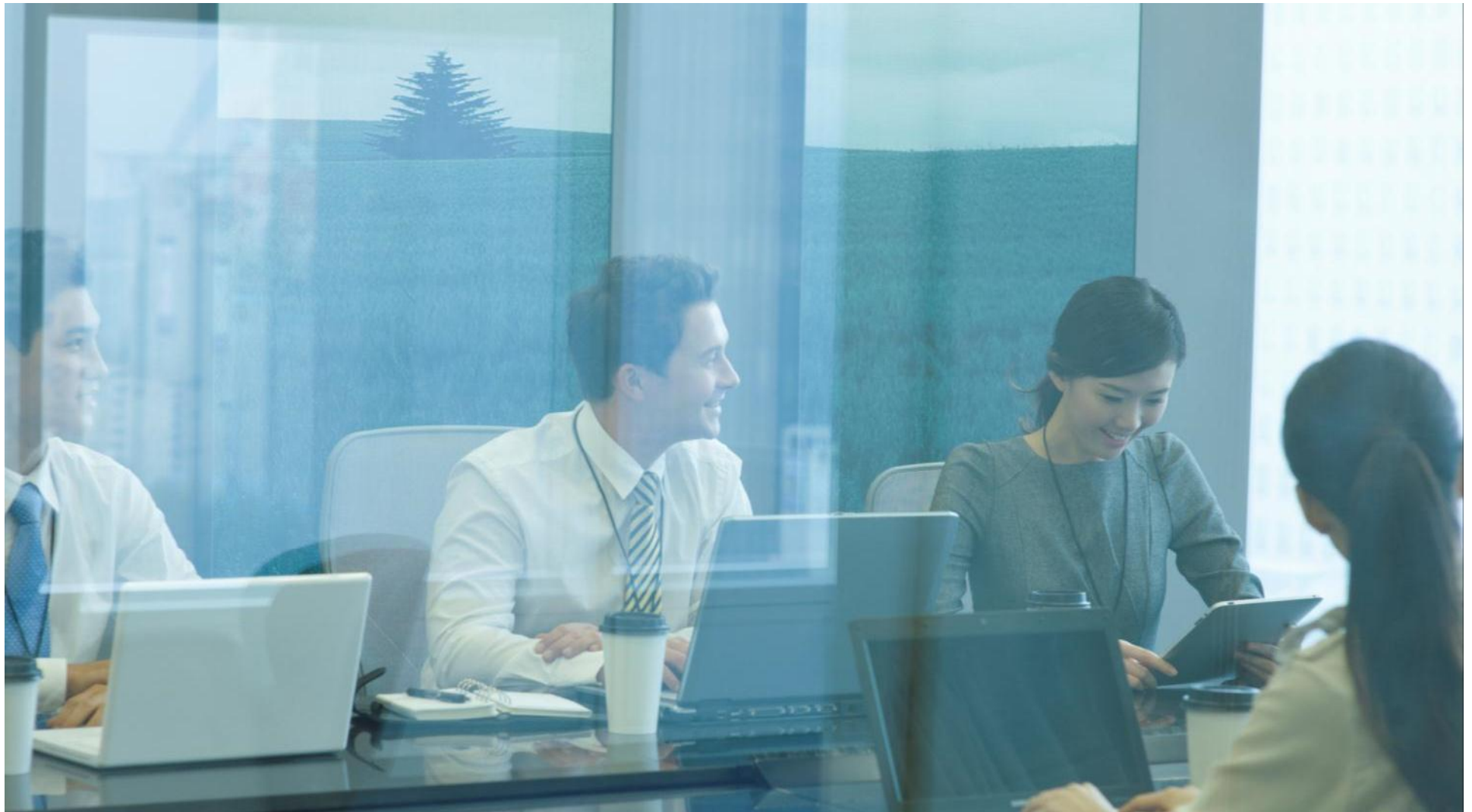
Ind AS	Title	Corresponding IFRS
Ind AS 12	Income Taxes	IAS 12
Ind AS 16	Property, Plant and Equipment	IAS 16
Ind AS 17	Leases	IAS 17
Ind AS 19	Employee Benefits	IAS 19
Ind AS 20	Government Grants	IAS 20
Ind AS 21	The Effects of Changes in Foreign Exchange Rates	IAS 21
Ind AS 23	Borrowing Costs	IAS 23
Ind AS 24	Related Party Disclosures	IAS 24
Ind AS 27	Separate Financial Statements	IAS 27
Ind AS 28	Investments in Associates and Joint Ventures	IAS 28
Ind AS 29	Financial Reporting in Hyperinflationary Economies	IAS 29
Ind AS 32	Financial Instruments: Presentation	IAS 32
Ind AS 33	Earnings per Share	IAS 33
Ind AS 34	Interim Financial Reporting	IAS 34
Ind AS 36	Impairment of Assets	IAS 36
Ind AS 37	Provisions, Contingent Liabilities and Contingent Assets	IAS 37
Ind AS 38	Intangible Assets	IAS 38
Ind AS 40	Investment Property	IAS 40
Ind AS 41	Intangible Assets	IAS 41

Diagnostics



Diagnostics

- ▶ Meetings and discussions with Management including key process owners for critical accounting areas
- ▶ Reading sample agreements, contracts and arrangements.
- ▶ Understanding the accounting policies currently followed
- ▶ Preliminary assessment and evaluation of financial accounting and disclosure implications under Ind AS (based on review of financial statements at 31 March 2015)
- ▶ Detailed draft documents setting out key IGAAP and Ind AS differences for each significant impact area and our interpretation of application of Ind AS



Key Impact areas

Key Impact Areas

S.No	Ind AS	Title	Impact
1	Ind AS 18	Revenue	High
2	Ind AS 107,109 and 32	Financial Instruments	High
3	Ind AS 16, 38	Property, Plant and Equipment and Intangible Assets	High
4	Ind AS 103 & Ind AS 110	Business Combination	High
5	Ind AS 17	Leases (including lease hold)	High
6	Ind AS 12	Income Taxes	High
7	Ind AS 19	Employee benefits	Medium
8	Ind AS 24	Related Party Disclosures	Medium
9	Ind AS 10	Events after reporting period	Medium
10	Ind AS 20	Government grant	Medium
11	Ind AS 108	Operating segments	Low
11	Ind AS 2	Inventories	Low
13	Ind AS 8	Accounting policies, changes in estimates and errors	Low

¹³ "The material/presentation is prepared for use in educational programmes conducted by the Institute of Chartered Accountants of India. The views expressed herein do not necessarily represent the views of the Council of the Institute or any of its Committees."



Revenue

Revenue Segments (Business)

Sale of products

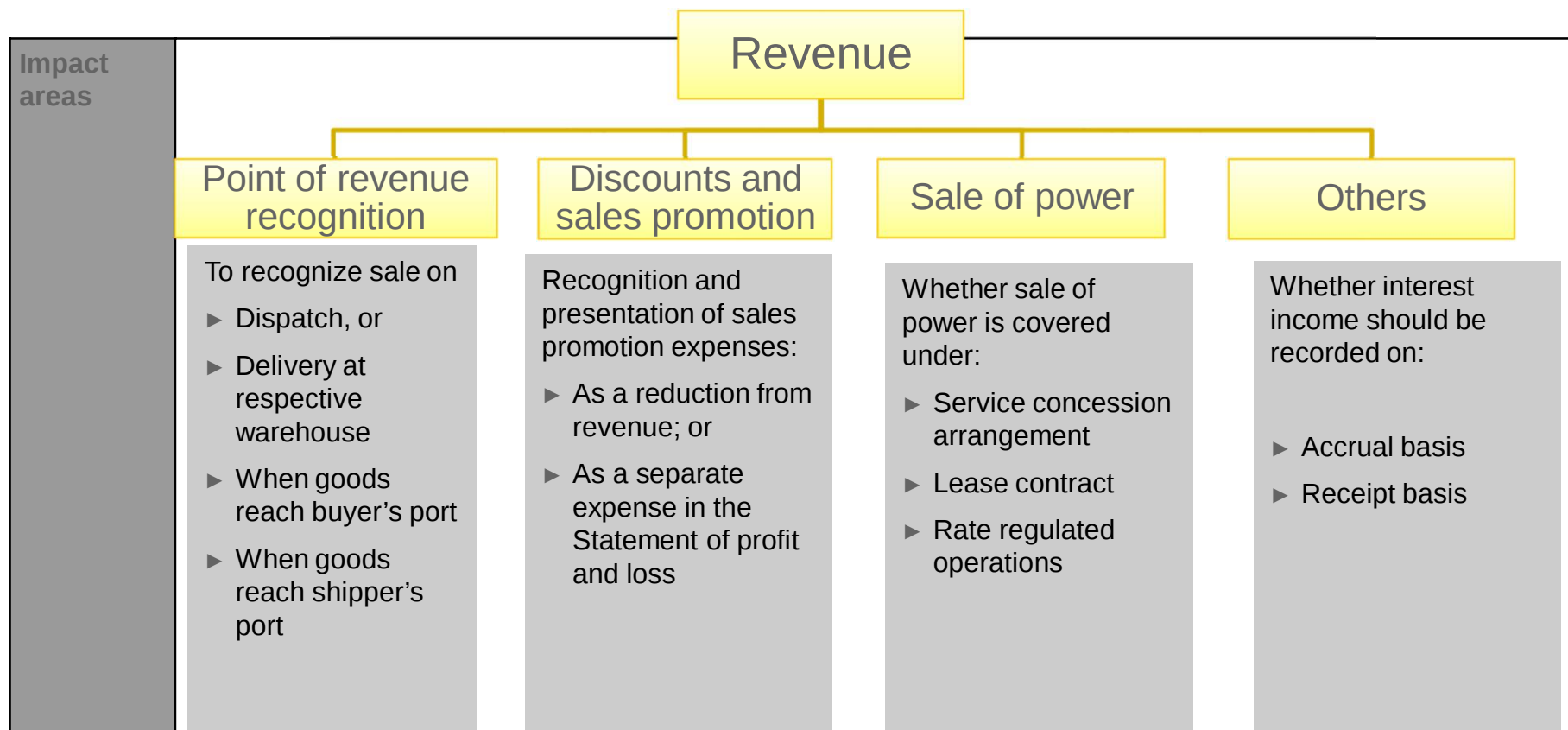
Sale of power

Others

Overview

HIGH

Overview of issues in revenue under current scenario:



Revenue

HIGH

Sale of goods

Issue	Existing practice	Impact under Ind-AS
Point of recognition	Currently, revenue is recognized at the time of <u>dispatch</u> in case of domestic sales.	Revenue to be recognized when the control (i.e. risks and rewards) gets transferred and managerial control has elapsed as per the terms of the transaction. Ø When the goods are loaded as per schedule agreed with the distributors, gate pass is prepared which mentions the quantity loaded. As the loaded truck leaves the factory premises, invoice is generated and revenue is booked. Ø Insurance during transit has been taken by the Company itself i.e. XXX Limited. The Company is required to lodge insurance claim with Insurance Company in case of any loss during transit. Ø The seller has not transferred significant risks and rewards of ownership to the buyer when the goods depart from the factory as evidenced by the fact that any insurance proceeds received from the goods' damage or destruction will be repaid to the seller. Also, the managerial control does not elapse until the goods arrive at the buyer's location. The criteria above for revenue recognition have, therefore, not been met until the goods arrive at the buyer's location.

Hence, revenue shall be recognised at the time of delivery.

Sale of goods

Issue	Existing practice	Impact under Ind-AS
Point of recognition	In case of exports, revenue is recognized at the time when the goods are delivered over the ship's rail at the port of shipment i.e. <u>date of Bill of lading</u>	Export sale : As per the terms of International trade i.e. INCO terms : • Sale on FOB basis: At the time when goods are delivered over the ship's rail at the port of shipment. • Sale on CIF basis: At the time when goods reach the custom barriers of buyer's country. As per the Inco terms, significant risk and rewards transfer only when the goods reach the destination port in case of CIF sales, hence revenue should be recognized accordingly.

Sale of goods

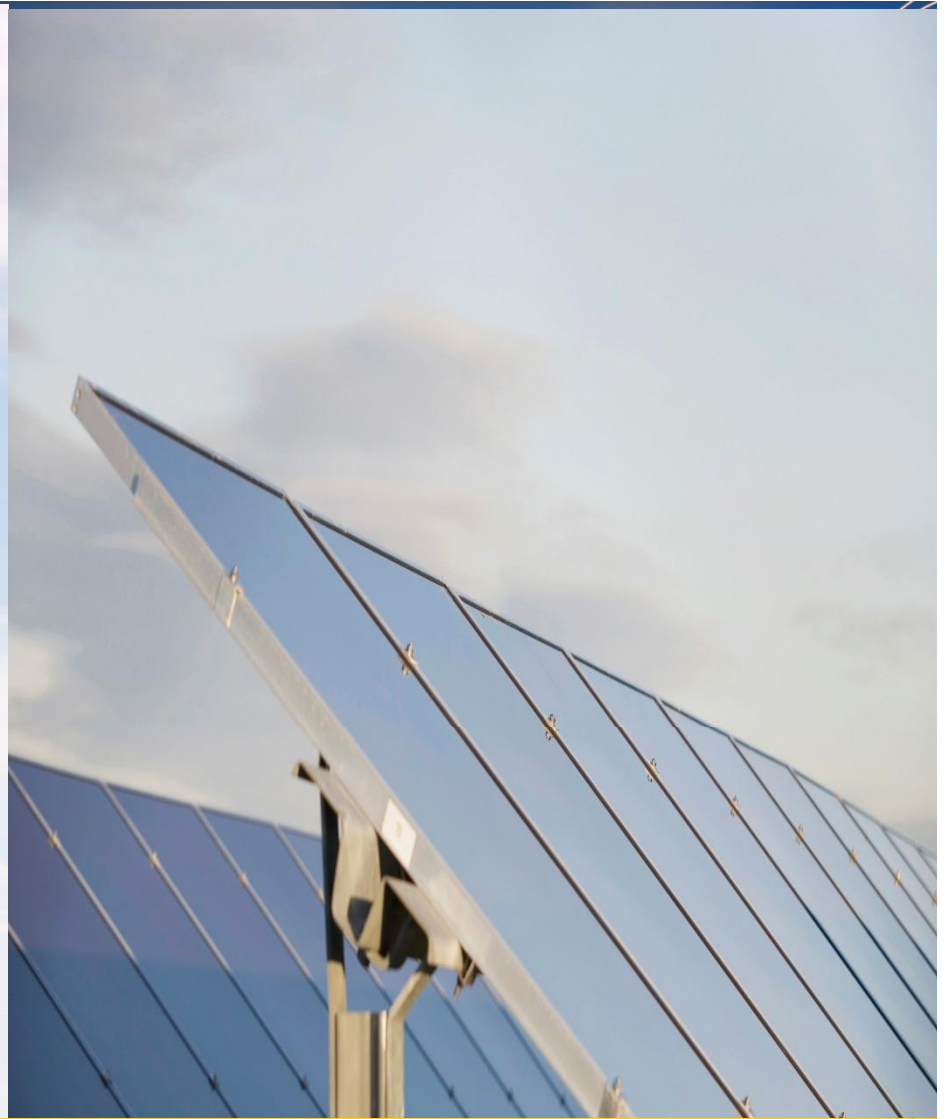
Issue	Existing practice	Impact under Ind-AS
Presentation on the face of Statement of Profit and Loss	Excise duty is included in Gross revenue and then reduced thereafter to compute net sales in conformity with disclosure of revenue from sales transaction.	Excise duty <u>will be included in revenues</u> and hence grossed up. This will also be re-confirmed on issuance of final Ind-AS based Schedule III. Hence, no impact.
Sales promotion (e.g. redemption schemes, Quantity purchase schemes, cash coupons etc.)	Such expenses are recognized in the "Other expenses" under the head "Schemes, Incentives and discount on sales".	Such expenses need to be <u>netted from revenue</u> as these are given to the distributors as additional incentives. Ø Cash discount: Given for prompt payment. Rate of cash discount varies as time period increases. Ø Cash coupon scheme: Cash incentives being offered to the ultimate customer by keeping scratch cards in the rice cartons. Ø Quantity purchase scheme: Discounts offered on bulk purchases

Revenue

HIGH

Sale of goods

Issue	Existing practice	Impact under Ind-AS
Tax on sales	These expenses are currently shown under the head “ Other expenses”	Any taxes relating to revenue should be netted off from the amount of revenue.



Revenue from electricity generation



Revenue overview

HIGH

Background

- The Company enters into a long term power purchase agreements (PPAs*) with state government authorities appointed by government for transmission of power to general public.
- The tariff has been fixed for complete term of PPA.
- The infrastructure used for generation and transmission of solar power and wind power is constructed and maintained by the Company

Accounting under IGAAP

- Revenue from sale of energy is accounted for on the basis of energy supply i.e. billings to State Transmission Utility based on the tariff agreed as per terms of Power Purchase Agreement. This includes unbilled revenues accrued upto the end of the accounting year.

Evaluation performed under Ind AS:

- A. Service concession arrangement
- B. Lease contract
- C. Rate regulated activities

Refer subsequent slides for detailed evaluation.

Solar power:

The Company has entered into PPA with MPPMCL for the supply of 15 MW of solar power @ INR 6.949 per KWH for a term of 25 years.

Wind Power:

The Company has entered into following PPA's for the supply of wind power.

Ø Andhra Pradesh – Two projects (2.1 MW and 8.4 MW) with fixed tariff rate of INR 4.70 per KWH for a period of 25 years.

Ø Karnataka- Two projects (4.5 MW and 2.1 MW) for a period of 20 years. The tariff for first ten years shall be INR 3.70 per KWH (with no escalation) and from 11th year- rate as determined by the Commission.

Ø Maharashtra- Two projects (10 MW and 2.5 MW) for a period of 13 years. The tariff is based on an increasing trend i.e. increase by 5% every year.

Ø Rajasthan –Three projects (2.1 MW, 3.75 MW, 6 MW) for a period of 20 years. The tariff is fixed @ INR 4.28 per KWH for the entire period of 20 years.

Ø Madhya Pradesh- Four projects (3MW, 6 MW, 1.5 MW, 3 MW) for a period of 25 years from the date of commissioning. The tariff is fixed @ INR 5.92 for the entire term of agreement.

Revenue- Service Concession arrangement/ Lease contract

HIGH

Service concession arrangement: (Appendix C to Ind AS 115)

A private sector entity (an operator) constructing the infrastructure used to provide the public service or upgrading it (for example, by increasing its capacity) and operating and maintaining that infrastructure for a specified period of time. The operator is paid for its services over the period of the arrangement.

Two conditions are required to be fulfilled for a contract to fall under “Service concession arrangement”:

- (a) the grantor controls or regulates what services the operator must provide with the infrastructure, to whom it must provide them, and at what price; and
- (b) the grantor controls—through ownership, beneficial entitlement or otherwise—any significant residual interest in the infrastructure at the end of the term of the arrangement.

Based on analysis of solar and wind power projects, we identified that the government authorities (grantor) regulate the services to be provided, to whom it must provide and the price is fixed, however, the grantor does not have any residual interest in the infrastructure.

Hence, the arrangement does not fall under the purview of service concession arrangement.

Lease contract: (Appendix C to Ind AS 17)

An entity may enter into an arrangement, comprising a series of transactions that does not take the legal form of a lease but conveys a right to use the asset in return for a payment or series of payment. Such type of arrangements is called lease contracts.

Para 6 states that determining whether an arrangement is, or contains, a lease shall be based on the substance of the arrangement and requires an assessment of whether:

- (a) fulfilment of the arrangement is dependent on the use of a specific asset or assets (the asset); and
- (b) the arrangement conveys a right to use the asset.

Based on the analysis of solar and wind power agreements, we identified that various indicators in respect of the arrangement that conveys the right to use the asset are not being fulfilled, hence **the arrangement does not fall under the purview of lease contract.**

Revenue- Rate regulated activities

HIGH

Rate regulated activities:

An important aspect of rate regulation is that the regulator is empowered to determine prices that bind the entity's customers under a statute or otherwise.

The regulatory mechanism provides for a rate review or 'truing up' exercise at periodic intervals to adjust the rates, downward or upward, to ensure recovery of costs and a reasonable return on investment

Following the truing up exercise, the regulator usually adjusts the rates to be charged from customers so as to ensure recovery of additional costs or refund of amounts, as the case may be.

As per Ind AS 114, An entity is permitted to apply the requirements of this Standard in its *first Ind AS financial statements* if and only if it:

- Ø conducts *rate-regulated activities*; and
- Ø recognised amounts that qualify as regulatory deferral account balances in its financial statements in accordance with its previous GAAP.

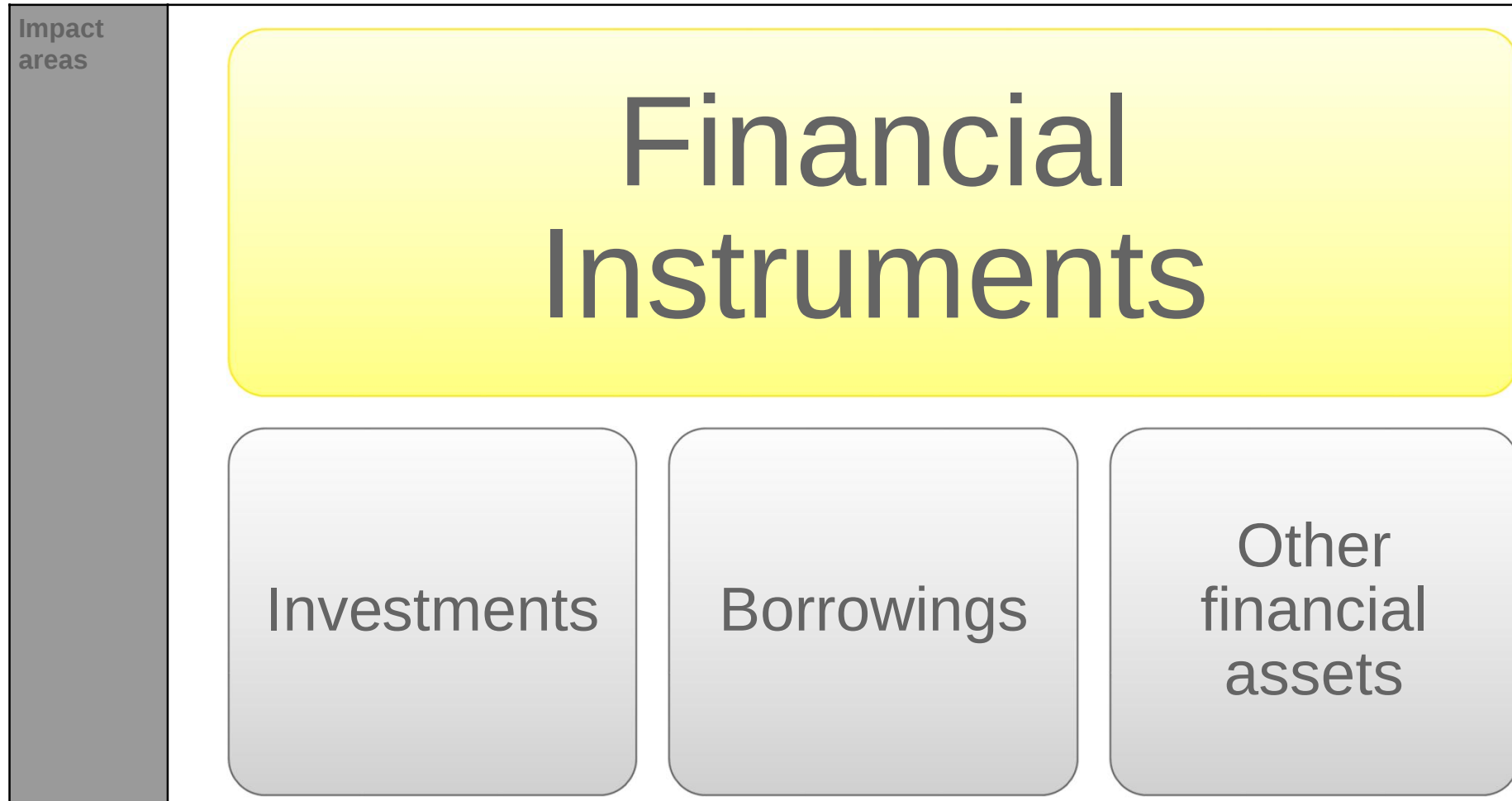
Since, the entity did not recognize any amount as per Guidance note on rate regulated activities as per previous gaap, hence rate regulated operations are not applicable.

Based on the analysis of power purchase agreements, it has been identified that PPAs do not fall under service concession arrangement nor lease contracts and neither rate regulated activities. Hence, there is no change in the accounting for electricity generation through solar and wind plant.



Financial Instruments

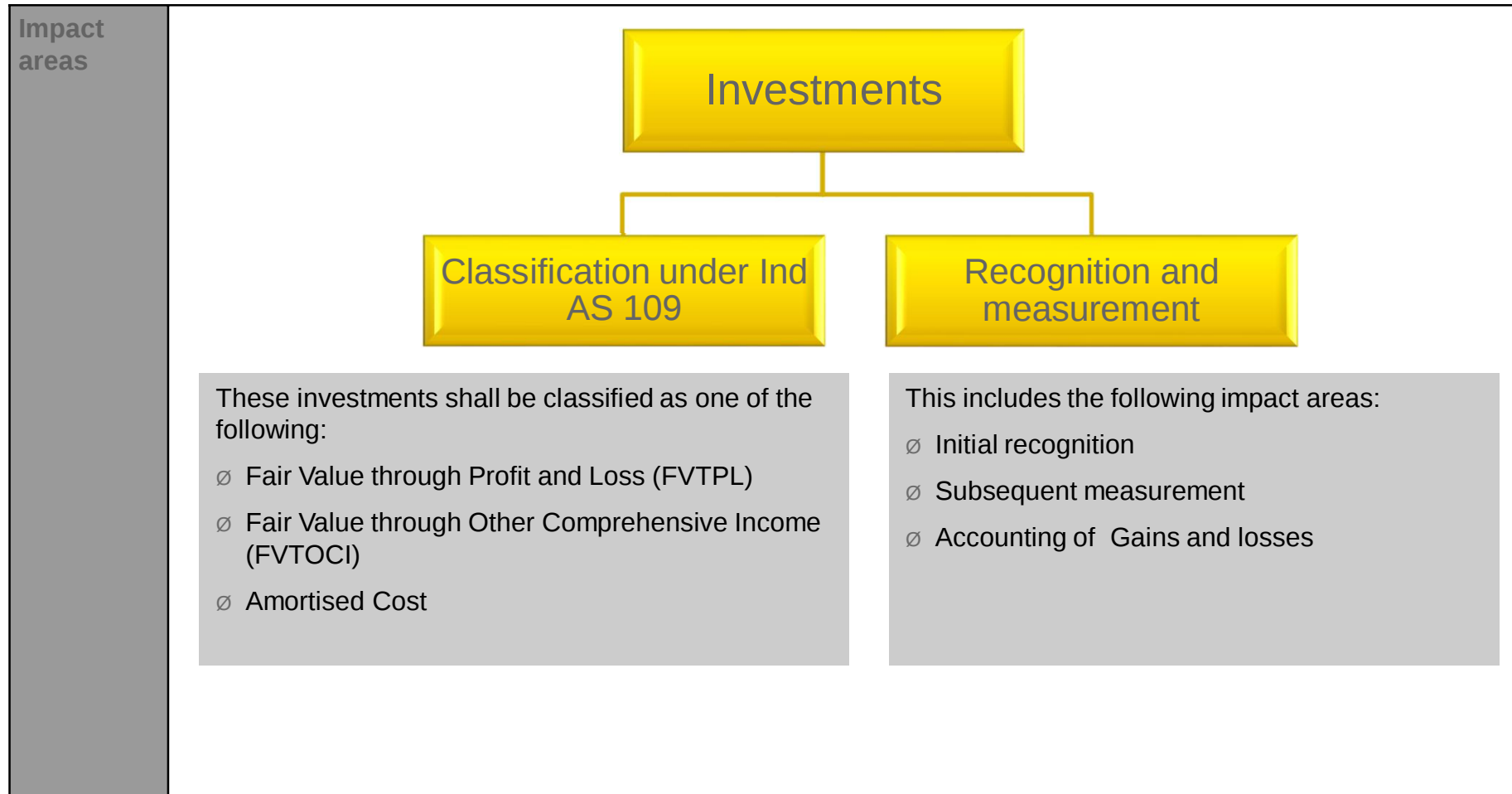
Overview of issues in financial assets under current scenario:



Investments- Overview

HIGH

Overview of issues in Investments under current scenario:



Investments- Current investments (Equity shares and mutual funds)

HIGH

Background:

The Company has made investments in the following areas:

- A. Investment in equity instruments of Listed Companies (which are quoted on the stock exchange) like NHPC Limited, Coal India Ltd. Etc.
- B. Investments in mutual funds (SBI Infrastructure Fund – Growth plan and SBI Magnum equity fund – Dividend plan)

Accounting under Indian GAAP

Investments that are readily realizable and are intended to be held for not more than one year are classified as “ Current investments and are carried at Cost or NAV whichever is lower.

Key implications on adoption of Ind AS:

An entity shall measure its financial assets except trade receivables at fair value plus or minus transaction cost that are directly attributable to the acquisition of such financial asset.

- A. The Company is making investments in equity instruments which are held for trading , hence it should be classified under the category “ fair value through profit and loss.
- A. The mutual funds does not carry any specified cash flows as the same are to be redeemed at NAV, hence the same should be valued at fair value through profit and loss.

Hence, initial recognition and subsequent measurement of investments held by the Company shall be done at fair value.

Investments- Non current investments (Investments in subsidiaries)

HIGH

Background:

The Company has two subsidiaries which are consolidated in the books:

Accounting under Indian GAAP

These investments are long term and hence, are carried at cost.

Key implications on adoption of Ind AS:

Investment in subsidiaries shall be accounted for either at cost or fair value in accordance with Ind As 109.

If the Company wants to opt to measure investment in subsidiaries at fair value in accordance with Ind AS 109, then investment in equity shares which is not held for trading purposes, management has an irrevocable option to classify and measure at fair value through OCI. Otherwise, the Company may record such investment at fair value through profit and loss.

If this election is made, all fair value changes, excluding certain dividends, will be reported in OCI. Dividend is recognised in the statement of profit and loss unless it clearly represents a recovery of the part of cost of an investment in which case they are recognised in OCI. There is no recycling of amounts from OCI to Statement of profit and loss-for examples- on sale of equity investment, the entity might transfer the cumulative gain or loss within equity.

Investments- Non current investments (Investments in subsidiaries)

HIGH

Applicable Ind AS 101 exceptions w.r.t Investment in subsidiaries:

While preparing SFS in accordance with Ind AS 27, investments in subsidiaries, associates and joint ventures to be recorded at cost or in accordance with Ind AS 109 i.e. fair value.

If measured at cost by a first time adopter, the investment to be measured at the following amounts in separate Ind AS balance sheet:

- Ø Cost as per Ind AS 27 or
- Ø Deemed cost i.e. fair value at the entity's date of transition to Ind AS or previous GAAP carrying amount at that date.
- Ø Tax consequences:
None

Borrowings

HIGH

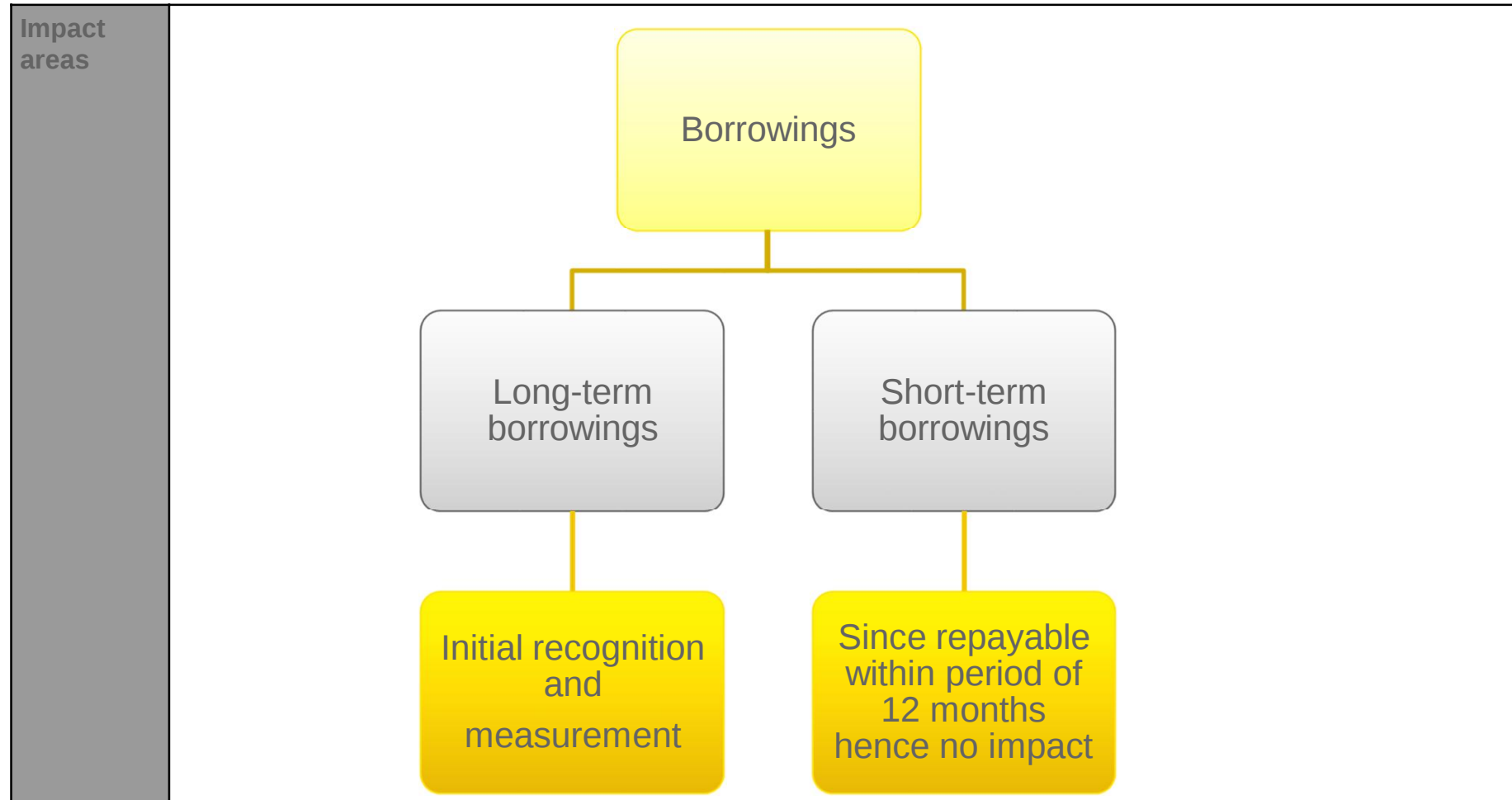
Presentation in financials as on 31-Mar-15:

As at March 31, 2015	Amount (in lacs) Standalone	Amount (in lacs) Consol
Long-term Borrowings- Secured Foreign currency term loans from banks Other term loans		
Short-term Borrowings- Secured Loan repayable on demand		
Short term borrowings- unsecured Demand loans from banks		
Loans from Related party (Directors)		
Other Current Liabilities Current maturities of long term borrowings		

Borrowings- Overview

HIGH

Overview of issues in borrowings under current scenario:



Borrowings

HIGH

Long term borrowings

Issues	Existing practice	Impact under Ind-AS
Initial and subsequent recognition	The Company has obtained ECB from the following banks: - Ø ICICI Bank (Bahrain Branch- Fully hedged through swap) - Ø SBI Bank (Tokyo branch- Fully hedged through swap) - Ø HSBC Bank (Bahrain Branch- partially hedged) - Ø In addition, the Company has obtained various term loans from different banks for the purpose of construction of various fixed assets. Ø Processing charges or upfront fees is being treated as prepaid expense and is amortised over the term of loan. Ø Borrowing cost attributable to acquisition, construction etc. of qualifying assets is capitalised as part of cost of assets.	The borrowings should be shown at the transaction value net of transaction cost using amortised cost method. Under Ind AS 23 read with Ind AS 109, the Company should capitalize the transaction cost till the date of ready to use of the specified asset based on effective interest rate method. Prepaid amount in respect of transaction cost/processing charges outstanding in the books as at 31 March 2015 shall be written off against retained earnings and the interest will be calculated on the loan amount with retrospective effect from the initial date by reducing the processing charges/transaction cost at the inception.

Borrowings

HIGH

Long term borrowings (Swap/forward contracts)

Issues	Existing practice	Impact under Ind-AS
Initial and subsequent recognition	- Ø The ECB loans taken by the Company have been fully hedged by the lender bank only. The Company has taken swaps against those loans thereby fixing the principal and interest liability. - Ø For instance, in respect of SBI bank ECB, the loan amount was taken when dollar rate was INR 50.06. interest is payable on this loan at LIBOR plus certain basis points. - Ø The Company has hedged the principal and the interest amount by paying a higher interest rate of 7.08% p.a. (which includes hedging cost as well). - Ø In respect of HSBC, partially hedged loan, the Company is bearing the forex loss due to increase in dollar beyond INR 52. - Ø Such forex loss is disclosed under the head "Interest expenses" in the Statement of Profit and loss.	- Ø The Company is required to restate the borrowings at the closing exchange rate and resultant gain or loss is required to be taken to the statement of profit and loss. Forex gain/loss To ECB - Ø The Company is required to take the fair valuation of swap contract for the remaining time period from the bank as at 31 March 2015 and account for derivative asset/liability as on that date. Derivative Asset/Liability To Forex gain/loss

Forward contracts

HIGH

Issues	Existing practice	Impact under Ind-AS
Recognition of forward contracts	- Ø The Company has taken forward contracts to hedge the forecasted sales. Such contracts are being accounted for as mark to Market. - Ø Gains and losses on such MTM is recorded in the financial statements.	Under Indian GAAP, as per AS-1, principles of conservatism indicates that unrealised gains should not be accounted for in the books. Hence, it is recommended that losses arising on MTM should be provided for , however, gains arising shall be ignored. There is no gaap difference in this matter.



Illustration on effective interest rate

Borrowing Costs

Effective Interest Rate Method: Example

- ▶ Company A takes a loan from Bank amounting to INR 5,00,000 on 1st April 2015
- ▶ The loan is repayable in two annual installments with simple interest at 8% on 31st March 2016 and 2017
- ▶ The processing fees charged by Bank is INR 5,000
- ▶ Under Indian GAAP, the accounting for the loan will be done as under:

Date	Journal	Amount
1 st April 2015	Bank Dr. To Loan A/C (on receipt of loan)	5,00,000 5,00,000
1 st April 2015	Bank Charges Dr. To Bank (Payment of processing fees)	5,000 5,000
31 st March 2016	Loan A/C Dr. Interest Expense Dr. To Bank (on payment of first installment)	2,50,000 40,000 2,90,000
31 st March 2017	Loan A/C Dr. Interest Expense Dr. To Bank (on payment of second installment)	2,50,000 20,000 2,70,000

Borrowing Costs

Effective Interest Rate Method: Example

Effective Interest Rate Method

- ▶ Company A will calculate the Effective Interest Rate (EIR) of the loan. EIR is the rate that discounts the cash outflows under the loan to exactly the inflows under loan amount. The Internal Rate of Return (IRR) reflects the EIR of the loan.
- ▶ The cash flows under the loan will be as under:

Year	Cash flows (INR)
0	4,95,000 (net of transaction cost)
1	(2,90,000)
2	(2,70,000)

IRR: 8.745%

Date	Journal	Amount
1 st April 2015	Bank Dr. To Loan A/C (on receipt of loan-net of transaction cost)	4,95,000 4,95,000
31 st March 2016	Loan A/C Dr. Interest Expense Dr. To Bank (on payment of first installment, interest: 4,95,000 X 8.745%)	2,46,713 43,287 2,90,000
31 st March 2017	Loan A/C Dr. Interest Expense Dr. To Bank (on payment of second installment, interest: 2,48,287 X 8.745%)	2,48,287 21,713 2,70,000

Other financial assets

HIGH

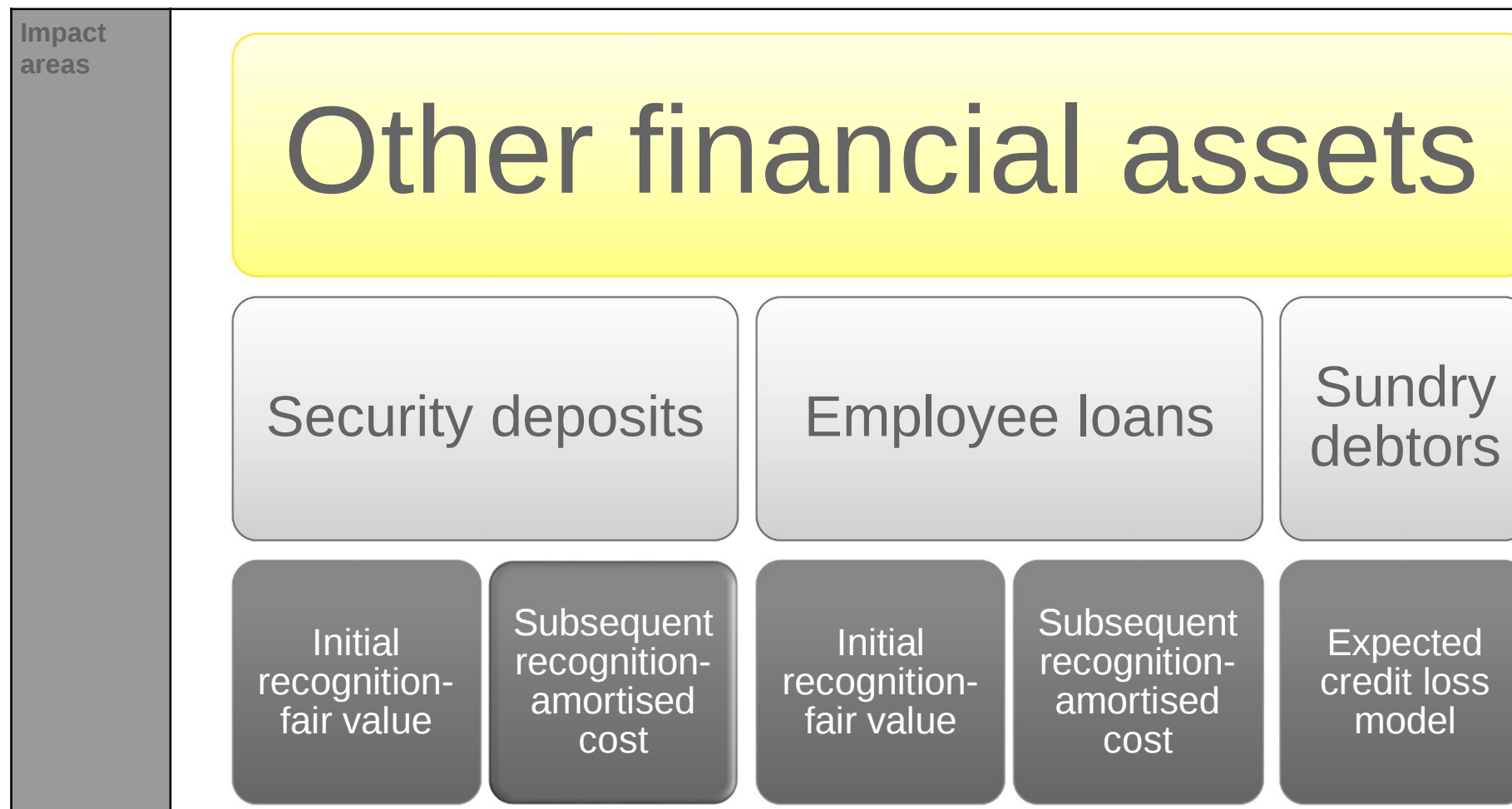
Presentation in financials as on 31-Mar-15:

As at March 31, 2015	Amount (in lacs) Standalone	Amount (in lacs) Consol
Long term loans and advances		
Capital advances		
Security deposit		
Security deposit to related party		
Sales tax/ VAT recoverable		
Income tax under appeal		
Other receivables		
Trade receivables		

Other Financial Assets- Overview

HIGH

Overview of issues in financial assets under current scenario:



Other financial assets

HIGH

Security deposit paid

Issues	Existing practice	Impact under Ind-AS
Initial recognition	- Ø The Company has paid security deposit to Lions Detective Security Agencies for arranging security services at various locations - Ø It includes retention money of the contractors which has been retained for more than 12 months. - Ø Others include deposit paid to electricity department, telephone department, gas connections etc.	- Ø Deposit paid - Should be recognized at <u>fair value</u> using <u>market rate of interest</u>. - Ø The differential (i.e. difference between fair value and principle amount) to be recorded as an asset (prepayment) and will be charged to the Statement of P&L over the period of deposit as notional rent on a straight line basis. - Ø Further interest to be accreted such that the asset will be equal to the recoverable amount at the end of the period. This will lead to additional notional interest charge and income.

Financial Instruments

Discounting of Security Deposits: Example

Situation:

Company A leases a office premise from Company B. Company A gives a lease deposit of INR 100,000 to Company B for five years and classifies the resulting asset within loans and receivables. The deposit carries no interest. On initial recognition, the market rate of interest for a five year loan with payment of interest at maturity is 10% per year

Measurement under Ind AS 109:

- ▶ The initial fair value of the deposit is the present value of the future payment of INR 100,000, discounted using the market rate of interest for a similar loan of 10% for five years. This equates to INR 62,092.
- ▶ Rationally, Company A would also expect to obtain other future economic benefits that have a fair value of INR 37,908 (the difference between the total consideration given of INR 100,000 and the loan's initial fair value of INR 62,092).
- ▶ The difference is not a financial asset, since it is paid to obtain expected future economic benefits, which here relate to the underlying lease. IIL recognises that amount as a pre-payment on the lease and amortises the resulting asset on a straight-line basis over the period of the lease as rent.
- ▶ Interest will be accreted and interest income will be recognized on the deposit amount of 62,092 at effective interest rate such that the deposit becomes 100,000 over the period of five years.



Refer the attached example for detailed accounting treatment of the above deposit

Sec Dep
Discounting_Example

Other financial assets

HIGH

Employee loans

Issues	Existing practice	Impact under Ind-AS
Initial recognition	The Company provides two type of loans: - Ø Auto loans – in which 25% of the amount of vehicle is given by the employee and remaining 75% is financed by the Company . No interest is charged from the employee. The amount is repayable by the employee in 36 equal installments which is deducted from the salary of employees every month. - Ø Personal loan - Loan is given @ 10%p.a. for 10 months or @ 12% if the period of repayment is more than 10 months. - Ø Employee loan is shown as recoverable on the amount given less the installments deducted every month.	- Ø The loans which have been granted for a period of more than 12 months, interest is required to be recognised on such loans using effective interest method. - Ø Such loans shall be recognized at <u>fair value</u> using <u>market rate of interest</u> . The excess of principal amount over its fair value will be considered as deferred personnel expenditure and will be amortized over the period of loan on straight line basis.

Other financial assets Impairment Model

HIGH

Overview: Ind-AS 109

- ▶ Ind-AS 109 prescribes the new impairment model for financial assets

Applicability :

- ▶ Trade Receivables of the Company
- ▶ Balances with Excise/Sales tax and other authorities
- ▶ Security Deposits paid

Key Requirements under Ind-AS:

- ▶ **Expected Credit Loss (ECL) model** is applicable for impairment of all financial assets

Implications for the Company:

- ▶ The Company has to recognise a Loss Allowance against its receivables at the point of inception itself.
- ▶ Since the trade receivables do not contain a significant financing component, it can follow the **Simplified Approach**. The simplified approach is discussed in subsequent slides.

Scope of ECL requirements	General approach	Simplified approach
Ind-AS 109 Financial Instruments		
Trade receivables that do not contain a significant financing component		ü
Other debt financial assets measured at Amortised cost for example security deposits paid, etc.	ü	

Other financial assets

Impairment Model: Simplified Approach

HIGH

- ▶ According to the simplified approach, for trade receivables and contract assets that do not contain a significant financing component, an entity shall always measure loss allowance at an amount equal to lifetime expected credit losses.
- ▶ A provision matrix could be used to estimate ECL for these financial instruments.
- ▶ For example, an entity may set up the following provision matrix based on its historical observed default rates, which is adjusted for forward-looking estimates.
Example:
 - ▶ non-past due: 0.3% of carrying value
 - ▶ 30 days past due: 1.6% of carrying value
 - ▶ 31-60 days past due: 3.6% of carrying value
 - ▶ 61-90 days past due: 6.6% of carrying value
 - ▶ more than 90 days past due: 10.6% of carrying value

The Company believes that there is no history of bad debts in the company and basis that the company may not require to provide for any expected losses.

Financial instruments- Disclosures

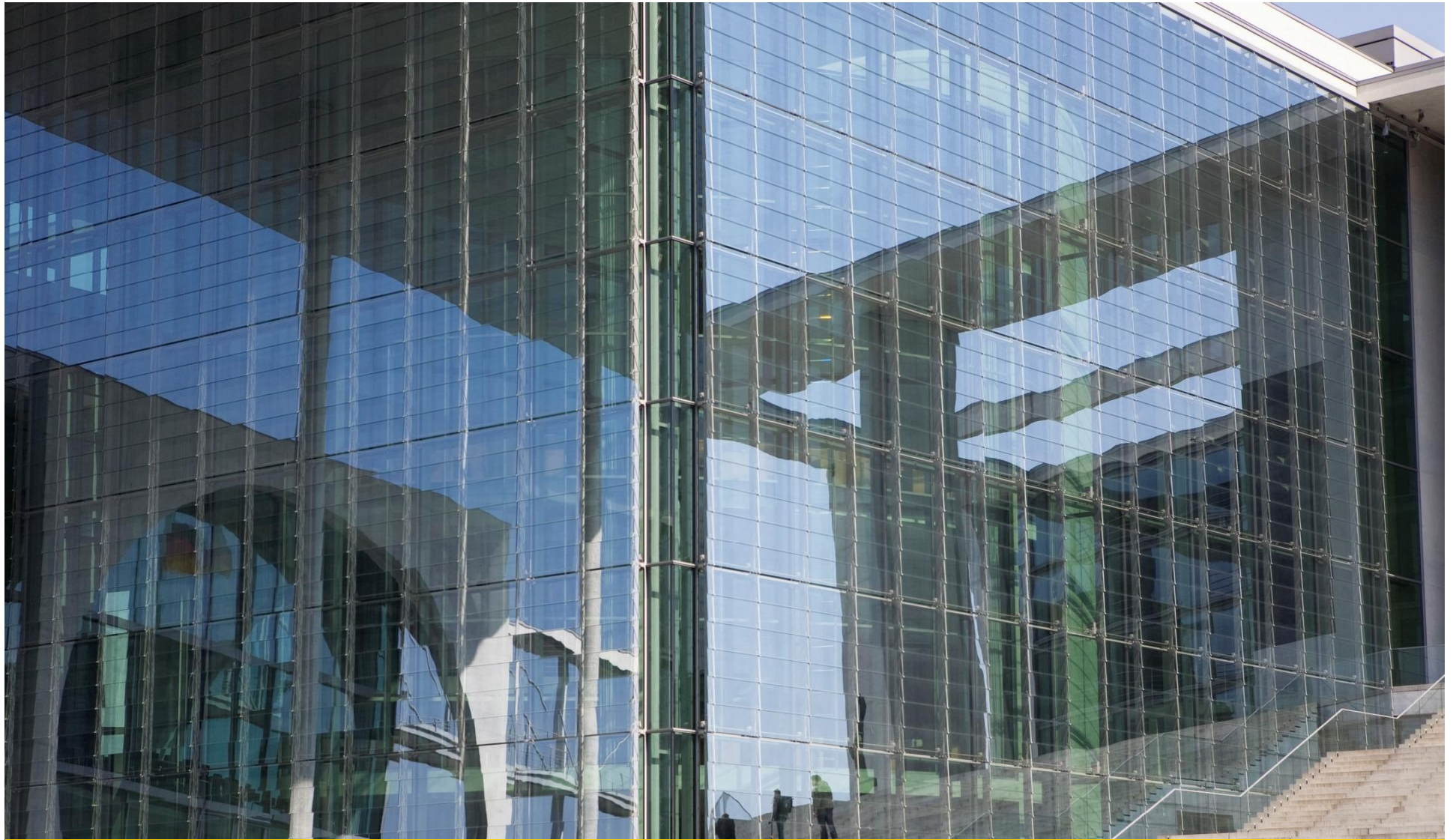
HIGH

Comprehensive disclosures are required in respect of financial assets and liabilities:

- Ø Disclosure relating to financial assets and financial liabilities by category i.e. FVTPL, FVTOCI, amortised cost etc. is required.
- Ø Disclosures shall be made in respect of assets or liabilities offset. Gross amount, amount netted off and net amount shall be disclosed.
- Ø Quantitative and Qualitative disclosures about exposure to risk and how those risk are managed is required. (This information can be given either in financial statements or incorporated by cross-reference from the financial statements to some other report which is available on same terms and same time.
- Ø Net gain or loss arising on financial assets or liabilities classified as held for trading or FVTPL, amortised cost and FVOCI.

In respect of “Investment in mutual funds” designated as FVTPL, following disclosures are required:

- ▶ the maximum exposure to *credit risk* at the end of reporting period
- ▶ the amount by which any related credit derivatives or similar instruments mitigate that maximum exposure to credit risk
- ▶ the amount of change, during the period and cumulatively, in the fair value of the financial asset
- ▶ the amount of the change in the fair value of any related credit derivatives or similar instruments that has occurred during the period and cumulatively since the financial asset was designated



Property, Plant and Equipment



Overview

HIGH

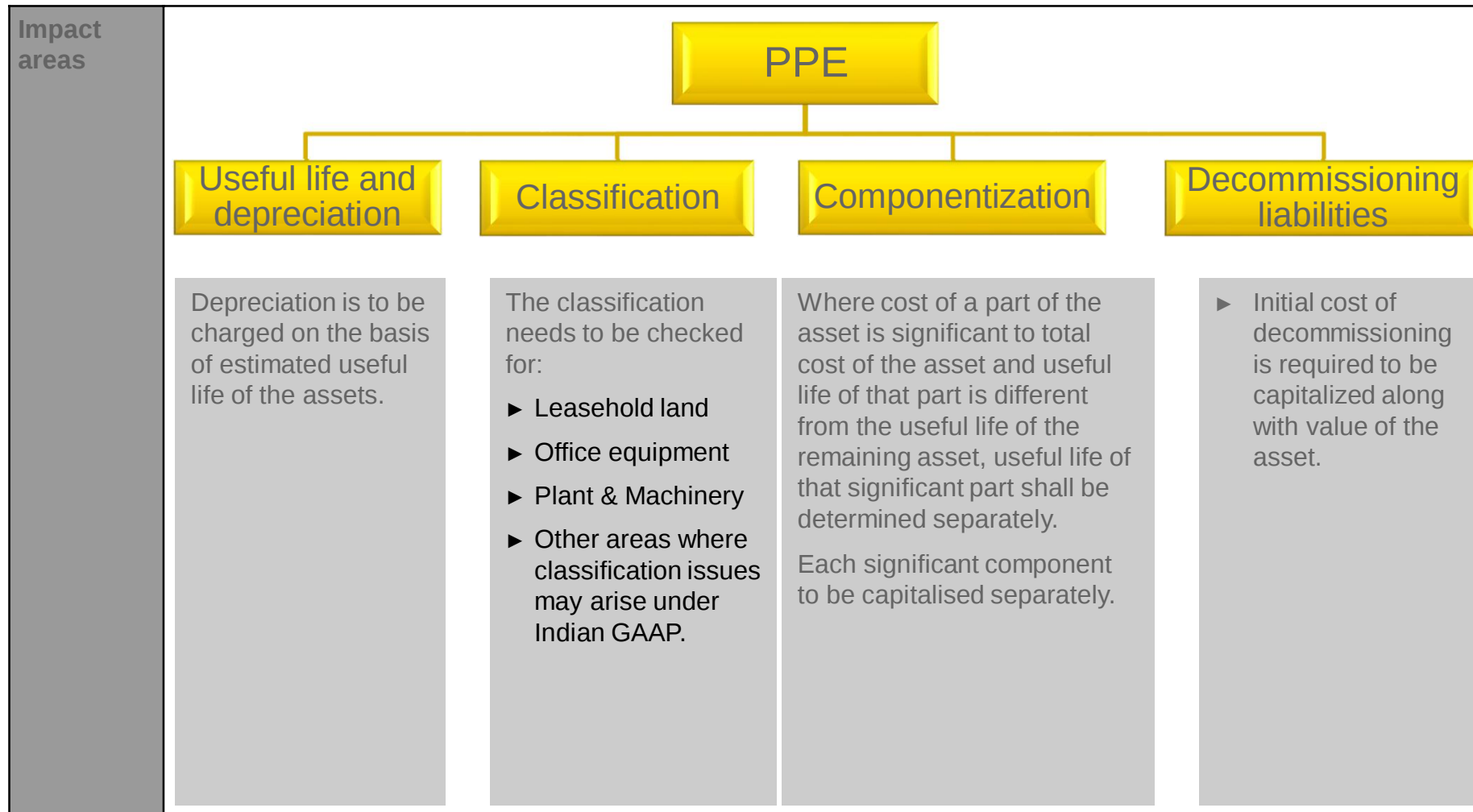
Presentation in financials as on 31-Mar-15:

As at March 31, 2015	Amount (in lacs) Standalone	Amount (in lacs) Consol
Description of assets Tangible assets: - Land- leasehold - Land- freehold - Buildings - Plant and machinery - Furniture, fixtures and office equipments - Motor Vehicles		

Overview

HIGH

Overview of issues in PPE under current scenario:



Fixed assets

HIGH

Tangible assets

Issue	Existing practice	Impact under Ind-AS
Assessment of useful life	The company is following the useful lives as prescribed under the Schedule II of the Companies Act, 2013. However the company has not assessed the fixed assets for their respective useful lives.	The Company needs to assess the useful lives of their assets which should be used to depreciate the assets going forward.
Componentization	The Company is capitalizing its fixed assets on block basis. The asset is capitalised with the amount purchased and the total asset is depreciated over the life as mentioned in Schedule II to Companies Act 2013.	Componentization is required to be done. The company should consider taking a threshold of 10% of the gross block to identify the components and determining their respective useful life. Fir this purpose, we have conducted discussions with technical heads of the plant by visiting the plants and understanding the processes and life of assets.

Fixed assets

HIGH

Tangible assets

Issue	Existing practice	Impact under Ind-AS
Assets retirement obligation	The company has taken land for the construction of wind or solar power. The leasehold agreement mentions that the Company is required to restore the asset in the same condition as it was at the time the same was given to the lessee. The Company has not created any provision for its Assets Retirement Obligations (ARO) under the IGAAP.	Ø The Company needs to recognise an ARO for the leased locations to meet the expenses of bringing such assets in the same condition as they were, at the time of inception of such lease. Ø In the lease agreement of Karnataka and Maharashtra, the lessee is under the obligation to restore the land to original condition, hence ARO needs to be created by estimating the liability.
Deferred tax on freehold land	The Company is keeping the freehold land at its historical cost in the books. No amortisation is done for the free hold land.	Ø The Company is required to calculate the indexed cost of land. Ø Deferred tax is required to be created on the difference between the historical cost and indexed cost of land.

Fixed assets

HIGH

Deemed Cost Exemption under Ind AS 101: Ind AS 101 permits a first time adopter to measure items of PPE at deemed cost at the date of transition to Ind AS

Option A: Fair Value/Revaluation as Deemed Cost
XXX Limited has the following three options if it wants to use fair value/revaluation as deemed cost:

- ▶ Fair value/revaluation as deemed cost wherein fair value of the item at transition date or revalued amount under Indian GAAP on or before transition date can be considered as deemed cost.
- ▶ Event-driven fair value measurement as deemed cost wherein fair value measurement done on the occurrence of an event such as privatization or public offering can be considered as deemed cost.
- ▶ Retrospective application wherein retrospective restatement as per Ind AS 16 can be done.

Option B: Previous GAAP Carrying Value as Deemed Cost: XXX can consider the carrying value under Indian GAAP of its PPE on transition date as its deemed cost.

This option needs to be applied to all items of PPE unlike Option A and only adjustments on account of decommissioning liabilities need to be made.

Impact on XXX:

XXX can opt for any of the above 2 options, i.e. Option A and Option B. However, Option A is available even for an individual item of PPE and doesn't require XXX to revalue / fair value the entire class or categories of assets XXX can make any permutations and combinations under Option A. However, if XXX opts for the Option B, then it shall be applied to all the assets.

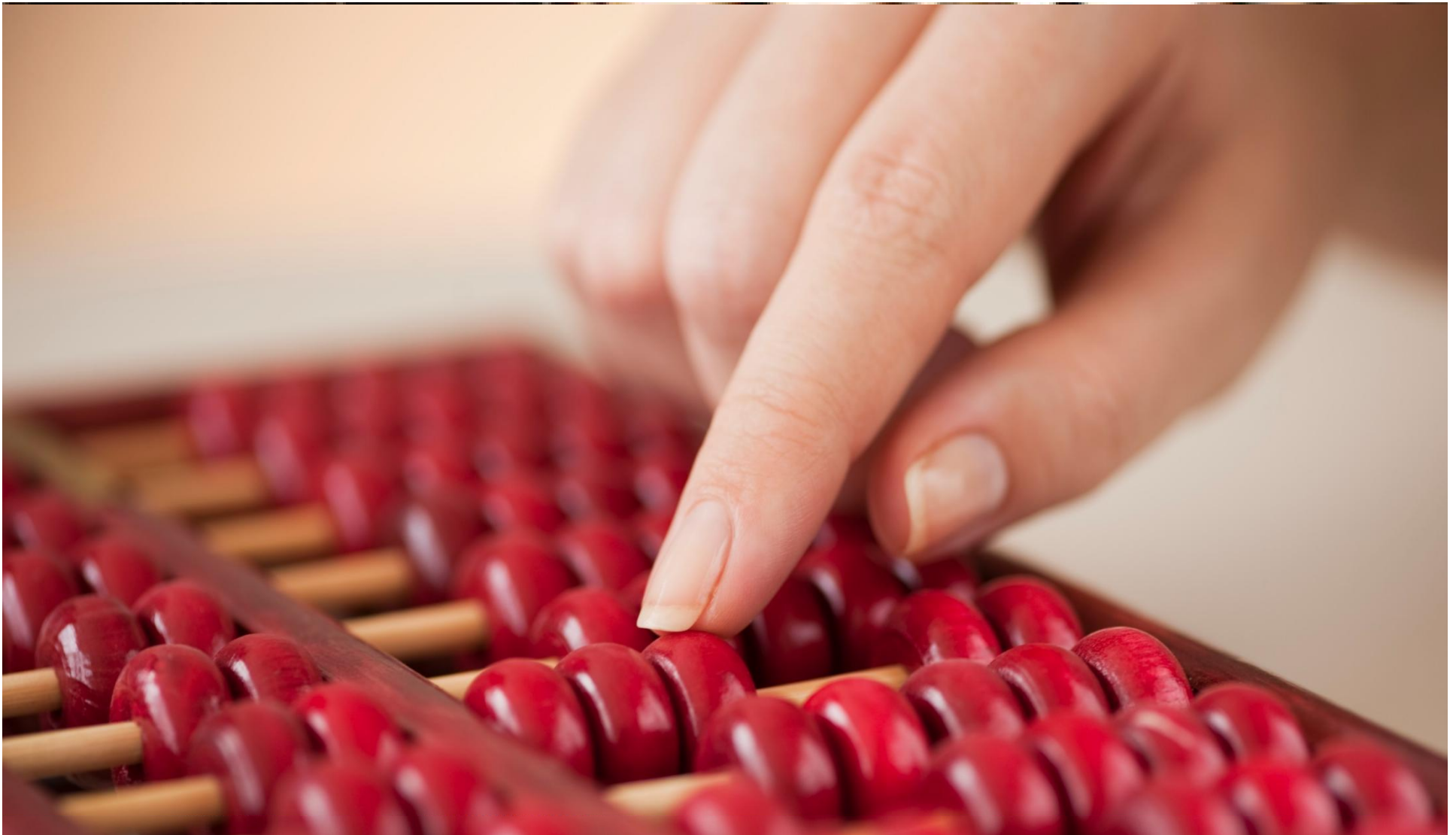


Business Combination

Business Combination (Ind AS 103)

HIGH

Issues	Existing practice	Impact under Ind-AS
Acquisition of X Exports (P) Limited.	- Ø The acquisition was made by way of purchasing 70% shares of the Company. - Ø The assets acquired primarily included piece of land only. - Ø The company recognised goodwill on these acquisitions in the consolidated books of accounts.	- Ø Under Ind-AS, these acquisitions are concluded as asset acquisitions and not business combinations as the assets and liabilities acquired do not constitute a business. - Ø Business combination accounting shall not be applied. - Ø Accordingly, the company needs to derecognize the goodwill capitalized and allocate all the purchase consideration to the assets acquired as per their relative fair values.



Leases

Leases

Overview – Ind-AS 17

- Ind AS 17 prescribes the guidance on **recognition and measurement of leases**.
- Provides guidance on arrangement, that does not take the legal form of a lease but **conveys a right to use an asset** in return for a payment or series of payments. (Appendix C of Ind AS 17)

Applicability to XXX:

The Company has obtained various premises for office and godown on lease terms.

Major leases include:

- Ø Office building at Noida from m/s XXX Infrastructure Limited (Related party)
- Ø Agricultural land at Ghaziabad from M/s XXX Infrastructure Limited
- Ø Land and building at Sonipat from M/s XXX Foods Limited (includes process building, packaging and dispatch building and 5 storage godowns)
- Ø Other godowns on temporary basis

Key Implications under Ind-AS on financial reporting

Rent straight lining carved out :

Ind AS 17 allows the Company to **avoid straight-lining of operating lease rentals** in case escalation reflects expected inflationary cost increases. In contrast rent straight lining is mandatory under existing IGAAP.

- Ø The agreements indicate escalation of 10% every year. As per normal industry standards, current rate of inflation is approx 6-7%, hence the Company cannot avoid the straight lining to that extent.
- Ø The Company is not doing straightlining under Indian GAAP hence the same would be required.
- Ø Land and building at Sonipat have been taken w.e.f. December 2014, however have been occupied w.e.f May 2015, hence no lease expenses have been charged in the Statement of profit and loss. However, this needs to be evaluated for operating vs finance lease.

Leasehold land

Objective: Ind AS 17

To prescribe appropriate accounting treatment, policies and disclosures in respect of leases

Background:

The Company has obtained various land on leasehold basis for the construction and generation of wind and solar power.

- Ø Kandla (export)– INR 108.47 lacs – 30 years
- Ø Rajasthan- INR 128.67 lacs – 20 years
- Ø Karnataka – INR 154.12 lacs – 30 years
- Ø Andhra – INR 196.63 lacs – 25 years
- Ø M.P (wind) - INR 121.34 lacs – 25 years
- Ø M.P (solar)- INR 3.12 lacs – 25 years

In addition, various offices and warehouses have been taken on rental basis.

Accounting under Indian Gaap:

Leasehold land is capitalised in the books of account as tangible asset and is amortised over the period of lease.

The Company is not straight lining its operating lease rentals under Indian Gaap.

Key implications on financial reporting under Ind AS:

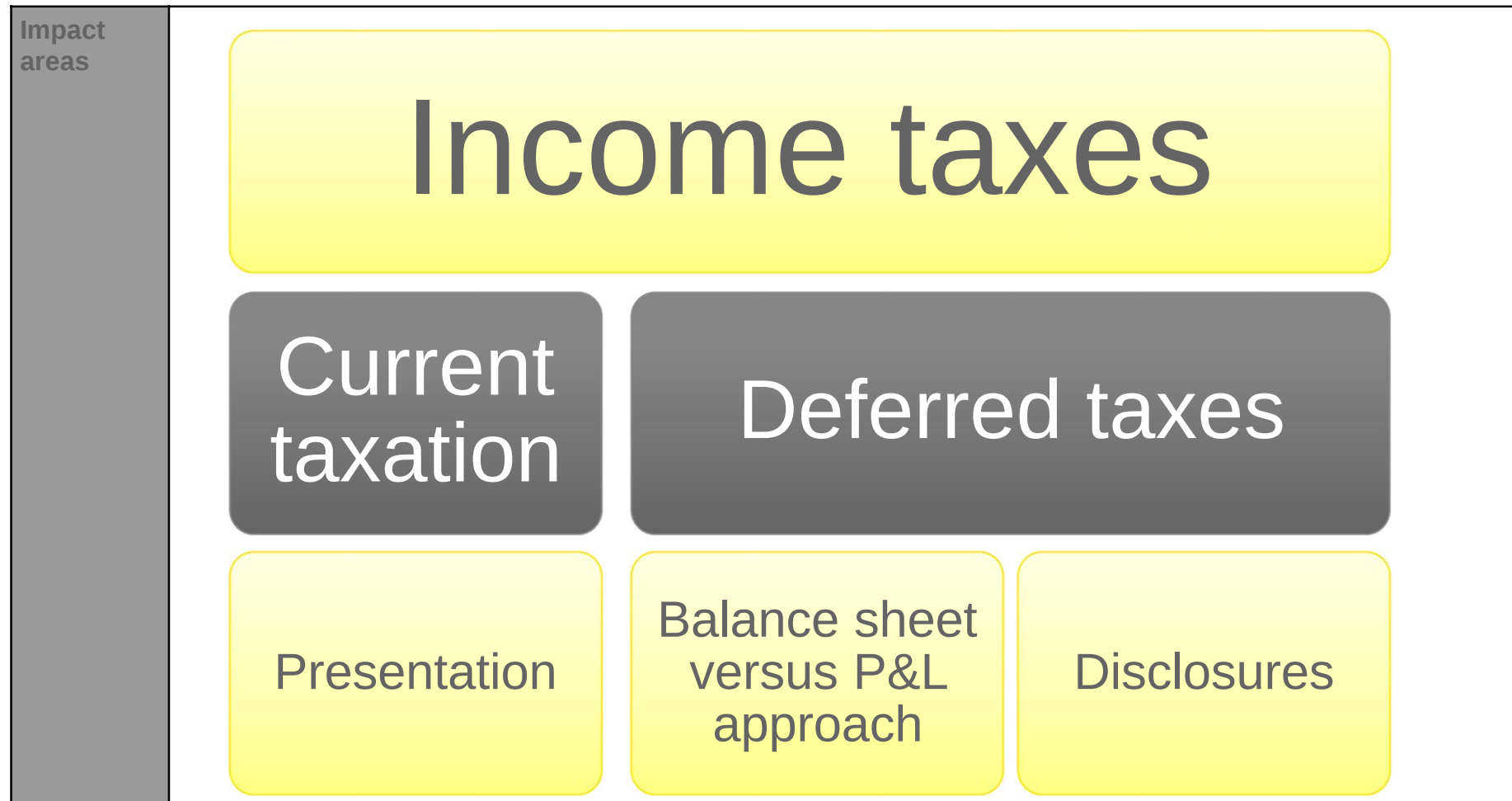
- ▶ Under Ind AS Lease arrangement is evaluated in substance and not only in legal form.
 - ▶ The land has been taken on lease for the construction of power plants from Government authorities. Lease is generally taken for the entire term of PPA.
 - ▶ On transition to Ind AS, leasehold land is required to be reclassified to prepayment under “ Loans and advances” and the amortisation expense is to be taken to Statement of profit and loss under “ Other expenses” rather than being part of amortisation.
- Ø Land has been taken on lease in Maharashtra for a period of 30 years, however, as per FAR, same is not amortised.



Income tax



Overview of issues in income taxes under current scenario:



Income taxes

HIGH

Current taxes

Issues	Existing practice	Impact under Ind-AS
Presentation	Ø The current taxes in XXX have been shown after netting off on year to year basis. However, in case of subsidiaries, it is netted off on overall basis.	Under Ind-AS, netting off shall only be done if it is allowed to be settled on net basis and therefore netting of one year's provision with another year's advance is inappropriate. So, the company needs to ensure that netting off is done on year to year basis only.

Deferred taxes

Issues	Existing practice	Impact under Ind-AS
Balance sheet versus P&L approach	Ø The company at present calculates the deferred tax using the P&L approach and discloses it on net basis. Ø As at 31 March 2015, the Company has deferred tax liability in the books.	Under Ind-AS, deferred tax shall be calculated using Balance sheet approach. Deferred tax should be made on all the Ind AS adjustments. Deferred tax has been created on speculative losses on commodity transactions in the past. Such amount shall be reversed while preparing opening balance sheet.

Income Taxes (Ind AS 12)

HIGH

Disclosures required:

- Disclosure required for income taxes is likely to increase significantly on transition to Ind AS. Examples of certain critical disclosures mandated in Ind AS are:
- a reconciliation between the income tax expense(income) reported and the product of accounting profit multiplied by applicable tax rate. Either a numerical reconciliation or tax reconciliation is required to be presented.
- an explanation of changes in the applicable tax rate(s) compared to the previous accounting period;
- the amount (and expiry date, if any) of deductible temporary differences, unused tax losses, and unused tax credits for which no deferred tax asset is recognized in the statement of financial position.

Note:

Company needs to create deferred taxes on its **unrealised profits** (if any) while consolidation. Under Ind AS, deferred taxes are recognized on temporary differences that arise from the elimination of profits and losses resulting from intra-group transactions. Where as under Indian GAAP, Deferred tax is not recognized on such eliminations



Employee benefits

Employee Benefits

MEDIUM

Overview – Ind-AS 19

- Ind-AS 19 prescribes the accounting and disclosure requirements for employee benefits.
- It requires an entity to recognise:
 - o a liability when an employee has provided service in exchange for employee benefits to be paid in the future;
 - o an expense when the entity consumes the economic benefit arising from service provided by an employee in exchange for employee benefits.

Applicability to XXX:

Short term employee benefits:

- Ø Salary & wages
- Ø Bonus and incentives

Post employment benefits:

- Ø Defined Contribution plans
Provident fund
- Ø Defined Benefit plans
Gratuity (Funded)

Other employee benefits

- Ø Leave encashment

Key Implications under Ind-AS on financial reporting

- Impact of re-measurement in net defined benefit liability/ (asset) to be split between other comprehensive income and statement of profit and loss:-
 - i. Actuarial gains or losses, return on plan assets (excluding interest on net asset/liability) is to be recognised in other comprehensive income and not reclassified to profit and loss in subsequent period . **(The amount of actuarial losses recognised in the Statement of PL in current period is INR 49.50 lacs)**
 - ii. Service cost and net interest cost (i.e. time value) on net defined benefit deficit/(asset) to be recognised in **statement of profit and loss.**

In contrast to Ind-AS 19, under existing IGAAP:-

- a. Service cost – recognised in statement of profit or loss;
- b. Interest cost – recognised in statement of profit or loss;
- c. The expected return on any plan assets – recognised in statement of profit or loss;
- d. Net actuarial gains and losses – recognised in statement of profit or loss.

Employee Benefits (Ind AS 19)

MEDIUM

Key Implications under Ind AS :

- Distinction between short-term and other long-term employee benefits is based on the expected timing of settlement rather than employee's entitlement to benefits.

i.e. Even if benefit is due to be settled within 12 months from reporting date, but management expects the benefit to be settled after 12 months, it should be accounted for as other long term employee benefit.

- Net Interest cost : The Company is required to calculate the net interest cost based on the net defined benefit asset or liability. It needs to be applied retrospectively, therefore any change in the net interest cost as on the transition date will be adjusted from retained earnings.

[Defined benefit asset - Defined benefit obligation] * Rate of interest/discount

Tax consequences of suggested accounting implication

Temporary difference-: Deferred tax on temporary differences, in relation to actuarial gains or losses, return on plan assets (excluding interest on net asset/liability) and any change in effect of asset ceiling recognised in OCI, shall also be recognised through OCI.

Applicable Ind AS 101 exemptions ;

None



Related party disclosures

Related Party Disclosure

MEDIUM

Overview – Ind AS 24

- Ind AS 24 prescribes the provisions for identification and disclosure of related party relationship and related party transactions in standalone and consolidated financial statements
- Prescribes more detailed definition of related party

Applicability to XXX:

All related party transactions.

The Company is disclosing the following under related parties:

- ☒ Subsidiary Companies
- ☒ Key managerial personnel
- ☒ Independent and non executive directors
- ☒ Employee benefit plans where there is significant influence
- ☒ Relatives of KMP
- ☒ Enterprises over which KMP are able to exercise significant influence.

Key Implications under Ind AS on financial reporting:

- Ø Definition of Key Managerial Personnel (KMP) includes **Non executive directors**. As per existing IGAAP, KMP includes only **Executive Directors**. **Since, the Company is already disclosing the same, hence no impact.**
- Ø Ind AS has specifically given the definition of “**Close Members**”
- Ø Ind AS 24 requires **Category wise disclosure** for compensation of KMP into the following whereas IGAAP requires, the Compensation of KMP to be disclosed in total;
 - a) Short-term employee benefits;
 - b) Post employment benefits;
 - c) Other long-term benefits;
 - d) Termination benefits; and
 - e) Share-based payments
- Ø **Post employment benefit plans** have been included in the scope of related parties. Such plans were not considered related parties under Indian GAAP.



Events after reporting period

Events after the reporting period (Ind AS 10)

MEDIUM

Objective– Ind-AS 10

- Ind AS 10 provides guidance on:-
 - When an entity should adjust its financial statements for events after the reporting period; and
 - The disclosures that an entity should give about the date when the financial statements were approved for issue and about events after the reporting period.

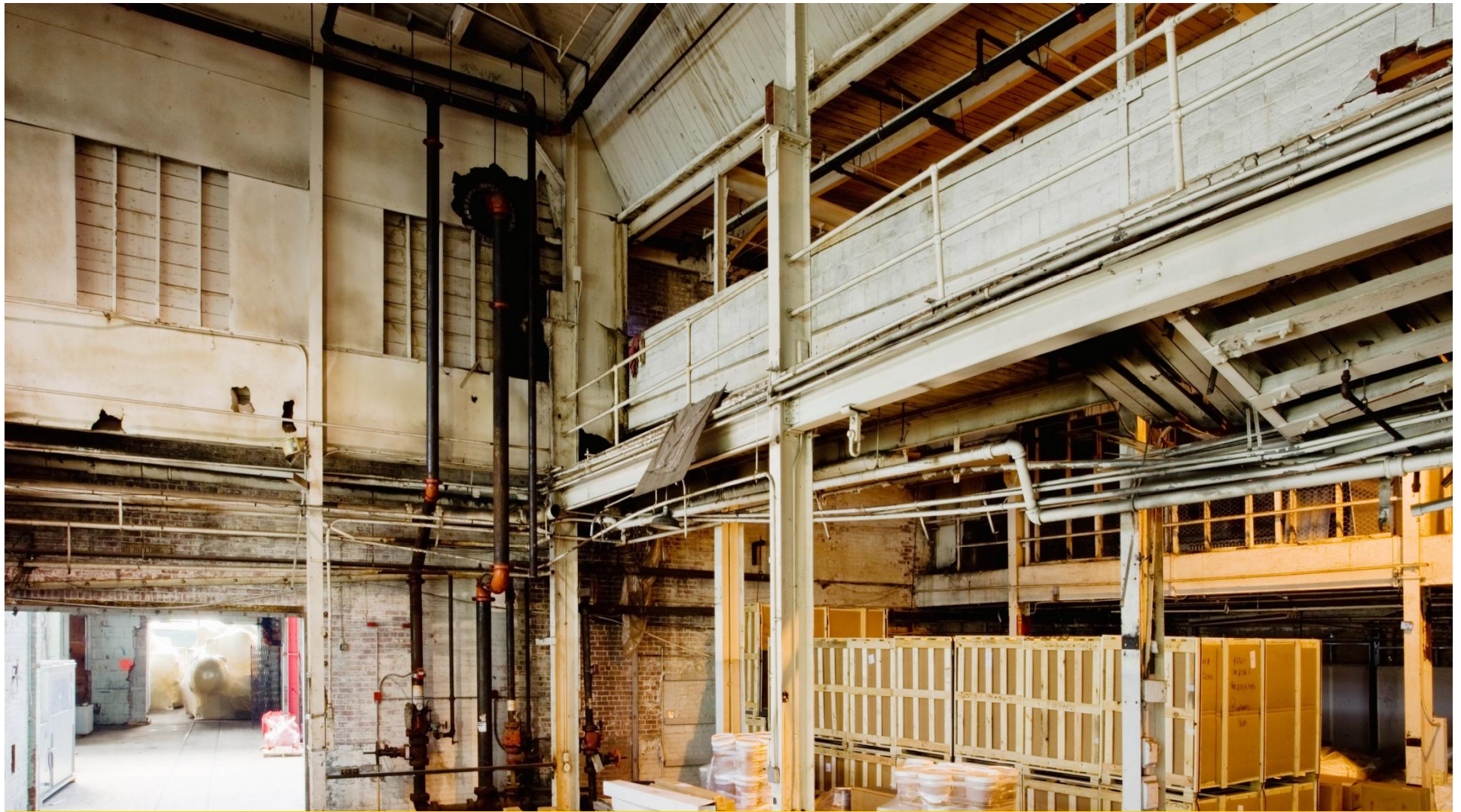
Applicability to XXX:

- > Provision for dividend
- > Provision for tax on dividend

Key Implications under Ind AS on financial reporting:

- As per Ind AS 10, if an entity declares dividend to holders of equity instruments after the reporting date, the entity should not recognize those dividends as a liability at the end of reporting period.
- If dividends are declared after the reporting period but before the financial statements are approved for issue, the dividends are not recognised as a liability at the end of the reporting period because no obligation exists at that time.
- Such dividends are disclosed in the notes in accordance with Ind AS 1, *Presentation of Financial Statements*

Note: Applying the guidance of Ind AS 10 **only on transition date** “Proposed dividend including the tax impact of Proposed dividend” is to be reversed and transferred to general reserve.



Government grant (subsidy for rural warehouse)



Government grant/subsidy

MEDIUM

Overview – Ind AS 20

- Ind AS 20 provides for the accounting and disclosure of government grants and other forms of government assistance.

Applicability to Company:

The Company had received INR 20 lacs from DMI through NABARD (a Govt. undertaking) towards the construction of rural godown.

Further, an amount of INR 50 lacs is receivable from DMI through NABARD towards the construction of rural godown.

Accounting under Indian GAAP:

The entire grant received / receivable has been deducted from the respective cost of the capital expenditure.

Key Implications under Ind AS on financial reporting:

Government grants shall be recognised only when there is a reasonable assurance that:

Ø The entity will comply with the conditions attached to them and;

Ø The grant will be received.

Ø Receipt of a grant does not of itself provide conclusive evidence that the conditions attaching to the grant have been or will be fulfilled.

Ø Government grants related to assets, including non-monetary grants at fair value, shall be presented in the balance sheet by setting up the grant as deferred income in the liability side of balance sheet.

Ø The grant set up as deferred income is recognised in profit or loss on a systematic basis over the useful life of the asset.

Government grant/subsidy

MEDIUM

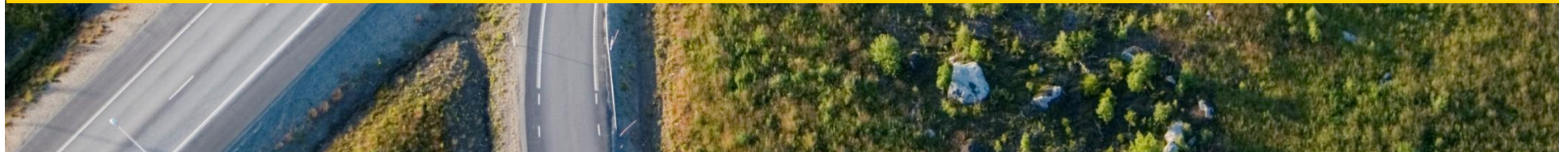
Disclosures required for Government grant:

The accounting policy adopted for government grants, including

- Ø the methods of presentation adopted in the financial statements;
- Ø the nature and extent of government grants recognised in the financial statements and an indication of other forms of government assistance from which the entity has directly benefited
- Ø unfulfilled conditions and other contingencies attaching to government assistance that has been recognised.



Operating segments



Segment reporting

MEDIUM

Overview – Ind AS 108

- Ind AS 108 prescribes guidance on recognition and disclosure of Operating Segments
- It focuses on management reporting approach to identify operating segments

Applicability to XXX:

The company has identified the following segments:

Primary Segment:

- Agri (includes agri commodities such as rice, furfural, seed, bran, bran oil etc.)
- Energy (includes wind and solar power production).

Key Implications under Ind AS on financial reporting:

- Ø Ind AS 8 defines operating segment as a component of the entity that:-
 - Ø engages in business activities from which it may earn revenues and incur expenses
 - Ø whose operating results are regularly reviewed by the entity's **Chief Operating Decision Maker (CODM)** to make decisions about resources to be allocated to the segment and assess its performance, and
 - Ø for which discrete financial information is available
- Ø Identification of **CODM** is required. The function of CODM is to allocate resources and to assess operating results
- Ø Ind AS requires only identification of **Operating segments** based on the **financial information** that is regularly reviewed by the CODM in deciding how to allocate resources and in assessing performance. However, Indian GAAP required identification of two sets of segments (Business and Geographical).

Segment reporting

MEDIUM

Geographical segment:

- Ø Sale within India:
- Ø Sale outside India
 - Middle east
 - Other than Middle east

Key Implications under Ind AS on financial reporting:

- Ø Ind AS108 requires that amount of each segment item reported is the **measure reported to CODM in internal management reports**, even if this information is not prepared in accordance with Ind AS accounting policies of the entity
- Ø This may result in differences between amounts reported in segment information and those reported in entity's primary financial statements, however it requires reconciliation of segment performance measures with corresponding amounts reported in financial statements
- Ø Entity wide disclosures are mandatory for all entities (even in case of entities having single reportable segment). Ind AS 108 requires disclosure of:-
 - Ø External revenues from each product or service;
 - Ø Revenues from customers in the country of domicile and from foreign countries.
 - Ø Information about major customers i.e. generating 10% or more revenue. The identity of such customers need not be disclosed;
 - Ø Geographical information on non-current assets located in the country of domicile and foreign countries.
- Ø **Aggregation Criteria:** Two or more operating segments may be aggregated into a single operating segment if they have similarity in product and services, production processes, customer class, distribution methods and regulatory environment. There was no such requirement in Indian GAAP.



Accounting Policies, Changes in Accounting Estimates and Errors

Accounting Policies, Changes in Accounting Estimates and Errors

LOW

Overview – Ind AS 8

- Ind AS 8 prescribes the criteria for selecting and changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates and corrections of errors.

Applicability to XXX:

- Any change in accounting policies or accounting estimates
- Prior period Items

Key Implications under Ind AS on financial reporting:

Ø **Material Errors** shall be corrected **retrospectively** (to the extent practicable) by:

- Ø Restating the comparative amounts for prior period(s) presented
- Ø If the error occurred before the earliest period presented, restating the opening balances of assets, equity and liabilities for the earliest period presented

Indian GAAP required prior period items to be included in determination of profit/loss in the period when the error was discovered and to be disclosed separately i.e. in the current period itself.

Ø **Non application of accounting pronouncements** that have been issued but not effective have to be disclosed whereas no requirement is there under Indian GAAP

Accounting Policies, Changes in Accounting Estimates and Errors (2/2)

LOW

Applicability to Company:

- Any change in accounting policies or accounting estimates

Key Implications under Ind AS on financial reporting:

- Ø The company shall account for a **change in accounting policy** as follows:
 - Ø Where Ind AS has given transitional provisions, as per those provisions
 - Ø In case of absence of transitional provisions, retrospectively, unless it is impracticable to determine the period specific or cumulative effects
- Ø Where a change in accounting policy is applied retrospectively, the entity shall adjust the opening balance of each affected component of equity for the earliest prior period presented and the other comparative amounts disclosed for each prior period presented as if the new accounting policy had always been applied

Thank you

