MUKESH ARORA & CO.

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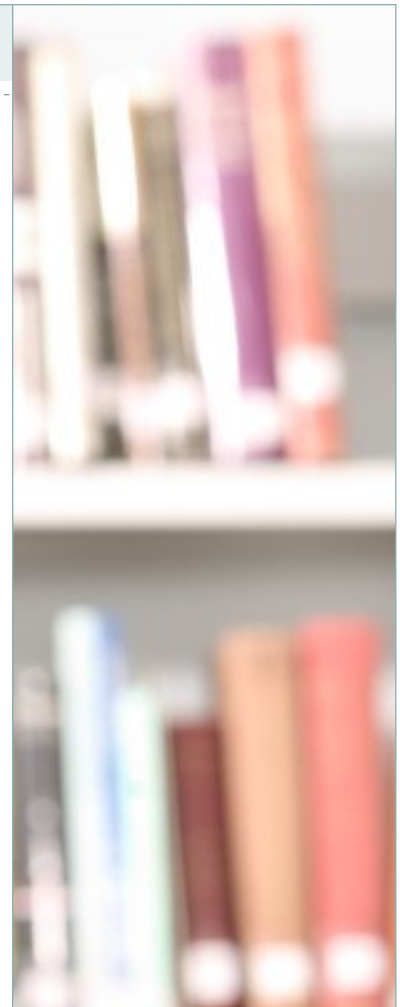

Indian Accounting Standards (Ind AS)

INTRODUCTION

Government has been taking initiatives from 2007 to update the existing accounting and reporting standards and move towards the best practices at par with the world.

On 16th February 2015, the Ministry of Corporate Affairs notified a set of Rules called Companies (Indian Accounting Standards) Rules 2015 with effect from 1st April 2015 introducing the IND AS a step towards convergence with IFRS.

Ministry of Corporate Affairs ('MCA') notified Indian Accounting Standards ('Ind AS') on February 16, 2015 thereby laying down the roadmap for all companies, except insurance companies, banking companies and nonbanking finance companies, for adoption of Ind AS ('MCA roadmap').

For removal of difficulties and for ease of adoptability the Government decided to introduce the IND AS in a phased manner. The rules set a road map on the applicability of the Indian Accounting Standards (popularly known as IND AS) on a Mandatory basis to certain classes of Companies based on Listing and Net Worth of the Company as defined in the Rule 4 of the said rules. The applicability was broadly done in three phases as discussed below:

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Phase I: Financial Reporting Year 2015-16

In the budget speech July 2014, Finance Minister Shri Arun Jaitley announced the introduction of IND AS and also stated that any company may follow IND AS on a voluntary basis. Hence in this phase any company whether listed or unlisted irrespective of its Net Worth could opt for following the IND AS. This set the tone for the next two phases which would be mandatory compliance for certain classes of Companies.

Phase II: Financial Reporting Year 2016-17

Rule 4 of the Companies (Indian Accounting Standards) Rules 2015 makes it mandatory for the following classes of Companies to follow the IND AS:

1. Companies Listed on stock exchange in India or a similar exchange outside India with a Net worth of Rs. 500 Crores or more
2. Companies which are in process of Listing in India or outside India with a Net Worth of Rs. 500 Crores or more
3. All other Companies whose Net worth is Rs. 500 Crores or more

Phase III: Financial Reporting Year 2017-18

The following Companies mandatorily need to comply with the IND AS:

1. All listed Companies Listed on stock exchange in India or a similar exchange outside India

2. Companies which are in process of Listing in India or outside India with a Net Worth of Rs. 250 Crores or more

3. All other Companies whose Net worth is Rs. 250 Crores or more

4. Holding, Subsidiary, Joint Venture or Associate Companies of above.

Financial Reporting in three phases:

- In year 2015-16 ,First Phase any company may follow IND AS on a voluntary basis
- In year 2016-17 ,second Phase -IND AS made mandatory for Companies with a Net worth of Rs. 500 Crores or more
- In year 2017-18, IND AS made mandatory for listed Companies and for other Companies whose Net worth is Rs. 250 Crores or more

General Exemptions to certain Classes of Companies

Insurance Companies, Banking Companies and **Non Banking Finance Companies (NBFC)** are exempted vide notification dated 16th February 2015. However an amendment was made to the Rules on 30th March 2016 and IND AS was made mandatory to certain classes of NBFC's in the following manner:

1. All the NBFC's whose net worth is Rs. 500 Crores or more and Holding, Subsidiary, Joint Venture and Associate of such NBFC's shall comply with IND AS from financial year 2018-19 and on wards.

2. For entities not covered above

a. Listed NBFC's having net worth of less than Rs. 500 Crores

b. Unlisted NBFC having a net worth more than Rs. 250 Crores

c. Holding, Subsidiary, Joint Venture or Associate Companies of above.

Shall comply with IND AS from the financial year 2019-20

The amendment also stated that Banking companies and Insurance Companies shall comply with IND AS as notified by the RBI and IRDA respectively.

Classes of Companies not covered above shall continue to comply with standards specified in Companies (Accounting Standards) Rules, 2006 which are same as the accounting standards issued by the **Institute of Chartered Accountants of India (ICAI)**

Definition of Net Worth

Net worth shall have the same meaning as defined in Section 2 sub section 57 of the Companies Act, which is the aggregate value of paid up capital and all reserves created out of profits and securities premium account, after deducting the aggregate value of the accumulated losses, deferred expenditure and miscellaneous expenditure to the extent not written off, as per audited balance sheet, but does not include reserves created out of revaluation of assets, write back of depreciation and amalgamation

MCA notified amendments to Schedule III to the Act on 6th April 2016 whereby:

- The existing Schedule III was renamed as 'Division I' to Schedule III ('Non-Ind AS Schedule III') – which gives a format of Financial Statements for Non-Ind AS companies, that are required to comply with the Companies (Accounting Standards) Rules, 2006. In other words, Non-Ind AS companies, will be required to prepare Financial Statements as per Companies (Accounting Standards) Rules, 2006, as per the format of Division I to Schedule III to the Act;
- Division II' - 'Ind AS Schedule III' was inserted to give a format of Financial Statements for companies that are required to comply with the Companies (Indian Accounting Standards) Rules, 2015, as amended from time to time ('Companies Ind AS Rules'). This is newly inserted into Schedule III for companies that adopt Ind AS as per Rule 4(1)(i) or Rule 4(1)(ii) or Rule 4(1)(iii) of the Companies Ind AS Rules. Accordingly, such Companies, while preparing its first and subsequent Ind AS Financial Statements, would apply Division II to Ind AS Schedule III to the Act

The requirements of Ind AS Schedule III however, do not apply to companies as referred to in the proviso to Section 129(1) of the Act, i.e., any insurance or banking company, or any company engaged in the generation or supply of electricity or to any other class of company for which a form of Balance Sheet and Statement of Profit and Loss has been specified in or under any other Act governing such class of company. Moreover, the requirements of Ind AS Schedule III do not apply to Non-Banking Finance Companies (NBFCs) that adopt Ind AS as per Rule 4(1)(iv) of Companies (Indian Accounting Standards) Rules, 2015 notified in Companies (Indian Accounting Standards) (Amendment) Rules, 2016.

It may, however, be clarified that for companies engaged in the generation and supply of electricity, neither the Electricity Act, 2003, nor the rules framed thereunder, prescribe any specific format for presentation of Financial Statements by an electricity company. Section 1(4) of the Act states that the Act will apply to electricity companies, to the extent it is not inconsistent with the provisions of the Electricity Act. Keeping this in view, Ind AS Schedule III as applicable may be followed by such companies till the time any other format is prescribed by the relevant statute

AMENDMENTS TO SCHEDULE III :

- Existing Schedule III was renamed as 'Division I' to Schedule III ('Non-Ind AS Schedule III')
- Division II' - 'Ind AS Schedule III' was inserted

Mukesh Arora & Co.,

Mukesh Arora & Co., Company Secretaries, is established in the year 2001. with an objective to provide wide spectrum of quality professional services in the field of Corporate Management Consultancy with an aim to facilitate value addition to its clients. Over the years, we have been able to place ourselves as one of the leading Corporate Consultants in DELHI to provide wide range of quality professional services in the field of Corporate Laws and Taxation, Finance & Accounting, Legal Compliances, Corporate Governance, Corporate Social Responsibility and allied services

WAY FORWARD AND ADVANTAGES

Although IND AS has been introduced, it has not completely replaced the existing standards. For class of companies not covered in the notification, existing Accounting Standards will continue to apply. The intention of the Government presently is not to replace the existing standards with IND AS immediately but gradually move towards the same to cover all the companies. The recent amendments to the existing accounting standards and the proposed amendments in the pipe line are almost in line with the IND AS.

Foreign investors prefer their entities in India to follow the IND AS as it brings in better comparability with similar companies across the globe. If entities are planning for future foreign investments it may be a good idea to adopt IND AS on a voluntary basis, to enable the Investors to understand the financial statements and also improve their valuation. Otherwise also, the adoption would benefit in following the best industry practices of the globe which will set in comparability with cross border entities which will eventually assist in driving growth of the organization. It may be pertinent to note here that a sustained adoption of IND AS over a period of 2 to 3 years would make the financial statements of an entity comparable across the years and thus a decision of voluntary compliance to IND AS is part of future planning of a business entity.

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