IND AS APPLICATION, MAT AND NEXT WAVE OF CHANGES

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Ind AS Application, MAT and Next Wave of Changes

Foreword

Most of the Indian corporates are in the process of transitioning to Indian Accounting Standards (Ind AS)[1], during the financial years ending 31 March 2016-2018 in phases. The financial reporting framework in India has been thereby aligned with the globally followed financial reporting standards making it easier for Indian companies to access global investors and lenders as well as facilitate mergers and acquisitions.

There were two phases of Ind AS transition, with first phase, covering listed and unlisted companies with net worth in excess of Rs.500 crores (phase I) from financial year ended 31 March 2017. As per the estimates, approximately 350[2] companies/groups are covered in phase I of Ind AS roadmap.

This has been followed by approximately 10,000 phase II companies (balance listed companies and unlisted companies with net worth in excess of Rs.250 crores), that have applied or in the process of applying Ind AS from financial year beginning from 1 April 2017. The manner in which Ind AS has been applied by companies, their in-depth analysis and impact on different sectors as well as the MAT implications due to changes in 'book profits' are of great relevance to companies in the process of transitioning to Ind AS. Towards this end, this publication provides Ind AS technical insights based on the financial results of 126 companies across 18 sectors covered in Ind AS phase I and phase II. We take a look at the sector-wise impact of the Ind AS requirements vis-à-vis the previous Indian GAAP accounting considering the key Ind AS impact areas that were reported by way of profit and equity (net worth) reconciliations by these companies.

In addition to the impact on the financial results of the companies, the transition caused significant far-reaching consequential business impact. For example, reclassification of redeemable preference shares from equity to debt impacted net worth, debt-equity and interest coverage ratios of several companies. Resultantly, many companies have had to re-negotiate the covenants in loan agreements with their lenders. Finance Act, 2017 introduced the tax provisions under minimum alternate tax (MAT) provisions for Ind AS companies. These provisions excluded fair value adjustments to property, plant & equipment as well as long-term Investments from the levy of MAT which provided a lot of flexibility to the asset-based companies to fair value these assets which were carried at considerably lower historical costs. However, other than the aforesaid assets,

1 Prescribed under S/133 of Companies Act, 2013 as notified under Companies (Indian Accounting Standards) Rules, 2015

2 These figures estimated by a report.

these provisions resulted in most Ind AS adjustments, including transition impact, being taxed under MAT provisions.

Internationally, companies are grappling with another wave of accounting change with respect to revenue recognition. New revenue recognition standards have been issued both under IFRS (IFRS 15) and US GAAP (ASC 606) and are effective from annual periods starting 1 January 2018. In line with this change in revenue recognition standard under IFRS, a new revenue recognition standard under Ind AS (Ind AS 115, *Revenue from Contracts with Customers*) was issued and notified by the MCA in March 2018 as a part of Companies (Indian Accounting Standards) Amendments Rules, 2018. Ind AS 115 (equivalent to IFRS 15 / ASC 606) is effective for Indian companies following Ind AS from 1 April 2018.

Ind AS 115 differs considerably as compared to existing accounting principles for revenue recognition. Key differences include changes in the identification of performance obligations, timing of revenue recognition, measurement of variable consideration, contract related costs and disclosures. Major impact of transition to Ind AS 115 on key sectors has also been covered. We have also summarised the key changes/ requirements and other amendments effective for FY 2018-19 in separate chapters. It must be noted that listed companies will have to apply these changes in the interim financial reports to the stock exchanges. Ind AS contains several areas involving application of significant areas judgments and financial reporting is based on significant management estimates. Currently, there is limited literature on the Ind AS application and implementation issues. In this publication, we endeavor to bring out significant transition, first-time adoption and other related issues that are emerging in practice. In that context, we discuss various accounting options available under Ind AS, both upon transition on first-time adoption as well as those available on an ongoing basis. We discuss the sector-wise Ind AS transition adjustment analysis. This publication would also help companies to benchmark their Ind AS accounting with that of their industry peers as also with other leading companies.

This publication is not meant to deal with the quantitative impact that the shift to Ind AS may have caused from a capital markets or market capitalization perspective. Nor is it meant to examine, in detail, the differences between Indian GAAP and Ind AS. This publication aims to assess the accounting impact on the Ind AS transition for a wide cross-section of sectors with an objective to aid phase II companies leverage on the experiences, thereby, providing them with a cutting edge for their Ind AS journey. Phase I companies may use this publication to re-visit the approach adopted by them to re-calibrate the same if necessary and for implementing the recent changes.

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1.0 INTRODUCTION

International Financial Reporting Standards (IFRS) have become the de factoglobal standards for financial reporting prevalent in around 120 countries[3]. As a move towards IFRS convergence in India, the Ministry of Corporate Affairs (MCA) notified the roadmap for Indian Accounting Standards (Ind AS) implementation for corporates (companies other than banks, insurance companies and NBFCs) on 16 February 2015. Ind AS are largely based on IFRS, with a few differences (carve outs) intended to smoothen the transition to Ind AS for Indian companies.

With effect from financial year ended 31 March 2017, phase I companies i.e. listed and unlisted companies with net worth of Rs.500 crores (about US$ 75 million) or more have applied Ind AS, along with their group companies[4]. As a result, about 350 listed phase I companies have published their financial results for the financial year ended 31 March 2017.

With effect from financial year beginning 1 April 2017 (FY 2017-18), about 10,000 phase II companies i.e., the remaining listed companies and unlisted companies with net worth of Rs.250 crores (about US$ 38 million) or more are covered under Ind AS, along with their group companies[5].

Ind AS contains several significant differences in many areas compared to the erstwhile Indian generally accepted accounting principles (Indian GAAP[6]).The two fundamental differences in Ind AS as compared to Indian GAAP are the requirements of fair valuation and accounting for time value of money under Ind AS. Ind AS contains new concepts of control and joint control, due to which a few Indian groups have had to reassess and consequently, in a few cases, change their holding-subsidiary or joint venture relations. Accounting for financial instruments is one of the major areas of differences, such as, triggering reclassifications of equity into debt or vice versa, pervasive fair valuation and discounting contractual cash flows. Ind AS contains more elaborate guidance in areas of revenue recognition which has caused changes in reported revenue in many sectors.

3 Source: The Global Financial Reporting Language published by the International Accounting Standards Board.

4 Ind AS also applies to holding, subsidiary, joint ventures and associate companies of the covered companies.

5 Ind AS also applies to holding, subsidiary, joint ventures and associate companies of the covered companies.

6 Accounting Standards issued under section 133 read under Companies (Accounting Standards) Rules, 2006 of Companies Act, 2013

Deferred tax accounting under Ind AS contains many new requirements, including creating deferred tax liabilities on undistributed earnings of groups companies in certain cases. Our separate publication contains a guidance and analysis of Ind AS requirement[7].

Internationally, new revenue recognition standards have been issued both under IFRS (IFRS 15) and US GAAP (ASC 606) and are effective from annual periods starting 1 January 2018. In line with this change in revenue recognition standard under IFRS, a new revenue recognition standard under Ind AS (Ind AS 115, Revenue from Contracts with Customers) was issued and notified by the MCA in March 2018 as a part of Companies (Indian Accounting Standards) Amendments Rules, 2018. Ind AS 115 (equivalent to IFRS 15 / ASC 606) is effective for Indian companies following Ind AS from 1 April 2018.

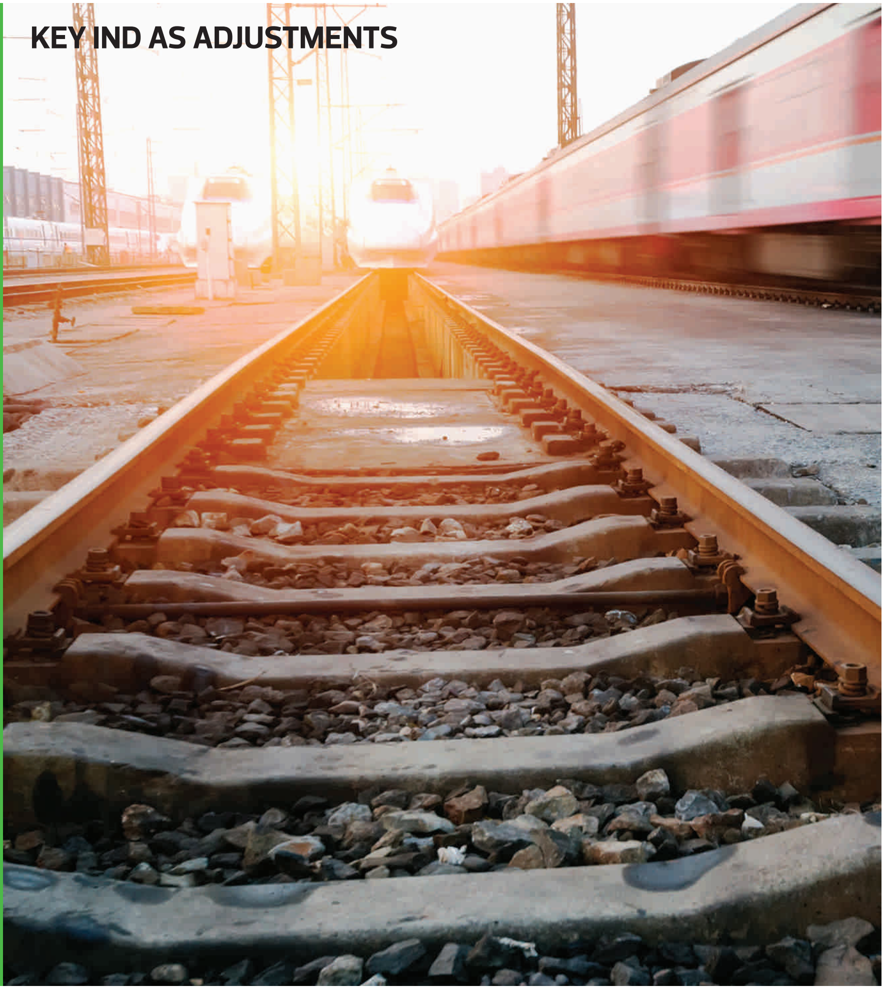
Ind AS 115 differs considerably as compared to existing accounting principles for revenue recognition. Key differences include in changes in the identification of performance obligations, timing of revenue recognition, measurement of variable consideration, contract related costs and disclosures. Major impact of transition to Ind AS 115 on key sectors has also been covered. We have also summarised the key changes/ requirements other amendments effective for FY 2018-19 in separate chapters. It must be noted that listed companies will have to apply these changes in the interim financial reports to the stock exchanges.

As the impact varies from sector to sector based on the sector-specific issues, we have analysed Ind AS impact based on sectors, the categorization of which we have explained later in the publication. Company specific situations, such as, the group structure, financing structure and the extent of treasury activities would also differentiate the Ind AS impacts, for example, highly leveraged companies are likely to have more IndAS adjustments. In subsequent chapters we have provided a sector-wise analysis of the key Ind AS transition adjustments.

The values, percentages and charts mentioned to in this publication should be considered as suggestive and may vary if analysed differently and/or using different set of assumptions.

7 The New Axis of Financial Reporting – Ind AS and ICDS available on XX (URL)

2.0 KEY IND AS ADJUSTMENTS



- **Revenue**
  - Change in timing of recognition of revenue (estimated sales return, dispatch vs. delivery)
  - Incentive schemes– reduced from revenue
  - Deferral of revenue due to multiple deliverable arrangements
  - Fair valuation of consideration – time value of money to be considered
  - Deferral of revenue due to linked transactions (to reflect the substance)
  - Change in agency vs. principal assessment for customers
  - Change in accounting for joint development agreements
  - Differences in percentage of completion revenue recognition
  - Change in gross vs. net presentation (excise duty, other charges)
  - Accounting for service concession arrangements
  - Accounting for customer loyalty schemes
- **Property, plant and equipment**
  - Provision and capitalization of asset retirement obligation (to consider time value of money)
  - Use of fair value deemed cost exemption at transition
  - Capitalization of eligible spare parts
  - Capitalization of major overhaul
  - Capitalization of eligible enabling assets
- **Intangible assets**
  - Restriction on revenue based amortization for new tolls roads
  - Indefinite useful lives for certain intangibles
  - De capitlisation of non-eligible intangible assets
- **Borrowing cost**
  - Eligible borrowing costs (debt vs. equity, stand-alone vs. consolidated)

- **Foreign exchange**
  - Foreign exchange fluctuations to be immediately charged to the statement of profit and loss
  - Functional currency assessment for all operations
- **Leases**
  - Accounting for leases embedded in sale or service contracts
  - Not straight-lining of the lease rentals on account of inflation
  - Straight-lining of lease incentives
- **Deferred tax**
  - Deferred tax on undistributed reserves on subsidiaries, joint venture, associate, unless certain criteria met
  - Deferred tax on intercompany eliminations
  - Deferred tax on capital loss
- **Financial instruments**
  - Redeemable preference shares classified as liability and related 'dividend' recognised as interest expense
  - Convertible bonds split into their liability and derivative components
  - All costs related to the debt recognised through a periodic charge to the statement of profit and loss – cannot be adjusted against share premium account under Ind AS
  - Treasury shares are presented as a reduction from equity- no gain/loss on sale of treasury shares
  - Compulsory convertible debentures at fixed ratio classified as equity
  - Any obligation to issue variable number of shares may be classified as a liability.
  - Classification of financial assets is based on an entity's business model for managing financial assets and the contractual cash flow characteristics of the financial asset

- Amortised cost based on effective interest rate
- Investments to be categorised – fair value through profit or loss (FVTPL), fair value through other comprehensive income (FVOCI) and amortised cost
- Initial recognition of all financial assets and financial liabilities at fair value (interest –free security deposits, employee loans, etc.)
- Accounting for financial guarantees in favor of banks for borrowings by subsidiaries/other companies
- All investments, including unquoted equity shares, except investments in subsidiary/Joint venture/ associate measured at fair value
- All derivative instruments to be carried at fair value, unless hedge accounting requirements met
- Transfer of financial assets/liability with recourse – continue to be reported in the balance sheet
- Impairment of financial assets – expected loss model
- Separate accounting for embedded derivative in sale/ purchase contracts

▪ **Share based payments**

- Mandatory use of fair value for share based payments
- Accelerated costs for options with graded vesting
- Consolidation of trusts administering employee share based payment
- Group share-based payments to be accounted for by the recipient company

▪ **Employee benefits**

- Actuarial gains and loss recognized in equity through OCI rather than in P&L
- Long term employee benefits accrued on constructive obligation basis at discounted values
- Past service costs to be charged to P&L as incurred- cannot be deferred

- **Business combinations and consolidation**
  - Acquisition accounting based on fair values of assets including intangibles, such as customer relationships and contracts, etc., and liabilities, including, contingent liabilities
  - Common control business combinations accounted for using pooling of interest method; cannot give rise to goodwill; restatement of comparative period mandatory
  - Acquisition related costs charged to P&L as accrued
  - Goodwill cannot be amortised, but should be tested for impairment at least annually
  - Deferred and contingent consideration payable to the seller for business combination to be fair valued through P&L
  - Detailed guidance for call / put option agreements / forward agreements to buy/ sell balance shares to non-controlling interest shareholders
  - Gain/ loss on acquisition of further interest in a subsidiary from other shareholders or sale of shares to other shareholders without losing control cannot result in P&L gain/ loss; to be recognized directly in equity
  - More elaborate guidance for aspects such as pre-existing relations between acquirer and acquiree, share based payments, etc.
  - Consolidation of joint ventures using equity method– 'one line consolidation'; proportionate consolidation not permitted
  - Consolidation / deconsolidation based on new definition of control
  - Sale/dilution of stake without losing control not to be recognized in P&L
  - Losses attributed to minority shareholders
  - Fair valuation of contingent and deferred consideration
  - Mandatory use of uniform accounting policies
  - Non common control demerger accounted at fair value

3.0 KEY ACCOUNTING OPTIONS AVAILABLE UNDER IND AS

Chapter 3 Key Accounting Options Available Under Ind As

Ind AS provides various accounting options. First set of options relate to optional exemptions from retrospective application of Ind AS standards upon first-time adoption of Ind AS transition. The other set of options are available under individual Ind AS standards, not necessarily available in the first year of Ind AS transition. In this chapter we discuss both these options available to a company.

A. Accounting options available on first-time adoption of Ind AS

Ind AS 101 contains the first-time adoption principles for all the transition related requirements when a company moves from accounting as per Indian GAAP to Ind AS. As a general principle, all the Ind AS requirements need to be applied retrospectively. However, to smoothen the transition, companies have the choice of electing certain optional exemptions from such retrospective application.

▪ Property, plant and equipment

On transition to Ind AS, instead of retrospectively re-computing the carrying value of PPE under Ind AS 16, a company has certain choices with respect to PPE balances on the transition date. In the event that a company elects such a choice, the amounts so substituted are referred to as the 'deemed cost' of the PPE. Specific choices include:

a) Re-measure some or all items of PPE to their fair value as at the transition date; or

b) In case assets have been previously revalued under Indian GAAP, then those revalued amounts can be considered as the deemed cost, provided that those revalued amounts are broadly comparable

  (i) to the fair values as at the date of revaluation or

  (ii) cost or depreciated cost in accordance with Ind AS adjusted to reflect, for instance, the changes in the general or specific price index; or

c) Continue Indian GAAP carrying values of all items of PPE as at transition date without any modification, except for adjustments for decommissioning obligations to be included in the PPE. This exemption, if exercised, is required to be applied to all items of PPE without any exception. Following are the important points to be noted with regards to this option:

- The option is only available if there is no change in the company's functional currency on the transition date
- The option is available to all PPE. Unlike option a) above, this option cannot be applied selectively
- If the last Indian GAAP financial statements of the group was Indian GAAP consolidated financial statements, the Indian GAAP amount of the subsidiary should be the amounts used in the Indian GAAP consolidated financial statements
- In case on a previously unconsolidated subsidiary, the amount required to be reported by the subsidiary as per the previous GAAP in its individual financial statements should be the previous GAAP amount
- This option can be also availed for investment properties and intangible assets

This is an important option available to first time adopters of Ind AS due to the sheer size of fixed assets in many companies. It may have consequential impact on, for example; net worth; subsequent depreciation and impairment charge, it must be noted that additional depreciation cannot be recouped from reserves; deferred tax on transition and in subsequent period; and IT systems and records such as the fixed asset register.

It is important to note that there is a possible change in exemption c) above. On 27 March, 2017, the Institute of Chartered Accountants of India (ICAI) issued an exposure draft (ED) of Amendments to Ind AS 101 with respect to PPE. The ED provides more flexibility in the transition provisions, as compared to the current provisions of Ind AS 101.

The ED proposes to amend Ind AS 101.D7AA and makes the option more flexible for the first-time adopters of Ind AS. Following are the specific proposals:

- **Class of PPE rather than all PPE**

  The ED proposes that the option can be exercised for a class of PPE rather than all PPE. Therefore, the proposal would allow a company to apply previous GAAP deemed cost option, for example, only to certain class of PPE, such as, plant & machinery and furniture & fixtures and not to apply this option, for example, for land and building. Land and building may be measured using, for example, the fair value option.

- **Transition adjustments due to other Ind AS requirements**

  The ED proposes to remove the current restriction that no other adjustment to the previous GAAP deemed cost due to application of other Ind AS requirements is permitted, if the option under Ind AS 101.D7AA is used. In addition to the adjustments resulting from decommissioning obligation, the adjustments arising from other Ind AS standards would also be permitted to the previous GAAP deemed cost of the PPE under the proposal. For example, if a company had previously capitalized transaction cost or loan processing cost under previous GAAP, the transitional adjustment arising due to application of Ind AS 109 Financial Instruments would be made to the previous carrying amount.

Effective date proposed by the ED

The ED states that an entity shall apply the amendments relating to paragraph D7AA for annual periods beginning on or after 1 April 2017. Since these amendments to Ind AS will be notified by the Ministry of Corporate Affairs (MCA), the effective date proposed is subject to the notification of MCA with the same effective date.

- **Decommissioning obligations**

Ind AS requires that the cost of dismantling or removal of the asset, or restoration of the site, should be included as part of the initial cost of the asset. Accordingly, a provision equivalent to the present value of such costs is recognised, with an equivalent amount capitalised as an additional cost component. Imputed interest would subsequently be recognised through the profit and loss account. Any changes in the obligation, other than that arising on efflux of time, are added or deducted from the cost of the asset and depreciated prospectively over balance useful life. This requirement may be difficult to apply retrospectively. A first time adopter of Ind AS is, therefore, provided with an exemption for such obligations incurred before the transition date. The exemption provides that a first time adopter:

- measures liability at the date of transition to Ind AS
- estimates the amount required that would have been capitalized in the past when the obligation first arose, by discounting the liability to that date using best estimate of the historical risk-adjusted discount rate(s) applicable during the intervening period
- Work out the accumulated depreciation on the above amount as at the transition date, on the basis of the current estimate of useful life of the asset

Assessment date for embedded leases

Indian GAAP does not provide explicit guidance on accounting for lease transactions which are embedded in purchase/sale arrangements. Such arrangements are generally recognised based on their legal form. Ind AS provides specific guidance for the identification of embedded leases. Once identified as a lease, the principles for classification and accounting of the embedded lease would be the same as other leases. Under Ind AS, leasing would extend to arrangements which, in substance, meet the definition of a lease, even though not be structured as 'lease'. These arrangements convey a right to use an asset or assets for an agreed period of time in return for a payment or series of payments.

The determination of whether an arrangement contains lease is made at the inception of the arrangement. For arrangements entered into several years back, this may pose practical challenge. Therefore, Ind AS 101 provides an option to first time adopter to make this assessment as of the date of transition based on the facts and circumstances as at that date, rather than at the inception of the arrangement.

It must be noted that this exemption is limited for the purpose of making assessment of whether the arrangement contains lease. If it is determined that the arrangement contains lease, accounting for operating or finance lease has to be done from the inception of the arrangement.

- **Land lease**

  Ind AS provides guidance on accounting for leases of land, requiring a determination of whether the land lease would qualify as an operating lease or a finance lease. Where the land lease is for several decades, it may qualify as a finance lease even though the title of the land may not transfer at the end of the lease term (e.g., a 99 year land lease arrangement). Ind AS also states that when a lease includes both land and building elements, an entity assesses the classification of each element as finance or an operating lease separately as per the criteria laid down.

  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 at fair value on that date with any difference between the fair values recognized in retained earnings.

- **Business combinations**

  On transition to Ind AS, a company has the following three options in relation to the business combination transactions before the transition date:

  - Not to restate business combinations before the transition date and apply Ind AS only to subsequent business combinations; or
  - Restate all past business combinations before the transition date; or
  - Restate all past business combinations done after a chosen date, prior to the transition date.

  Where the exemption for not restating past business combination is taken, usually no adjustments are made to the accounting as per Indian GAAP except certain specific matters, for example, where intangible assets that do not meet the definition of an asset under Ind AS have been recognised, then they would be derecognised with a corresponding adjustment to goodwill.

If the company elects not to restate past business combinations, the carrying value of goodwill as per Indian GAAP is required to be carried over to Ind AS without any modification. Under this approach, any previous goodwill amortisation under Indian GAAP is not required to be reversed. However, goodwill will need to be tested for impairment on transition date to Ind AS.

For subsidiaries which were not previously consolidated, goodwill can be computed as the difference, at the transition date, between parent's interest in carrying values of net assets of subsidiaries and the cost of investment in the parent's separate financial statements. This exemption is particularly relevant for unlisted Indian companies that may not have previously prepared consolidated financial statements under Indian GAAP.

Ind AS requires that any goodwill arising on acquisition of foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising of the acquisition to be treated as the assets and liabilities of the foreign operations. For first-time adopter, it may be impracticable, especially for old acquisitions, to determine the retrospective foreign currency exchange differences on goodwill and fair value adjustments. Towards this, Ind AS 101 provides a voluntary exemption whereby a first-time adopter need not apply the requirement to retrospectively account for the foreign exchange differences on goodwill and fair value adjustments of foreign operations acquired. In other words, goodwill and fair value adjustments of foreign operations are treated as the assets and liabilities of the acquirer company and not the acquiree company. Therefore, those goodwill and fair value adjustments are either already expressed in the entity's functional currency or are non-monetary foreign currency items, which are reported using the exchange rate applied under the Indian GAAP.

- **Investments in the separate financial statements of the parent**

On transition to Ind AS, a company is permitted to recognise 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. This deemed cost option may be applied selectively to each investment on a case-by-case basis.

- **Cumulative foreign currency translation reserve**

  As at the transition date, the cumulative foreign currency translation reserve in relation to the foreign operation may be reset to zero. If a first-time adopter uses this exemption:

  – the cumulative translation differences for all foreign operations are deemed to be zero at the date of transition to Ind AS; and

  – the gain or loss on a subsequent disposal of any foreign operation shall exclude translation differences that arose before the date of transition to Ind ASs and shall include later translation differences.

- **Managing different transition dates for group companies**

  Where a subsidiary transitions to Ind AS later than its parent, the subsidiary has an option to measure its assets and liabilities at their carrying values based on either (i) the parent's transition date to Ind AS (if no adjustments were made for consolidation procedures and for effects of business combination in which the parent acquired the subsidiary) or (ii) based on the subsidiary's own transition date to Ind AS.

  Where a parent company transitions to Ind AS later than its subsidiary, the assets and liabilities of the subsidiary would be stated in the consolidated financial statements of the parent at the same values as appearing in the separate financial statements of the subsidiary company, after adjusting for the effects of business combination in which the company was acquired and consolidation adjustments.

  The above principles in relation to the subsidiaries also apply in case of associates and joint ventures.

- **Employee stock option plans**

  Employee stock options that have already vested as on the transition date need not be accounted for based on fair values.

- **Derecognition of financial instruments**

  The transition requirements allow the application of the derecognition principles for financial assets and financial liabilities on a prospective basis from the transition date. Alternatively, these principles can be applied retrospectively from a date per the company's choice, if the information needed to apply the derecognition principles was obtained at the time of initially accounting those transactions.

- **Compound instruments**

  Under Ind AS, an instrument may be compound instrument containing both equity element and debt element. For example, foreign currency convertible bond is treated as a compound instrument by the issuer containing an obligation towards interest and redemption payment i.e. a debt component and an equity conversion feature i.e. an equity element.

  Ind AS 101 provides an exemption whereby a first-time adopter need not identify separately the two portions of equity if liability component of the instrument is no longer outstanding at the date of transition to Ind AS.

- **Classification of financial assets**

  Under Ind AS all financial assets (e.g., investments in equity shares, preference shares, mutual fund units, bonds, debentures, deposits, etc.) are classified into three main categories – amortised cost, fair value through P&L (FVPL) and fair value through Other comprehensive income (OCI). The classification depends on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset.

  Under Ind AS 109, an entity may voluntarily designate a financial asset, which is a debt investment and otherwise meets amortised cost or FVOCI criteria, as FVPL. This designation is only allowed if the designation reduces or eliminates a measurement or recognition inconsistency. A first-time adopter is permitted to designate as FVPL based on the facts and circumstances at the transition date to Ind AS.

  Ind AS 109 allows an entity to designate investment in equity instrument not held for trading as at FVOCI, instead of FVPL. Such an election has to be made on initial recognition and cannot subsequently changed. A first time adopter is allowed to make this designation based on the facts and circumstances at the transition date to Ind AS.

- **Financial liabilities**

  Under Ind AS financial liabilities (e.g., borrowings, loans, debentures, etc.,) are classified as at FVPL or amortised cost. Further, an entity permits an entity to designate a financial liability as at FVPL if the prescribed criteria are met at the time of initial recognition of the financial liability. A first-time adopter is permitted to designate a financial liability as at FVPL provided the liability meets the Ind AS 109 criteria at the date of transition to Ind AS.

- **Measurement of financial asset and liability using effective interest method**

  If it is impracticable for an entity to apply retrospectively the effective interest method in Ind AS 109, the fair value of the financial asset or the financial liability at the date of transition to Ind AS shall be the new gross carrying amount of that financial asset or the new amortised cost of that financial liability at the date of transition to Ind AS.

- **Long term foreign currency monetary items**

  Under Indian GAAP, exchange differences arising on translation of monetary items are recognised as income or expense in the period in which they arise. Further, paragraph 46A of AS 11 allows companies to adjust exchange differences arising on long-term foreign currency monetary items to the carrying value of depreciable capital assets (to the extent they relate to the acquisition of such assets) and are depreciated through P&L over the useful lives of the assets. If the long term foreign currency monetary item relates to other than acquisition of a depreciable capital asset, exchange differences are accumulated in the 'Foreign Currency Monetary Item Translation Difference Account' which is subsequently amortised through the P&L over the life of such long term asset or liability. Ind AS 21 requires exchange differences arising on translation/settlement of all foreign monetary items, including long-term foreign currency monetary items, to be recognized in P&L for the period in which they arise. It does not give an option to defer or to capitalize exchange differences arising on long- term foreign currency monetary items.

Ind AS 101 includes an optional exemption to continue the existing policy as per the previous GAAP, i.e., existing AS 11 in respect of the long-term foreign currency monetary items recognised in the financial statements for the period ending immediately before the beginning of the first Ind AS financial reporting period. The exemption is only available for foreign currency monetary items recognised in the financial statements for the period ending immediately before the beginning of the first Ind AS financial reporting periods. For example, for a phase II company, the first Ind AS reporting is applicable from FY 2017-18. It date of transition is 1 April 2016 and its last Indian GAAP financial statements would be 31 March 2017. This option is only available for continuing deferral/ amortization for long term foreign currency monetary items recognized on or before 31 March 2017. For any long term foreign currency monetary items recognized on or after 1 April 2017, deferral/ amortization of exchange differences would not be allowed.

- **Stripping costs in the production phase of a surface mine**

Mining operations involve overburden exercise necessary to remove waste materials to gain access to mineral ore deposits. This is referred to as stripping and it may go on during the production phase of a mine. Ind AS 16 Appendix B provides guidance on accounting for such stripping cost.

A first-time adopter may apply Ind AS 16 Appendix B from the date of transition to Ind AS. As at transition date to Ind AS, any previously recognised asset balance that resulted from stripping activity undertaken during the production phase should be reclassified as a part of an existing asset to which the stripping activity is related, however, only to the extent that there remains an identifiable component of the ore body with which the predecessor stripping asset can be associated.

The balance of the predecessor stripping asset should be depreciated or amortised over the remaining expected useful life of the identified component of the ore body to which each predecessor stripping asset balance relates. In case where there is no identifiable component of the ore body to which that predecessor stripping asset relates, it should be recognised in retained earnings at the transition date to Ind AS.

- **Non-current assets held for sale and discontinued operations**

  Ind AS 105 requires non-current assets (or disposal groups) that meet the criteria laid down, to be measured at lower or its carrying amount and the fair value less cost to sell. Ind AS 105 requires that a non-current asset classified as held for sale or forming part of disposal group should not be depreciated. A first time adopter can:

  a) measure such assets or operations at the lower of carrying value and fair value less cost to sell at the date of transition to Ind AS; and

  b) recognise directly in retained earnings any difference between that amount and the carrying amount of those assets at the date of transition to Ind AS.

- **Deemed cost for assets used in operations subject to rate regulation**

  If the carrying amount of property, plant and equipment or intangible assets that are used in rate-regulated activities includes amounts under previous GAAP that do not qualify for capitalization in accordance with Ind ASs, a first-time adopter may elect to use the previous GAAP carrying amount of such items as deemed cost on the initial adoption of Ind ASs.

- **Service concessions**

  Ind AS provides specific guidance for public-to-private service concession arrangements in which: the public sector entity controls or regulates the services provided with the infrastructure and their prices; and controls any significant residual interest in the infrastructure. The operator does not recognise the PPE constructed as a part of the service concession arrangement. As per the service concession agreement, the operator is considered to have a right to access, rather than a right to use/right of ownership over the infrastructure asset. This right is recognised either as an intangible asset or a financial asset based on terms of the arrangement.

  For accounting purposes, service concession arrangements are normally divided into of two phases – construction phase and operations and maintenance phase.

During construction phase, the operator recognises and measures revenue and costs related to the construction or upgrade of infrastructure, contracts. Hence, in the construction phase, the operator will generally recognise revenue as construction activity based on the value of the services performed (construction cost plus a fair margin).

If retrospective application of service concessions arrangement based on the above requirements is not practicable, Ind AS 101 gives first time adopters an exemption to

- Recognize financial and intangible asset that existed at the transition date
- Use the previous GAAP carrying amount, no matter how they were previously classified; and
- Test the financial and intangible assets recognized at that date for impairment

■ Revenue based depreciation for toll roads

Indian GAAP allows revenue-based depreciation for toll roads created under a service concession arrangement. Ind AS prohibits use of revenue based depreciation. Ind AS 101 and Ind AS 38 provide an option to continue with revenue based amortization for toll roads recognized in financial statements for period immediately before the beginning of the first Ind AS financial statements. However, new toll roads constructed through subsequent service concessions would not be allowed to use revenue-based amortisation.

B. Accounting options available on an ongoing basis under Ind AS

Many Ind AS standards provide accounting policy choice related to measurement of assets and liabilities. Following is a list of the accounting policy choice available under various standards.

■ Property, plant and equipment

Ind AS provides two alternative measurement models for subsequent measurement of property, plant and equipment:

- Cost model: PPE is carried at cost less accumulated depreciation and impairment.

- Revaluation model: PPE is carried at a revalued amount, being its fair value at the date of revaluation less subsequent depreciation and impairment, provided that fair value can be measured reliably. Under the revaluation model, revaluations should be carried out regularly, so that the carrying amount of an asset does not differ materially from its fair value at the balance sheet date. If an item is revalued, the entire class of assets to which that asset belongs should be revalued. Revalued assets are depreciated in the same way as under the cost model, no recoupment of additional depreciation from reserves is permitted.

Similar accounting policy choice is available for intangible assets with quoted market price in an active market (which is uncommon).

- **Presentation of grants related to income**

  Grants related to income may be presented as a credit in the statement of P&L, either separately or under a general heading such as 'other income'; alternatively, they are deducted in reporting the related expense.

- **Investments in subsidiaries, associates and joint venture in separate financial statements of parent or investor**

  Investments in subsidiaries, associates and joint venture in separate financial statements of parent or investor are accounted for either at cost or at fair value as per Ind AS 109.

- **Financial instruments**

  Ind AS requires investments in equity instruments to be fair valued. If an equity investment is not held for trading, an entity can make an irrevocable election at initial recognition to measure it fair value through other comprehensive income (FVOCI) rather than at FVPL. Under this option, all the fair value changes, realized or unrealized, are recognized in equity through OCI, with only dividend income recognized in P&L.

  Ind AS provides three categories for classifying financial asset in debt instruments —amortised cost, FVOCI and FVPL. This classification of debt instruments is driven by the entity's business model for managing the financial assets and their contractual cash flow characteristics. Financial liabilities are classified as at FVPL or amortised cost. An entity is permitted to designate a financial asset or liability, otherwise to be measured at amortised cost, as at FVPL if the prescribed criteria are met at the time of initial recognition of the financial liability.

- **Hedge accounting**

  Ind AS requires derivatives to be measured at fair value through profit and loss account, except if certain criteria for hedge accounting are met. Hedge accounting enables gains and losses on the hedging instrument to be recognised in the profit and loss account in the same period as offsetting losses and gains on the hedged item. Specific criteria, including the existence of formal documentation and the achievement of effectiveness tests, must be met at inception and throughout the term of the hedge relationship in order for hedge accounting to be applied.

  On transition to Ind AS, all derivatives are required fair valued through P&L unless they are a part of a qualifying hedge relationship, which meets the hedge accounting requirements under Ind AS. Retrospective designation as hedges of transactions entered before transition date is not permitted.

- **Presentation of cash flow statement**

  Ind AS provides an option to present cash flow statements using either direct method or indirect method. The direct method shows each major class of gross cash receipts and gross cash payments. The indirect method adjusts accrual basis net profit or loss for the effects of non-cash transactions.

- **Interim financial statements**

  An interim financial report is either a complete or condensed set of financial statements for a period shorter than an entity's full financial year.

4.0 IND AS 115 REVENUE FROM CONTRACTS WITH CUSTOMERS

Chapter 4 Ind As 115 Revenue From Contracts With Customers

On 29 March 2018, the Ministry of Corporate Affairs (MCA) notified Ind AS 115 Revenue from Contracts with Customers which is for companies following Ind AS from 1 April 2018.

Ind AS 115 is based on IFRS 15, under IFRS and ASC 606, under US GAAP, which are internationally effective from annual periods starting 1 January 2018. These new standards are the result of several years of international joint discussions, deliberations and outreach across various sectors by the International Accounting Standards Board and the US Financial Accounting Standards Board.

With effect from financial year beginning from 1 April 2018, Ind AS 115 would replace the existing Ind AS standards, i.e., Ind AS 18 Revenue, Ind AS 11 Construction Contracts and their associated appendices.

Ind AS 115 differs significantly as compared to existing revenue recognition principles. The new standard seeks to remove inconsistencies and weaknesses in previous revenue requirements, provide a more robust framework and improve comparability of revenue recognition practices across entities. It is also intended to provide more useful information to users of financial statements through improved disclosure requirements.

Ind AS 115 requires retrospective application. The standard allows either 'full retrospective' adoption in which the standard is applied to all of the periods presented, including the comparative period, or a 'modified retrospective' adoption, under which the cumulative effect of retrospective application is recognised at the date of initial application.

Transition to Ind AS 115 may have significant impact across sectors, especially in telecom, information technology, engineering and construction, real estate and construction, consumer products and retail. Transition to new revenue recognition standard is not only an accounting change but is like to have significant impact on the Company's data, systems and processes.

This chapter takes you through each of the key steps involved in recognising revenue under Ind AS 115 and looks at some of the practical implications, the two transition methods, together with their comparative advantages and disadvantages, and available practical expedients. In addition, it includes a detailed look at the disclosures that will need to be provided under Ind AS 115.

OVERVIEW

When is Ind AS 115 effective?

Ind AS 115 comes into effect for accounting periods beginning on or after 1 April 2018. For listed companies that prepare and file quarter financial results, the quarterly results for period ending 30 June 2018 should be based on Ind AS 115. Generally, in India, early adoption of accounting standards is not permitted, unless specifically permitted by the standard. Therefore, in absence of explicit early adoption provisions, it may not be possible for entities to early adopt Ind AS 115 for financial year ending 31 March 2018.

In a snapshot

Ind AS 115 sets out a single framework for revenue recognition. Its core principle is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Ind AS 115 sets out five key steps to follow in applying this core principle.

Step 1:	**Step 2:**	**Step 3:**	**Step 4:**	**Step 5:**
Identify the contract(s) with a customer	Identify the performance obligations in the contracts	Determine the transaction price	Allocate the transaction price to the performance obligation in the contract	Recognise revenue when (or as) the entity satisfies a performance obligation

Additional guidance

Ind AS 115 also contains guidance on accounting for certain contract costs, payments to customers, and a cohesive set of disclosure requirements for revenue and associated contract balances.

Major changes of Ind AS 115

The changes will impact entities to varying degrees, depending on the nature and terms of their customer contracts.

- Current contract terms (explicit and implicit) and business practices may need to be reconsidered in order to avoid unintended consequences.
- Estimates and judgements previously made in the absence of specific financial reporting guidance may need to be revised to comply with the specific guidance given by Ind AS 115. For example: where it is necessary to allocate a transaction price between the goods/services it has promised to deliver ('performance obligations'), an entity will need to consider whether its existing allocation method is consistent with the specific hierarchy of possible methods set out in Ind AS 115.
- Revenue may be accelerated or deferred. This is more likely to affect entities which provide a bundle of goods and services, or provide licences, or for those for whom consideration receivable is variable in nature e.g., because of discounts, rebates and other price concessions, incentives and performance bonuses, penalties or other similar items.
- The timing of revenue recognition may change even when there is only one performance obligation, particularly for those involved in providing services. Entities will need to determine whether revenue should be recognised over time or at a point in time.
- Existing accounting software may need to be adapted or replaced to ensure it is capable of capturing data to deal with the new accounting requirements; particularly for use in making estimates or supporting the extensive disclosures. For example, Ind AS 115 requires disclosure of reconciliation of the amount of revenue recognised in the statement of profit and loss with the contracted price showing separately each of the adjustments made to the contract price, for example, on account of discounts, rebates, refunds, credits, price concessions, incentives, performance bonuses, etc., specifying the nature and amount of each such adjustment separately.

Entities should carefully consider as soon as possible the impact of the available transitional options and practical expedients.

Application of Ind AS 115 can impact the timing of the revenue recognition, revenue-based metrics, profile of margin on contracts, debt covenants, dividend policy, performance related remuneration, contract negotiations with customers, systems and processes and narrative disclosures.

Applying Ind AS 115

Ind AS 115 addresses revenue from contracts with customers and so is only applied to a contract in its scope if the counterparty to the contract is a customer.

Ind AS 115 specifically excludes collaborative (and certain other) agreements, e.g. two companies agree to collaborate on the development of a new drug, from its scope. However, such agreements can sometimes contain a vendor-customer relationship component and so judgement may be required to determine whether Ind AS 115 should be applied to certain collaborative arrangements from its scope where the collaborator or partner meets the definition of a customer for at least some of the arrangement.

Step 1: Identify the contract(s) with a customer

The contract must create enforceable rights and obligations.

An entity only accounts for a contract when it meets all of the following five specified criteria:

- It has been agreed by its parties, who are committed to perform their respective obligations;
- It identifies each party's rights regarding the goods or services to be transferred;
- It identifies the payment terms;
- It has commercial substance; and
- It is probable that the entity will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer.

These criteria represent the 'attributes' of a valid contract in respect of a genuine transaction.

Termination rights can affect the duration of a contract (Ind AS 115.11-12). A contract can only exist to the extent the parties have present enforceable rights and obligations.

Individual contracts entered into at or near to each other with the same customer may need to be combined for accounting purposes, when one or more of the three specified criteria in Ind AS 115.17 are met.

Special rules apply to the subsequent accounting for a contract where its scope or price (or both) are modified. These depend on a number of factors, including how the change has been priced and the distinctness of the new goods/services added or remaining performance obligations (Ind AS 115.20-21).

Step 2: Identify the performance obligations in the contract

This critical step involves the identification and assessment of promises in the contract (explicit or implied) to determine what, and how many, performance obligations exist. Some promises may not lead to performance obligations.

Once the promises have been identified, an entity needs to consider whether they are performance obligations.

A performance obligation may be a promise to transfer a single 'distinct' good/service, a 'distinct' bundle of goods/services, or a 'series' of 'distinct' goods/services.

Goods/service capable of being distinct + Distinct within the context of the contract = Separate performance obligations

A good/service is capable of being distinct if the customer can benefit from it (e.g. by use, consumption or sale) either on its own or together with other resources readily available to the customer (e.g. those already owned, or which can be acquired from the entity or another entity).
For example: if an entity sold a TV package that included a television and DVD player, these would be considered distinct goods because the television is capable of being used by the customer without the DVD player. Whilst the DVD player could not be used without the television, the customer could obtain an alternative television from another supplier or use their existing television.

In assessing whether a promise is distinct within the context of the contracts, an entity considers whether the nature of its promise is to transfer each promised good/service individually or instead to transfer a combined item(s).
This evaluation needs consideration of the interrelationship between the various goods or services in the context of the process to fulfill the contract. An entity is required to consider the level of integration, interrelation or interdependence amongst the individual goods or services. Rather than considering whether one item, by its nature, depends on the other i.e., whether two items have a functional relationship, an entity evaluates whether there is a transformative relationship between the two or more items in the process of fulfilling the contract.

Some contracts provide customer with an option to acquire additional goods/services in the future, often at a discount or even for free. These options come in many forms including sales incentives, loyalty point schemes and renewals. Such options must now be assessed to determine whether they provide the customer with a 'material right'. If they do, that right (but not the underlying additional goods/services) is a performance obligation. This is an area where there may be additional performance obligation compared to Ind AS 18.

A 'portfolio' approach may be possible, in specified circumstances, for similar performance obligations across multiple customers for accounting purposes

Step 3: Determine the transaction price

The transaction price is estimated at inception, assuming the contract is fulfilled in accordance with its terms and customary business practices, and is not cancelled, renewed or modified.

Variable consideration is included in the transaction price using either 'expected value' or 'most likely amount', but may need to be 'constrained'. The 'constraint' applies to prevent too much revenue being recognised when it is too uncertain and runs the highly probable risk of resulting in a significant reversal. Ind AS 115 .57 sets out some factors that may help with this determination.

An exception applies to sales or usage based royalties receivable from a licence for the use of Intellectual Property (IP) (or where the IP is the predominant item in the contract) (Ind AS 115.B63)

IFRS 15 contains specific guidance on accounting for some of the causes of variability in a transaction price i.e. refunds/sales with a right of return and 'breakage' (Ind AS 115.B20-B27 and B44-47).

Significant financing benefits are taken into account (subject to a practical expedient) not only when an entity provides credit to its customers but, also when it receives a benefit due to payments received in advance (Ind AS 115.60-65).

Non-cash consideration is measured at fair value and variability in this is only taken into account when it arises due to reasons other than the form of the consideration (e.g. a change in the exercise price of a share option due to the entity's performance).

Sometimes an entity pays consideration to its customer, or indeed to its customer's customers. That consideration might be in the form of cash in exchange for goods or services received from the customer (e.g. slotting fees paid to a retail customer), or the provision of a credit such as a voucher or coupon for goods or services to be provided to the customer or end consumer (e.g. money-off coupons against future purchases by consumers), or a combination of both. Ind AS 115 requires an entity to determine whether the consideration payable is for a 'distinct' good or service; a reduction of the contract's transaction price; or a combination of both. Consideration payable is only accounted for as an expense (in the same way as for other purchases from suppliers), rather than as a reduction in revenue, if the entity receives a good or service that is 'distinct'.

Step 4: Allocate the transaction price to the performance obligations in the contract

When a contract comprises more than one performance obligation, the transaction price is allocated to each obligation on the basis of directly observable stand-alone selling prices (determined only at contract inception and not changed).

Exceptions exist for allocating discounts and variable consideration that can be shown to be related to one or more but not all performance obligations (Ind AS 115.81-86).

Three alternative approaches can be applied in the absence of a directly observable stand-alone selling price (Ind AS 115.76-80):

- An adjusted market assessment;
- expected cost plus a margin; or
- a residual approach.

Specific rules apply if the transaction price changes, depending on the reason for the change i.e. the resolution of an uncertainty or as a result of a contract modification (Ind AS 115.87)

Specific guidance is provided in respect of warranties (Ind AS 115.B28-B33). A distinction is made between those warranties which provide the customer with a service ('service-type warranty') in addition to the assurance or guarantee that the related product/service complies with the agreed-upon specifications ('assurance-type warranty'). If a warranty is separately priced or negotiated then it is a distinct service and therefore a performance obligation. If not, then an entity will need to assess whether the warranty it is supplying provides the customer with a service in addition to a guarantee.

Ind AS 115 provides guidance on making this assessment, which takes into account whether the warranty is required by law, the length of its coverage period, and the tasks the entity promises to perform under it. When a service warranty is provided, an entity allocates the transaction price between the related product/service and the warranty service using the allocation guidance noted above. Current practice may change under Ind AS 115 in respect of service-type warranties depending on judgements made in applying the warranty-type assessment guidance, and the guidance on allocating transaction prices. However, in respect of assurance-type warranties current practice is unaffected.

Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

The focus here is on the transfer of 'control' rather than 'risks and rewards' when determining when to recognise revenue. This control concept also applies when determining whether an entity is acting as principal or agent from an accounting perspective.

Timing of revenue recognition requires the evaluation of whether control transfers (and therefore the performance obligation is satisfied) over time or at a point in time. If a performance obligation is not satisfied over time, then it is satisfied at a point in time.

Revenue recognition over time

A performance obligation is satisfied over time if any of the following criteria are met:

Customer simultaneously receives and consumes the benefits provided by the entity's performance as the entity	The entity's performance creates or enhances an asset that the customer controls as the asset is created or enhanced.	The entity's performance does not create an asset with an alternative use to the entity AND entity has an enforceable right to payment for performance completed to date

Additional guidance is provided in respect of licenses to determine whether revenue should be recognised over time or a point in time. Where a licence is a separate performance obligation, an entity considers whether its promise is to provide the customer with either a 'right to access' the entity's IP, or a 'right to use' the IP as it exists at the point the licence is granted. A 'right to access' is an obligation that is satisfied over time, and a 'right to use' is satisfied at a point in time.

In making this assessment, the entity is required to consider different criteria to those applied to other performance obligations. These different criteria are necessary in the case of licences because it is difficult to assess when the customer obtains control of assets in a licence (as they could be changing) without first identifying the nature of the entity's performance obligation. Essentially these criteria require an entity to consider whether its activities significantly affect the IP to which the customer has rights. If they do, and those activities are not a separate performance obligation in their own right, then an entity is providing access to its IP over time.

If a licence is not distinct, then it is accounted for by evaluating when control transfers.

A method must be selected by which to measure an entity's progress towards satisfying a performance obligation over time. IFRS 15 contains guidance on both output and input methods but ultimately it will be the entity's judgement call as to which method provides the most reasonable and reliable estimate of the measure of its progress.

Where an output method is most appropriate, a 'right to invoice' practical expedient may be applied when this invoicing corresponds directly with the value of each incremental good/service that is transferred to the customer (e.g. a fixed hourly rate for each hour of service provided).

Accounting for certain contract costs

Incremental costs of obtaining a contract that are expected to be recovered must be recognised as an asset unless the amortisation period would be one year or less, in which case they can be expensed as a practical expedient.

Costs incurred in fulfilling a contract that are not in the scope of another standard must be recognised as an asset if they meet all three specified criteria: Directly attributable to a specific contract or specific anticipated contract;

- generate or enhance resources to be used in the future in satisfying performance obligations; and
- be expected to be recovered.

These costs must be amortised on a systematic basis consistent with the transfer of those goods/services to the customer to whom the costs relate.

Disclosures

The disclosure objective of Ind AS 115 is to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows.

Although the disclosure requirements are extensive (more than previously required), they are not prescriptive; rather, they require the disclosure of quantitative and qualitative information about: the nature of the entity's revenues; how much is recognised and when; and any uncertainties about those revenues and related cash flows.

An entity is not expected to make disclosures that are irrelevant or immaterial to them, or to duplicate disclosures made elsewhere in the financial statements (in accordance with other Ind AS standard).

Revenue	Contracts	Significant judgements
• Disaggregation of revenue • Revenue from opening contract liability • Amounts recognized relating to performance in previous periods	• Reconciliation of revenue recognized in profit and loss and contracted price • Information about contract balances and changes • Information about performance obligations • Amounts allocated to remaining performance obligations	• Timing and methods (input or output) of recognition • Determining transaction price and allocating to performance obligations • Costs to obtain or fulfill contracts

Disaggregation of revenue

Disaggregation of revenue is a key disclosure in Ind AS 115. It will require decisions to be made about how revenues should be analysed. There is guidance in Appendix B of Ind AS 115. In order to meet the disclosure objective, and be effective, the categories chosen for the analysis should take into account the users' needs.

The disclosures should be entity specific, industry relevant, reflect the entity's business model and depict the effect of economic factors. The acid test would be whether the user can tell from the disclosures what the entity actually does.

Furthermore, such disclosures ought to be consistent with other communications an entity makes about its revenues (e.g. press releases, other public filings, narrative reports included with the financial statements), and must be reconcilable with any disclosures made under Ind AS 108 Operating Segments. It may be that the Ind AS 108 disclosures are already sufficient to meet the disclosure objective in Ind AS 115 concerning disaggregation, but this will need to be considered by each entity.

Significant judgements

It is useful for users of the financial statements to understand if significant judgements have been made in determining when and how much revenue should be recognised. Clearly some judgement will always be necessary by all entities when applying the standard, but what these disclosures should do is enable the user to understand where significant judgements, or changes in judgements, have been necessary in applying Ind AS 115 to the entity's specific contracts.

Practical expedients

To aid comparison with other entities, the use of any practical expedients used in determining revenue recognition must be disclosed.

There is a practical expedient available in respect of disclosures. Disclosure about amounts allocated to remaining performance obligations is not required if either:

- The performance obligation is part of a contract that has an original expected duration of one year or less (because such information is only relevant when a contract is long-term); or
- revenue is recognised from the satisfaction of the performance obligation as it is invoiced in accordance with the 'right-to-invoice' practical expedient

Transition Decisions

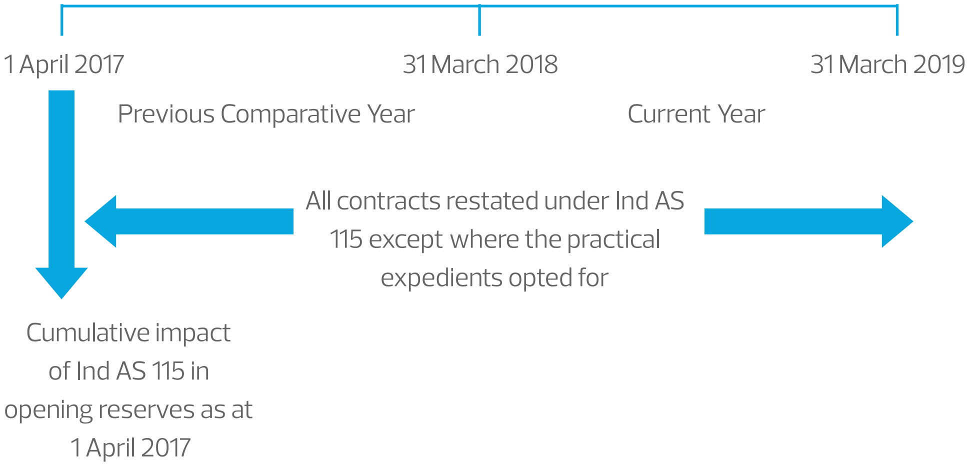
An entity shall apply Ind AS 115 using one of the following two methods:

- retrospectively to each prior reporting period presented in accordance with Ind AS 8, Accounting Policies, Changes in Accounting Estimates and Errors, subject to certain practical expedients ("full retrospective method"); or
- retrospectively with the cumulative effect of initially applying Ind AS 1115 recognised at the date of initial application, subject to certain practical expedients ("cumulative catch-up method").

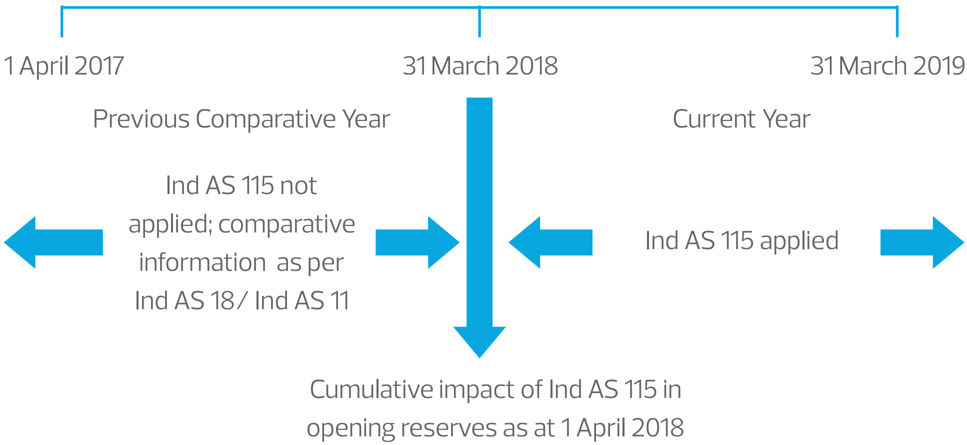
Both methods require retrospective application. Rather than requiring restatement of comparatives, the cumulative catch-up method requires the cumulative effect of initially applying Ind AS 115 to be adjusted against opening reserves at the beginning of the period in which it is first applied (1 April 2018 in case of an entity applying Ind AS 115 in financial year 2018-19), with comparatives left as previously reported under Ind AS 18 or Ind AS 11.

The diagram below summarises the two transition methods available for an entity, applying Ind AS 115 from its mandatory effective date of 1 April 2018.

Full retrospective method



Cumulative catch-up method



Full retrospective method

Full retrospective method has the advantage of comparability between periods presented and so shows the trend in revenue. It may be costly and onerous for some entities but five practical expedients are available which either reduce the number of contracts that need to be restated on transition or simplify the restatement by allowing the use of hindsight.

Practical expedients on transition – full retrospective method

1. No need to restate completed contracts that begin and end within the same annual reporting period. This expedient reduces the number of contracts which have to be restated so significantly reduces the burden when an entity has a lot of short-term contracts but:

    - It may result in a lack of comparability with the current period; and
    - It may also lead to a lack of comparability if interim reporting.

    It must be noted that for the purpose of practical expedients, a completed contract is a contract for which the entity has transferred all of the goods or services identified in accordance with Ind AS 11 and Ind AS 18.

2. No need to restate completed contracts at the beginning of the earliest period presented. This expedient reduces the population of contracts which have to be restated and therefore the level of cost and effort involved.

3. May apply hindsight and use the actual transaction price on completion rather than estimating variable consideration amounts in the comparative reporting periods for completed contracts that have variable consideration. This relief simplifies how contracts are restated.

4. Apply hindsight and recognise the aggregate effect of modifications since contract inception at the beginning of the earliest period presented rather than assessing and accounting for each modification. This expedient is intended to reduce the burden of accounting for multi-year contracts that have been modified many times prior to adopting Ind AS 115.

5. No need to disclose the amount of the transaction price allocated to the remaining performance obligations and an explanation of when the entity expects to recognise that amount as revenue for comparative periods. This is because the effort involved would not result in useful information since it is out of date, and it would require significant use of hindsight to estimate the transaction price and expected timing.

Cumulative catch-up method

The cumulative catch up method may appear to be less costly and onerous but, because the cumulative effect is adjusted against opening reserves and the comparatives remain as reported under Ind AS 18 or Ind AS 11, there will be a lack of comparability. This will need to be explained by additional disclosures and simply being able to elect to use this method could result in a lack of comparability with an entity's peers.

There is also a decision to be made in respect of completed contracts at the date of initial application. These are contracts under which the entity has already fully performed but has not recognised all of the revenue (for example, because it was contingent). Under the cumulative catch-up method, an entity has a choice between:

- Recognising the remaining revenue under Ind AS 18 or Ind AS 11 accounting policies and only applying Ind AS 115 to incomplete and new contracts, or
- Restating completed contracts under Ind AS 115 so that Ind AS 115 is applied to all contracts.

The consequence of electing method 1 is the requirement to maintain two accounting systems, but on the flipside, in practice the number of completed contracts ought not to be an issue for most entities.

Practical expedients on transition – cumulative catch-up method

May use hindsight, and recognise the aggregate effect of modifications at:

- the beginning of the earliest period presented (i.e. not having to wait until initial application); or
- the date of initial application of Ind AS 115.

This expedient is intended to reduce the burden of accounting for multi-year contracts that have been modified many times prior to adopting Ind AS 115.

Key points to consider on transition

- Entities will have to explore the differences between the two transition methods before making a decision, including the disclosures that will be needed for each method.

- Entities would have to consider the use of practical expedients on transition, as these could make the process easier and so influence the decision between the two methods.
- Entities would have to consider how the disclosure objective can best be met. Even if the numbers cannot be populated at this stage, decisions about how revenue should be disaggregated can still be made. It may be helpful to discuss the possibilities with key stakeholders to ensure that their needs and expectations will be met, and will be consistent with existing communications about revenues.
- Transition is an opportunity to take a fresh look, taking the time to fully understand the contractual terms and conditions applying to revenue transactions.
- Entities need to factor in time into the transition process to fully understand the disclosure requirements, which are more extensive than previous Ind AS standards.
- Don't underestimate the challenge the disclosure requirements may present. For example, Ind AS 115 requires disclosure of reconciliation of the amount of revenue recognised in the statement of profit and loss with the contracted price showing separately each of the adjustments made to the contract price, for example, on account of discounts, rebates, refunds, credits, price concessions, incentives, performance bonuses, etc., specifying the nature and amount of each such adjustment separately.
- Information systems may need to be changed to capture the necessary detail for disclosure, or to allocate transaction prices and these will need to be implemented and tested sooner rather than later.

  For example, Ind AS 115 requires disclosure of reconciliation of the amount of revenue recognised in the statement of profit and loss with the contracted price showing separately each of the adjustments made to the contract price, for example, on account of discounts, rebates, refunds, credits, price concessions, incentives, performance bonuses, etc., specifying the nature and amount of each such adjustment separately.

Key Areas of Judgement

Ind AS 115 is a comprehensive and complex standard and entities may find that its detailed guidance conflicts with certain judgements and interpretations made when applying Ind AS 18 or Ind AS 11. Whilst Ind AS 115 is intended to remove inconsistencies and improve comparability, there remains considerable scope for judgement.

Applying the 'portfolio approach'

This is a practical expedient intended to allow Ind AS 115 to be applied at a portfolio level for contracts (or performance obligations) with similar characteristics rather than on a contract-by-contract basis. However, its use is conditional on it being reasonably expected that the effects on the financial statements of applying Ind AS 115 to the portfolio will not differ materially from applying it to the individual contracts (or performance obligations) within that portfolio.

It will therefore be necessary for entities to use their judgement:

- To evaluate what 'similar characteristics' constitute a portfolio (e.g. the impact of different offerings, periods of time, or geographic locations);
- In deciding how large the population should be;
- In assessing when the portfolio approach may be appropriate; and
- In deciding to what stages of the revenue recognition process it applies.

Ind AS 115 does not provide any guidance on how to assess whether the outcome of using the approach is similar to that which would result if the contracts were assessed individually, nor the extent to which it is necessary to go to make that assessment.

As an alternative to using the portfolio approach, it may be easier for some entities to instead use a portfolio of transactions as a source of data to develop estimates to apply to individual contracts.

Identifying the performance obligations

Under Ind AS 115, an entity is required to assess the promises in its contracts to determine whether they are performance obligations. However, it may not always be the case that certain promises are performance obligations, or that they need be assessed to determine whether they are. For example: Do certain promises actually represent a performance obligation or are they simply a fulfillment activity? Are they immaterial? What about pre-production activities?

It may apparently seem that all promises in a contract are performance obligation, however, the concept of assessing promises to determine the performance obligations is not expected to result in many more than would have been identified as deliverables under Ind AS 18.

Activities that an entity must undertake in order to fulfill a contract are not performance obligations unless they transfer a good/service to the customer. For example, both the promise to provide a customer statement on a periodic basis and a promise to provide a hotline to answer customers' questions about a product would be fulfillment activities with respect to a promise to sell a service/good rather than a separate performance obligation in their own right. Furthermore, any benefit these promises provide to the customer is likely to be viewed by the customer as minor and consistently with Ind AS generally, immaterial items/promises need not be considered.

On the other hand, determining whether a pre-production activity is a fulfillment activity or a performance obligation will require more judgement.

Example

A long-term production contract includes some up-front engineering and design.

To assess whether it is an activity to fulfill the production contract or a separate performance obligation in its own right, it may be helpful to apply the criteria for determining when an entity transfers control of a good or service over time. In other words, determine whether the customer is simultaneously obtaining control of something as the entity undertakes the pre-production activities.

In this scenario, if the customer obtained the product from the contract and obtains the IP (patents) from the engineering and design activities, these would be considered as two separate performance obligations.

Accounting for options

Ind AS 115 contains specific guidance which makes it clear that if a contract contains an option for the customer to acquire additional goods/services, then it is only a performance obligation if it provides the customer with a 'material right' that it would not receive without entering into that contract. For example, because the customer receives a discount on future selling prices that is incremental to the range of discounts normally given for those goods or services to that class of customer in that geographical area or market.

If the customer does not receive a material right (e.g. because the customer will have to pay the normal stand-alone selling price at that time) then the entity is simply deemed to have made a marketing offer.

However, when the option does provide a 'material right', the customer is effectively paying for the right as part of the current transaction (i.e. in advance) and so a portion of the transaction price is allocated to the option and recognised when the option is exercised or expires. Ind AS 115.B42 provides guidance on how to make the allocation.

There are two fundamental questions in accounting for such options which Ind AS 115 does not address:

- Firstly, it doesn't define a 'material right' and so entities will need to exercise judgement in deciding what factors to take into account when making such an assessment. Such factors may include rights obtained/expected from past/future transactions with the same customer in addition to those that will be obtained from the current transaction. Both quantitative and qualitative factors should be considered – including whether a right accumulates, as in some loyalty programmes.
- Secondly, it doesn't explain how to account for any consideration received when such an option is exercised. Two possibilities exist:
    - To treat the exercise as a continuation of the contract and add the proceeds from exercise to the price allocated originally to the material right and recognise when the option is exercised; or
    - To treat it as a modification of the original contract.

Applying the 'series' provision

When identifying performance obligations, Ind AS 115 requires a series of goods/services that are substantially the same and have the same pattern of transfer to the customer to be treated as a single performance obligation even if they are distinct. This is intended to simplify the application of the model (e.g. avoid the need to allocate the transaction price to each increment of service or product delivered when they are identical), and to promote consistency in identifying performance obligations. It's important to note that, whilst the series provision does simplify the model, it is a requirement rather than an optional practical expedient.

Whilst Ind AS 115 helpfully specifies the criteria to be met in assessing whether the goods/services have the same pattern of transfer, it doesn't help in determining what a series comprises and therefore when goods/services are substantially the same.

Example

Entity A enters into an outsourcing arrangement with Entity B. To comply with the service level agreement Entity B may need to perform lots of different activities over a period of time and these could differ, day by day, month by month.

In accordance with Ind AS 115.22, Entity B needs to assess the services promised in this arrangement and identify as a performance obligation, each promise to transfer either a service which is distinct or a series of distinct services that are substantially the same.

One way of making this evaluation could be to consider whether the entity's promise is to deliver a specified quantity of a service (service increment) or, because there is no specified quantity, to stand ready for a period of time or deliver a service over a period of time (time increment). However, other considerations may be appropriate and so judgement will be required.

So, if it is considered that the series comprises the individual activities (service increment) then the conclusion may well be that they are not substantially the same because there are so many different types of tasks involved in providing the service.

However, if it is considered that the series comprises distinct time increments, the conclusion is likely to be that each time increment is substantially the same as each other because the customer benefits from each day/month. It doesn't matter that each day/month's activities are different. The nature of the overall promise is to provide a daily/monthly outsourcing service.

Significant financing components

Ind AS 115 requires the transaction price of a contract to be adjusted for the effects of the time value of money if the timing of payments provides either party with a significant financing benefit. Ind AS 115.62 sets out factors which indicate when a contract would not have a significant financing component. It also provides a practical expedient which allows an entity to ignore the effects of a significant financing component if it is expected, at contract inception, that the period between transferring a promised good or service to a customer and the customer paying for it will be one year or less.

However, when there is a benefit that needs to be accounted for Ind AS 115 does not address:

a) Where and how the benefit should be allocated where multiple performance obligations are present in a contract; and

b) Which obligation the practical expedient can be applied to.

For issue a), it is likely that the benefit will be excluded from the transaction price and the net transaction price allocated according to the normal rules. However, it may, instead, be reasonable to attribute the benefit to one or more but not all performance obligations – similar to the guidance on allocating a discount or variable consideration. In respect of issue b), it will be necessary to determine whether the payments are tied to one of the particular goods or services in the contract.

Under Ind AS 115, a significant financing component does not exist in all situations that include progress payments or a difference in timing between payments and transfer of goods and services. In particular, amounts retained by the customer in a long-term arrangement (commonly referred to as retention money) are usually intended to provide the customer with a form of security that the seller will perform as specified under the contract, rather than to provide the customer with a significant financing benefit. This is an important change from Ind AS 18, under which the ICAI's EAC had provided an EAC opinion[8] requiring discounting of retention money balance.

Principal vs. agent considerations

Ind AS 115 states that an entity assesses whether its performance obligation is to provide the 'specified' goods/services (acting as principal) or to arrange for their transfer (acting as agent). It does so by assessing whether it has control of each

8 EAC Opinion Discounting of deferred debts (retention money)finalized by the Committee on 2 September 2016.

specified good/service before it is transferred to the customer. An entity must therefore first appropriately identify the specified good/service.

Ind AS 115 provides guidance to help entities determine whether they are acting as principal or agent when they engage a third party to provide services to the customer. It has also been clarified that an entity considers its role in respect of each distinct good/service (or distinct bundle), rather than at the contract level, so that even in a single contract an entity could be acting as principal for some goods/services and agent for others.

Ind AS 115 sets out indicators of when an entity is acting as principal rather than agent, and explanatory text has been added to each of these to indicate how they reflect the control principle.

Entities should take care to remember the general control principle and consider the nature of the specified goods/ services and contractual conditions when assessing whether they act as principal. The indicators in Ind AS 115 should not be viewed in isolation because, as Ind AS 115 now states, other indicators may exist which are more persuasive than those explicitly stated.

Key Sector-wise Ind AS 115 Impact Analysis

Fast Moving Consumer Goods

Identifying distinct performance obligations

Fast moving consumer goods (FMCG) companies often provide goods or assistance to retailers to help to retail their products to the end- customers. This assistance can take the form of, for example, training the retailer's sales employees, deploying their staff to work on-site at the retailer's location, providing gifts to be included with end-customer purchases, and shop-in-shops at retailer's location or concession areas. Under Ind AS 18, there is currently some diversity in practice in the accounting for such assistance. Under Ind AS 115, these provisions may result in additional performance obligations, which can affect the timing of revenue recognition.

FMCG companies will need to identify the different performance obligations in each agreement. Often retailers offer customers discount schemes under which the customer gets a right to purchase free or discounted goods or services in the future in connection with the current purchase of goods. These schemes would additional performance obligations under Ind AS 115.

Customer options such customer loyalty award credits or other customer incentive or discount schemes may give rise customers options to provide a material right that the customer would not receive without entering into the contract. The company should recognize revenue allocated to the option when the option expires or when the additional goods or services are transferred to the customer.

Gift card breakage revenue

Retailers often use sell gift cards to customers which are typically used by the customers to obtain products or services in the future up to a specified monetary value. The amount of gift certificates that are forfeited is commonly referred to as breakage. Breakage will typically result in the recognition of income for a retailer; however, the timing of recognition depends on expected customer behavior and the legal restrictions in the relevant jurisdiction.

Under Ind AS 115, expected breakage i.e., the customer's unexercised right should be estimated and recognized as revenue in proportion to the pattern of rights exercised by the customer. The variable consideration guidance is followed when estimating breakage. If the company is unable to estimate the breakage amount, revenue for the unused portion of the gift card is recognized when the likelihood of the customer exercising its remaining rights becomes remote. If a company is required to remit consideration associated with a customer's unclaimed rights to a third-party, such as a government body responsible for unclaimed property, the company should not recognize revenue related to unexercised rights.

Customer incentives

FMCGs and retailers commonly offer various customer incentives including rebates, free products, price protection, or price matching programs to their customers. Under Ind AS 115, customer incentives can affect the amount and timing of revenue recognition in many ways. They can create additional performance obligations, which can affect the timing of revenue recognition, and they often introduce variability into the transaction price, which can affect the amount of revenue recognized.

Slotting fees

FMCGs often pay retailers consideration for prominent placement of their products in their retail outlets, referred to as slotting fees. There can also be payments towards promotion events and co-branding advertisements.

Ind AS 115 requires a company to determine the transaction price, which is the amount of consideration it expects to be entitled to in exchange for transferring promised goods or services to a customer. Consideration payable by a company to a customer is accounted for as a reduction of the transaction price unless the payment is for a distinct good or service that the customer transfers to the company and the payment does not exceed fair value of that good or service.

The product placement services cannot be sold separately. Therefore, under Ind AS 115, these services may not qualify as distinct since the manufacturer would not obtain any rights or receive any benefit without selling products to the retailer. Therefore, such consideration paid to the retailer would have to be reduced from the revenue by the FMCG companies.

Timing of revenue recognition

FMCG companies distribute their product to customers using various distribution channels, such as retail point of sale. Under Ind AS 115 revenue should be recognized when control of the goods or services is transferred to the customer. A company transfers a good or service when the customer obtains control of that good or service. A customer obtains control of a good or service if it has the ability to direct the use of and receive the benefit from the good or service.

Customers' right to return

Return rights are commonly granted to the customers in the FMCG industry. Some of these rights may be articulated in contracts with customers or distributors, while others are implied during the sales process, or based on historical business practice.

Under Ind AS 115, a right of return creates variability in the transaction price that an entity needs to estimate. An entity will recognise revenue based on the amount to which it expects to be entitled through to the end of the return period. Therefore, it will not recognise the portion of the revenue subject to the constraint until the amount is no longer constrained, which could be at the end of the return period. The will recognise the amount received or receivable that is expected to be returned as a refund liability, representing its obligation to return the customer's consideration. Ind AS 115 also requires a return asset to be recognised at the time of the initial sale (i.e., when recognition of revenue is deferred due to the anticipated return), if an entity expects to receive the returned product in saleable or repairable condition. This return asset represents an entity's right to recover the goods returned by the customer. Entities must present the return asset separately from both the refund liability (i.e., on a gross basis) and inventory.

Shipment of goods to customers

Often e-commerce companies or online retailers offer shipment services to customers free of cost. At times, for speedy delivery, some e-commerce companies or online retailers charge fees. Under Ind AS 115, entities should assess the explicit shipping terms to determine when control of the goods transfers to the customer and whether the shipping services are a separate performance obligation. Shipping services may be considered a separate performance obligation if control of the goods transfers to the customer before shipment, but the entity has promised to ship the goods (or arrange for the goods to be shipped). If control of a good does not transfer to the customer before shipment, shipping is not a separate promised service to the customer, but a fulfillment activity. Also, entities would need to assess whether the entity is the principal or an agent for the shipping service.

Pharmaceuticals and life science

Identifying distinct performance obligations

Many Indian pharmaceutical companies enter in to out licensing agreements for the purpose of selling their products overseas. Generally there are two deliverables – sale of product dossier based on which the customer gets 'market authorisation' and commitment to supply the products for sale in that specific country. Such arrangements take various structures and variations.

Certain companies in the pharmaceutical and life sciences industry provide multiple products or services to their customers as part of a single arrangement. For example, medical device manufacturers often transfer equipment with consumables and also perform installation, training, or other maintenance services. Clinical research companies offer a broad range of services that enable a customer to outsource parts or all of its clinical trial process.

Under Ind AS 115, these provisions may result in additional performance obligations, which can affect the timing of revenue recognition. Companies will need to determine whether the nature of the promise, within the context of the contract, is to transfer each of those goods or services individually or, instead, to transfer a combined item to which the promised goods or services are inputs.

Estimated sales returns

One of the prevalent trade practices in the Indian pharmaceutical industry is for the drug manufacturers to accept from the distributors and retailers the returns of products whose shelf lives have either expired or are nearing expiry.

Under Ind AS 115, a right of return creates variability in the transaction price that a life sciences entity needs to estimate. A life sciences entity will recognise revenue based on the amount to which it expects to be entitled through to the end of the return period. Therefore, it will not recognise the portion of the revenue subject to the constraint until the amount is no longer constrained, which could be at the end of the return period. The entity will recognise the amount received or receivable that is expected to be returned as a refund liability, representing its obligation to return the customer's consideration. Ind AS 115 also requires a return asset to be recognised at the time of the initial sale (i.e., when recognition of revenue is deferred due to the anticipated return), if an entity expects to receive the returned product in saleable or repairable condition. This return asset represents an entity's right to recover the goods returned by the customer. Entities must present the return asset (if recognised) separately from both the refund liability (i.e., on a gross basis) and inventory.

Collaboration arrangements

Pharmaceutical and biotechnology companies frequently enter into strategic collaborations and licensing arrangements. Ind AS 115 require companies to assess whether the counterparty to the arrangement is (1) a customer or (2) a collaborator or partner sharing in the risks and benefits of the arrangement. An arrangement in which two parties share equally in the co-development of a drug compound, and then share equally in future profits earned on the commercialized drug, may be outside of the scope of Ind AS 115.

Technology and Information Technology

Contract modifications

A common feature of software industry is to have changes in the contracts' scope or price. For example, a software company may initially license software and provide implementation support to a customer. Subsequently, based on the revised needs of the customer, the contract may involve additional software licences. Ind AS 115 requires an entity to determine whether a contract has been modified, consider following factors:

- the terms and conditions of the new contract were negotiated separately from the original contract,
- the additional goods or services were subject to a competitive bid process, and
- any discount to the standalone selling price of the additional goods or services is attributable to the original contract.

Modifications are accounted for as either a separate contract or as part of the existing contract, either prospectively or through a cumulative catch-up adjustment.

Identifying distinct performance obligations

Customer arrangements may typically comprise of: multiple goods and services, licenses, unspecified or specified future updates or upgrades/enhancements; specified or unspecified additional software products; post-contract support; installation and services. Similarly, consulting services often involve implementation support, data conversion, software design or development, and customization of the licensed software.

The performance obligation in a contract with a customer may be explicitly stated in the arrangement or implied by the software vendor's customary business practices. Ind AS 115 requires companies to consider whether the customer has a valid expectation that the vendor will provide a good or service when it is not explicitly stated. If the customer has a valid expectation, the customer would view those promises as part of the goods or services in the contract.

Customer options

Many cloud computing entities enter into multi-year contracts with customers to provide cloud services. The contract often includes a cancellation option that allows the customer to unilaterally cancel the contract after each year for any reason without penalty. Under Ind AS 115, the contract may have to be treated as an annual contract with the customer having a renewal option. The entity should assess whether the renewal option provides a material right to the customer. The renewal option could provide a material right if prices for similar customers are expected to increase significantly over the contracted period.

Automotive and ancillary companies

Collaborative arrangements

Some original equipment manufacturers (OEMs) collaborate with automotive component suppliers to design and produce auto-components specific to certain models. Under Ind AS 115, entities will need to exercise judgement to determine whether such arrangements are collaborative arrangements and scoped out of the standard. This may be true, for example, if the risks of the development are shared jointly by the OEMs and the auto component company.

Distinct performance obligations

Often OEMs sell vehicles to dealers with a promotion of free maintenance on each vehicle to assist the dealer with selling the vehicles to the end customer. Under Ind AS 115, the transaction with the dealer may qualify as a sale because control of the vehicle transfers to the dealer when the vehicle is delivered. Free maintenance included as part of contracts for sales to dealers is a performance obligation and a portion of the total transaction price should be allocated to it.

Tooling arrangements

Auto component suppliers often enter into contracts with OEMs to construct a tool for the OEM and supply the OEM parts using the tool. The title of the tool may be with the OEM, and the supplier may recover its cost over the tenure of component supply arrangement. Under Ind AS 115, the supplier would be required to assess whether the construction of the tool constitutes a distinct performance obligation. The tool may be distinct if the customer i.e., the OEM can benefit from the tool either on its own or together with other resources readily available, and the tool is separable from the production parts.

Telecommunication

Sales through dealer network

Telecommunication companies often use dealer channels and online retailers to sell service contracts to customers. Under Ind AS 115, a telecommunication company needs to carefully evaluate all the facts and circumstances of a dealer arrangement to determine the appropriate accounting.

The terms and conditions of arrangements with dealers vary throughout the industry. Dealers may purchase handsets from the manufacturer. The dealers may then sell the handsets to the end-customer, who concurrently enters into a contract for a monthly service plan with the telecommunication company. Telecommunication companies will need to determine whether payments made to a dealer represent a commission on the sale of the service contract i.e., costs to obtain a contract, or a handset discount (i.e., consideration paid or payable to a customer.

Also, Ind AS 115 would change practice for some entities that sell their products through dealers. Since the sales price of the handset to the dealer may not be finalised until the handset is sold to the end-customer, under Ind AS 18, entities may have to wait until the product is sold to the end-customer to recognize revenue. Under Ind AS 115, entities are required to estimate any adjustments to the sales price that may be granted to the dealer, as well as the number of handsets that will be returned from the dealer as part of estimating the transaction price.

Set-top boxes

Telecommunication entities provide their customers with set-top boxes as part of providing cable services to the customer. Under Ind AS 115, entities will have to determine if the set-top box is a revenue element or a leasing element. If the customer does not have the right to control the use of an identified set-top box, the arrangement would not be a lease. This determination may need judgement and assessment of all the factors in the contract.

Options for additional goods or services

Many telecommunication contracts provide the customers options to purchase additional services such as newly released movies, additional TV channels or international data plans, etc. These additional services may be priced at their stand-alone selling price, at a discount or may be provided free of charge.

Ind AS 115 states that when an entity grants a customer the option to acquire additional goods or services, that option is a separate performance obligation if it provides a material right to the customer. For example, the right would be material if it results in a discount that the customer would not receive without entering into the contract (e.g., one that exceeds the range of discounts typically given for those goods or services to that class of customer in that geographical area or market). If the price in the option reflects the stand-alone selling price, the entity is deemed to have made a marketing offer, rather than having granted a material right.

Engineering and construction

Contract Modification

Contract modifications or change orders are common in engineering and construction industry. Under Ind AS 115 these are accounted for as either a separate contract or as part of the existing contract, depending on whether: the modification adds distinct goods or services; and the distinct goods or services are priced at their standalone selling prices.

A contract modification is accounted for as a separate contract when the additional goods and services are distinct and the contract price increases by an amount that reflects the standalone selling price of the additional goods or services. When the additional goods or services are distinct but not at standalone selling price, the modification is accounted for prospectively. If the additional goods or services are not distinct, the modification is accounted for through a cumulative catch-up adjustment.

Variable consideration

The transaction price i.e. the contract revenue is the consideration the entity expects to be entitled to in exchange for satisfying its performance obligations. Determination of variable consideration in a contract can be complex under Ind AS 115. Engineering contracts may have awards or incentive payments, penalties resulting in possible decreases in contract revenue, change orders or variations, claims and liquidated damages. When it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur in the future, revenue related to variable consideration should be included in the transaction price.

Retention money

Engineering contractors often enter into contracts that include progress payments based on various contractual milestones. The performance obligation in such contracts may be satisfied over time under Ind AS 115 i.e. revenue is recognized based on percentage of completion. The contracts often specify that the customer would retain a specified percentage (generally 5-10%) of each milestone payment with the retention due to the contractor after a certain number of months post completion of construction.

A question that generally engineering sector have been grappling with under Ind AS 18 or Ind AS 11 is whether such retention constitute significant financing component and if so, how to determine revenue.

Under Ind AS 115, the entity may conclude that the contract does not include a significant financing component if the milestone payments are estimated to coincide with the provision of goods and services and consequently, the amount of revenue to be recognized. With respect to the retention money, the entity may conclude that the delayed payment terms are for reasons other than to provide financing to the customer—that is, the retention is intended to provide the customer with some security against the contractor failing to adequately complete some or all of its obligations under the contract. In such cases, Ind AS 115 does not require discounting of the transaction value.

Set-up and mobilization costs

Set-up and mobilization costs are typically incurred at the initial stage of a contract to enable the engineering / construction entity to fulfill its obligations under the contract. These costs may include labor, overhead, or other specific costs. Costs meeting the definition of assets under other Ind AS standards, such as property, plant, and equipment are covered in those standards. Costs not addressed by other standards are assessed under Ind AS 115. Mobilization costs include set-up cost incurred to move equipment or resources to prepare to provide the future engineering or construction services, including transportation and other expenses incurred prior to commencement of a service. Entities should consider whether the costs are costs to fulfill a contract that qualify for capitalization as an asset under Ind AS 115.

Uninstalled materials at customers' site

Engineering entities generally apply an input method for revenue recognition under percentage of completion basis. Costs related to wasted materials or other significant inefficiencies are excluded for the purpose of percentage of completion revenue recognition method. When uninstalled materials meet the criteria prescribed in Ind AS 115, the entity is required to recognise revenue in an amount equal to the cost of the goods (i.e., at nil margin) and adjust its measure of progress to exclude the costs from the costs incurred and from the transaction price (i.e., from both the numerator and the denominator of its percentage complete calculation).

Media and entertainment

Non cash consideration

Media companies often enter into contracts with advertisers, particularly start-up companies, to provide advertisement in exchange of non-cash considerations such as, equity shares, share warrants or share options. Under Ind AS 115, when an entity, i.e. a media company, receives, or expects to receive, non-cash consideration, the fair value of the non-cash consideration is included in the transaction price. For contracts with both non-cash consideration and cash consideration, an entity will need to measure the fair value of the non-cash consideration and it will look to other requirements within Ind AS 115 to account for the cash consideration. However, Ind AS 115 does not specify the measurement date for the purpose of the fair value measurement of the non-cash consideration. Therefore, an entity will need to use its judgement to determine the most appropriate measurement date when measuring the fair value of non-cash consideration.

Principal vs. agent assessment

Media sector constitutes of a wide range of services in areas such as books, newspapers, magazines, music, film, television, internet, online and more. Often the content owned by a company requires a third party distribution medium to reach the ultimate target consumers.

Such arrangements between the content owner, distributor and consumer would require the media company to assess whether it is acting as an accounting agent or principal. Ind AS 115 sets out a two-step process that an entity would apply in determining if it is a principal or agent in a contract with a customer:

a. identify the specified goods or services to be provided to the customer (which, for example, could be a right to a good or service to be provided by another party); and

b. assess whether it controls each specified good or service before that good or service is transferred to the customer.

Identifying and understanding a company's promise (i.e. its performance obligation), and determining if the company controls these goods or services before their transfer to the customer, is fundamental to determining if the company is the principal or an agent. Media arrangements have been getting complex due to digital transformation and an ever-increasing variety of content formats and digital distribution routes.

Real estate and construction

Percentage of completion method

One of the major Ind AS issues in the sector is around revenue recognition for real estate development. In fact, one of the carve outs from IFRS is on account of non-inclusion of the equivalent of an IFRS interpretation, IFRIC 15 – Agreements for the Construction of Real Estate, under Ind AS. Instead, there is guidance note issued by the ICAI for real estate sales that is to be applied. As per the Ind AS GN, revenue is recognized generally by applying the percentage of completion method on the basis of the methodology explained in Ind AS 11 Construction Contracts.

Under Ind AS 115, an entity transfers control of a good or service over time (rather than at a point in time) when any of the following criteria are met:

- The customer simultaneously receives and consumes the benefits provided by the entity's performance as the entity performs.
- The entity's performance creates or enhances an asset (e.g., work in progress) that the customer controls as the asset is created or enhanced.
- The entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance

completed to date.

If an entity is unable to demonstrate that control transfers over time, the presumption is that control transfers at a point in time.

Barters and joint development agreement

Real estate companies in India often enter into redevelopment agreements with residential flat owners/societies for the demolition and reconstruction of existing building. The developer gets the development rights which are acquired by way of construction of built-up area. Real estate companies also enter into various types of joint development agreements (JDAs) with land owners for permission to construct buildings in return for ownership of a part of the building. In practice such agreements are structured in different ways, often to optimize the tax impact or to facilitate fund-raising. Under Ind AS 115, identifying who is the customer, in such arrangements would be a matter of management judgement.

Distinct performance obligations

Real estate developers often provide add-on incentives to buyers in addition to the construction/ development of real estate — e.g., property management services, decorative interior fittings, etc.

Ind AS 115 identifies several activities common to the real estate developers that can be considered as promised goods and services, including the construction, manufacture or development of an asset on behalf of a customer and the performance of a contractually agreed-upon task for a customer (e.g., maintenance services). Under Ind AS 115, determining whether a promised good or service (or a bundle of goods and services) is distinct involves

- Assessment at the level of the individual good or service (i.e., the good or service is capable of being distinct)
- Assessment of whether the good or service is separately identifiable from other promises in the contract (i.e., the good or service is distinct within the context of the contract).

Gems & Jewelry

Customers' right to return

At times, jewelry companies provide their customers with a right of returns. These rights may be explicit in the agreement or implied based on historical business practice.

Under Ind AS 115, a right of return creates variability in the transaction price that the entity needs to estimate. An entity recognises revenue based on the amount to which it expects to be entitled through to the end of the return period. Therefore, it will not recognise the portion of the revenue subject to the constraint until the amount is no longer constrained, which could be at the end of the return period. The entity will recognise the amount received or receivable that is expected to be returned as a refund liability, representing its obligation to return the customer's consideration. Ind AS 115 also requires return of asset to be recognised at the time of the initial sale (i.e., when recognition of revenue is deferred due to the anticipated return), if an entity expects to receive the returned product in saleable or repairable condition. This return asset represents an entity's right to recover the goods returned by the customer. Entities must present the return asset separately from both the refund liability (i.e., on a gross basis) and inventory.

Customer incentives

Jewelry companies commonly offer various customer incentives including rebates, making charges free and price protection, to their customers. Under Ind AS 115, customer incentives can affect the amount and timing of revenue recognition in many ways. They can create additional performance obligations, which can affect the timing of revenue recognition, and they often introduce variability into the transaction price, which can affect the amount of revenue recognized.

Non cash consideration

Jewelry companies may partly exchange new ornaments for old ornaments of the customers. Under Ind AS 115, when an entity, receives, or expects to receive, non-cash consideration, the fair value of the non-cash consideration is included in the transaction price. For contracts with both non-cash consideration and cash consideration, an entity will need to measure the fair value of the non-cash consideration and it will look to other requirements within Ind AS 115 to account for the cash consideration. Ind AS 115 does not specify the measurement date for the purpose of the fair value measurement of the non-cash consideration. Therefore, an entity will need to use its judgement to determine the most appropriate measurement date when measuring the fair value of non-cash consideration.

Key Difference with Indian GAAP and Ind AS

In this section we take a look at key high-level differences between the revenue standards under Indian GAAP (accounting standards notified under Companies (Accounting Standards) Rules,2006), existing Ind AS standards (Ind AS 18 Revenue and Ind AS 11 Construction Contracts) and Ind AS 115.

1. Applicable Standards and Appendices

Indian GAAP	Ind AS 18/Ind AS 11	Ind AS 115
AS 7 Construction Contracts AS 9 Revenue Recognition Guidance Note for Accounting for Real Estate Transactions	Ind AS 11 Construction Contracts Appendix A to Ind AS 11- Service Concession Arrangements Appendix B to Ind AS 11- Service Concession Arrangements: Disclosures Ind AS 18 Revenue Appendix A to Ind AS 18- Barter Transactions Involving Advertising Sales Appendix B to Ind AS 18- Customer Loyalty Programmes Appendix C to Ind AS 18- Transfer of Assets from Customers Guidance Note for Accounting for Real Estate Transactions (for Ind AS companies)	Ind AS 115 Revenue from Contracts with Customers Appendix D to Ind AS 115 – Service Concession Arrangements Appendix E to Ind AS 115 – Service Concession Arrangements: Disclosures

2. Revenue recognition

Indian GAAP	Ind AS 18/Ind AS 11	Ind AS 115
AS 9 requires recognition of revenue when (i) there is transfer of significant risks and rewards of ownership (ii) no significant uncertainty exists regarding the amount of consideration and (iii) at the time of performance, it is not unreasonable to expect ultimate collection. Revenue from sale of goods is recognized when seller has transferred the property in the goods to the buyer for a consideration, which generally, would coincide with the transfer of significant risks and rewards of ownership. Revenue from service transaction is usually recognized as the services are performed either by the proportionate completion method or by the completed service contract method.	Revenue from the sale of goods shall be recognised when all the following conditions have been satisfied: (a) the entity has transferred to the buyer the significant risks and rewards of ownership of the goods; (b) the entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold; (c) the amount of revenue can be measured reliably; (d) it is probable that the economic benefits associated with the transaction will flow to the entity; and (e) the costs incurred or to be incurred in respect of the transaction can be measured reliably. The assessment of when an entity has transferred the significant risks and rewards of ownership to the buyer requires an examination of	The core principle under Ind AS 115 is that the entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the considerations to which the entity is expected to be entitled in exchange for those goods or services. To achieve that core principles, the following steps are applied: 1) Identify the contracts with a customer 2) Identify the performance obligations in the contract 3) Determine the transaction price 4) Allocate the transaction price to the performance obligation in the contract 5) Recognize revenue when the entity satisfies a performance obligation Under Ind AS 115, an entity recognizes revenue if performance obligation is

Indian GAAP	Ind AS 18/Ind AS 11	Ind AS 115
	the circumstances of the transaction. In most cases, the transfer of the risks and rewards of ownership coincides with the transfer of the legal title or the passing of possession to the buyer. This is the case for most retail sales. In other cases, the transfer of risks and rewards of ownership occurs at a different time from the transfer of legal title or the passing of possession.	satisfied over time (i.e. using percentage of completion method) if certain criteria are met. If the prescribed criteria are not met, the entity is required to recognize revenue at a point in time at which it transfers control of the goods or service to the customer. An entity should consider indicators for assessing the transfer of control, including (a) the entity has a present right to payment for the asset (b) the customer has legal title to the asset (c) the entity has transferred physical possession of the asset (d) the customer has the significant risks and rewards of ownership of the asset (e) the customer has accepted the asset

3. Contract combination

Indian GAAP	Ind AS 18/Ind AS 11	Ind AS 115
Under AS 7, a group of contracts, either with a single customer or with a group of customers are treated as a single construction contract	Ind AS 11 also contains a guidance that is similar to AS 7 for combining contracts.	Ind AS 115 provides guidance for combining the contracts entered into, at or around the same time with the same customer (negotiated as a

Indian GAAP	Ind AS 18/Ind AS 11	Ind AS 115
when these are negotiated together, contracts are closely interrelated and contracts are performed concurrently or in a continuous sequence.		package, consideration to be paid in one contract depends on the price and performance of the other contract, the goods and services promised in a contract are a single performance obligation).

4. Contract modification

Indian GAAP	Ind AS 18/Ind AS 11	Ind AS 115
Under AS 7, construction of additional asset is treated as a separate contract if the assets differs significantly in design, technology, or function, or the price of the asset is negotiated without regard to the original contract price. Variation and claims are part of the original contract revenue, unless the above treatment of construction of the additional asset as a separate contract applies. Claims, variations are included in contract revenue only when the probability of customer accepting/approving the claim or variation is established and the	Ind AS 11 also contains a guidance that is similar to AS 7 for contract modification.	A change to an existing contract is a modification. A contract modification could change the scope of the contract, the price of the contract, or both. A contract modification exists when the parties to the contract approve the modification either in writing, orally, or based on the parties' customary business practices. Contract modifications are accounted for as either a separate contract or as part of the existing contract depending on: the nature of the modification; whether the modification affects transaction price; whether the modification adds distinct goods or services and whether the contract price increases

Indian GAAP	Ind AS 18/Ind AS 11	Ind AS 115
amount of revenue can be reliably measured.		reflects the stand alone selling price of the additional distinct goods or services.

5. Allocation of transaction price

Indian GAAP	Ind AS 18/Ind AS 11	Ind AS 115
AS 9 does not require revenue contracts to be separately allocated to different elements.	Ind AS 18 requires the recognition criteria to be applied to the separately identifiable components of a single transaction in order to reflect the substance of the transaction. However, there is no specific guidance on how to allocate the transaction price. Two methodologies are followed: relative fair value and residual method.	Transaction price is to be allocated to each separate performance obligation in proportion to stand alone selling prices, with certain limited exceptions. The standard contains specific guidance for allocation of discount and variable consideration.

6. Variable consideration

Indian GAAP	Ind AS 18/Ind AS 11	Ind AS 115
AS 7 requires incentive payments to be included in the contract revenue when the contract is sufficiently advanced that is probable that the specified performance standards will be met or exceeded and the amount of the incentive payments can be measured reliably.	Revenue is recognised only when it is probable that the economic benefits associated with the transaction will flow to the entity. In some cases, this may not be probable until the consideration is received or until an uncertainty is removed. When the permission is granted, the uncertainty is	Under Ind AS 115, the objective of determining the transaction price is to predict the amount of consideration to which the entity will be entitled, including amounts that are variable. The entity determines the total transaction price, including an estimate of any variable consideration, at contract

Indian GAAP	Ind AS 18/Ind AS 11	Ind AS 115
	removed and revenue is recognised. However, when an uncertainty arises about the collectability of an amount already included in revenue, the uncollectible amount or the amount in respect of which recovery has ceased to be probable is recognised as an expense, rather than as an adjustment of the amount of revenue originally recognised.	inception and reassesses this estimate at each reporting date. The entity should use all reasonably available information to make its estimate. An entity shall estimate an amount of variable consideration by using either of the expected value method (sum of probability-weighted amounts in a range of possible consideration amounts) or the most likely amount (the most likely amount is the single most likely amount in a range of possible consideration amounts), depending on which method the entity expects to better predict the amount of consideration to which it will be entitled. An entity shall include in the transaction price some or all of an amount of variable consideration only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

7. Time value of money

Indian GAAP	Ind AS 18/Ind AS 11	Ind AS 115
Revenue is generally not adjusted for the time value of money.	Revenue shall be measured at the fair value of the consideration received or receivable. When the inflow of cash or cash equivalents is deferred, the fair value of the consideration may be less than the nominal amount of cash received or receivable. For example, an entity may provide interest-free credit to the buyer or accept a note receivable bearing a below-market interest rate from the buyer as consideration for the sale of goods. When the arrangement effectively constitutes a financing transaction, the fair value of the consideration is determined by discounting all future receipts using an imputed rate of interest.	In determining the transaction price, an entity shall adjust the promised amount of consideration for the effects of the time value of money if the timing of payments agreed to by the parties to the contract (either explicitly or implicitly) provides the customer or the entity with a significant benefit of financing the transfer of goods or services to the customer. In those circumstances, the contract contains a significant financing component. A significant financing component may exist regardless of whether the promise of financing is explicitly stated in the contract or implied by the payment terms agreed to by the parties to the contract.

8. Contract costs

Indian GAAP	Ind AS 18/Ind AS 11	Ind AS 115
Capitalisation of contract cost not permitted.	Capitalisation of contract cost is generally not permitted. Under Ind AS 11, costs attributable to a contract for the period from	Ind AS 115 contains criteria for determining when to capitalize costs associated with obtaining and fulfilling a contract. Entities are

Indian GAAP	Ind AS 18/Ind AS 11	Ind AS 115
	the date of securing the contract to the final completion of the contract are included in contract costs. Costs that relate directly to a contract and are incurred in securing the contract are also included as part of the contract costs if they can be separately identified and measured reliably and it is probable that the contract will be obtained.	required to capitalize recoverable incremental costs of obtaining a contract (for e.g. variable sales commission). Such costs capitalised would be amortised in a manner consistent with the pattern of transfer of the goods or services to which the asset is related. Capitalised costs are subjected to impairment testing if any impairment indicators exist.

9. Disclosures

Indian GAAP	Ind AS 18/Ind AS 11	Ind AS 115
Indian GAAP contains limited disclosure requirement.	Ind AS 18 and Ind AS 11 contain limited disclosure requirement.	Ind AS 115 contains extensive disclosure requirement. The standard requires the disclosure of quantitative and qualitative information about: the nature of the entity's revenues; how much is recognised and when; and any uncertainties about those revenues and related cash flows. Key disclosure requirements include disaggregation of revenue, significant judgements and reconciliation of revenue.

5.0 OTHER IND AS AMENDMENTS EFFECTIVE FROM FYE 2018–19

Chapter 5 Other Ind As Amendments Effective From FYE 2018-19

On 29 March, 2018, the MCA issued Companies (Indian Accounting Standards) Amendment Rules, 2018 which amended the Ind AS standards and issued new Ind AS standards. These amendments and new standards are effective from financial year beginning from 1 April 2018.

The new/ revised Ind AS standard/ appendices are as follows:

- Ind AS 115 Revenue from Contracts with Customers including consequential amendments to other Ind AS standards
- Appendix B, Foreign Currency Transactions and Advance Consideration to Ind AS 21 The Effects of Changes in Foreign Exchange Rates
- Amendments to following standards
  - Ind AS 112 – Disclosure of Interests in Other Entities
  - Ind AS 28 – Investments in Associates and Joint Ventures
  - Ind AS 40 – Investment Properties
  - Ind AS 12 – Income Taxes

This chapter deals with all the amendments other than Ind AS 115, which has been dealt with in Chapter XX.

Appendix B, *Foreign Currency Transactions and Advance Consideration* to Ind AS 21 *The Effects of Changes in Foreign Exchange Rates*

Ind AS 21 requires an entity to record a foreign currency transaction, on initial recognition in its functional currency, by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency (the exchange rate) at the date of the transaction. Although IAS 21 sets out these requirements, there is diversity in practice in circumstances in which an entity recognises a non-monetary liability arising from advance consideration.

When an entity pays or receives consideration in advance in a foreign currency, it generally recognises a non-monetary asset or non-monetary liability before the recognition of the related asset, expense or income. The related asset, expense or income (or part of it) is the amount recognised applying relevant Standards, which results in the derecognition of the non-monetary asset or non-monetary liability arising from the advance consideration. The interpretation issue is how to determine 'the date of the transaction' applying Ind AS 21 when recognising revenue. The question is particularly when an entity recognises a non-monetary liability arising from the receipt of advance consideration before it recognises the related revenue.

The issue is not restricted to just revenue transactions. For example, the same issue arises for transactions such as a sale of property, plant and equipment or the purchase of services when consideration is denominated in a foreign currency and is paid or received in advance.

Appendix B clarifies the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income when an entity has received or paid advance consideration in a foreign currency.

Requirement of Appendix B to Ind AS 21

Appendix B clarifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

If there are multiple payments or receipts in advance, the entity shall determine a date of the transaction for each payment or receipt of advance consideration.

Transition provision

An entity shall apply Appendix B for financial periods beginning on or after 1 April 2018.

On initial application (i.e. 1 April 2018), an entity shall apply this Appendix either:

(a) retrospectively applying Ind AS 8, Accounting Policies, Changes in Accounting Estimates and Errors;

Or

(b) prospectively to all assets, expenses and income in the scope of the Appendix initially recognised on or after:

  (i) the beginning of the reporting period in which the entity first applies the Appendix (1 April 2018); or

(ii) the beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the Appendix (1 April 2017).

An entity that applies Appendix B prospectively shall, on initial application, apply the appendix to assets, expenses and income initially recognised on or after the beginning of the reporting period in paragraph (b)(i) or (ii) above for which the entity has recognised non-monetary assets or non-monetary liabilities arising from advance consideration before that date.

Amendments in Other Ind AS Standards

Amended standard	Summary of the Amendment
Ind AS 112 Disclosure of Interests in Other Entities	The amendment clarifies the scope of Ind AS 112 by specifying that the disclosure requirements in the standard, apply to an entity's interests listed in paragraph 5 (subsidiaries, joint arrangements, associates and unconsolidated structured entities) that are classified as held for sale, as held for distribution or as discontinued operations in accordance with Ind AS 105 Non-current Assets Held for Sale and Discontinued Operations. The exception to this is the disclosures under paragraphs B10–B16 of Ind AS 112, which are anyways already required under Ind AS 105.
Ind AS 28 Investments in Associates and Joint Ventures	The amendment clarifies that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is a venture capital organisation, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.
Ind AS 40 Investment Properties	The amendment deals with transfers to, or from, investment properties, particularly, whether a property under construction or development that was previously classified as inventory could be transferred to investment property when there was an evident change in use. The amendment states that an entity shall transfer a

Amended standard	Summary of the Amendment
	property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A mere change in management's intentions for the use of a property by itself does not constitute evidence of a change in use.
Ind AS 12 Income Taxes	The amendments clarify the following aspects: – Unrealised losses on debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference regardless of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use. – The carrying amount of an asset does not limit the estimation of probable future taxable profits. – Estimates for future taxable profits exclude tax deductions resulting from the reversal of deductible temporary differences. – An entity assesses a deferred tax asset in combination with other deferred tax assets. Where tax law restricts the utilisation of tax losses, an entity would assess a deferred tax asset in combination with other deferred tax assets of the same type.

An entity shall apply these amendments for financial periods beginning on or after 1 April 2018.

6.0 MINIMUM ALTERNATE TAX FOR IND AS COMPLIANT COMPANIES

Chapter 6 Minimum Alternate Tax for Ind AS Compliant Companies

Minimum Alternate Tax ('MAT') was effectively introduced in India by the Finance Act of 1987 to facilitate alternative tax mechanism for companies not paying taxes under normal provisions despite showing substantial profits in their books of accounts. MAT was thus introduced to levy minimum tax on such companies by deeming certain percentage of their book profits, computed under the Companies Act, as taxable income under the aforesaid Chapter.

Section 115JB of the Income-tax Act ('IT Act') provides that in case of an assessee, being a company, the income-tax payable on the total income as computed under this Act is less than 18.5% of its book profit, such book profit shall be deemed to be the total income of the assessee and the tax payable by the assessee on such total income shall be the amount of income-tax at the rate of 18.5%. Section 115JB(2) provides that every assessee being a company, for the purpose of this section, prepare its profit and loss account for the relevant previous year in accordance with the provisions of Part II of Schedule VI of the Companies Act, 1956 (1 of 1956).

Considering that the book profit based on Ind AS compliant financial statement is likely to be different from the book profit based on existing Indian GAAP, the Central Board of Direct Taxes (CBDT) constituted a committee in June 2015 for suggesting the framework for computation of MAT liability under section 115JB for Ind AS compliant companies in the year of adoption and thereafter. After taking into account all the suggestions / comments received, the Committee submitted its final report on 22 December 2016. Based on the Committee report, section 115JB was amended vide Finance Act, 2017 to deal with the computation of book profit for Ind AS compliant companies.

The key features of the framework for computation of book profit for Ind AS compliant companies in the year of adoption and thereafter are as under.

i. MAT on Ind AS compliant financial statement

1. No further adjustments to the net profits before other comprehensive income of Ind AS compliant companies, other than those already specified under section 115JB of the Act shall be made.

2. The other comprehensive income includes certain items that will permanently be recorded in reserves and hence never be reclassified to the statement of profit and loss included in the computation of book profits. These items shall be included in book profits for MAT purposes at the point of time as specified below:

Sr. No.	Items	Point of time
1	Changes in revaluation surplus of Property, Plant or Equipment (PPE) and Intangible assets (Ind AS 16 and Ind AS 38)	To be included in book profits at the time of realisation / disposal / retirement or otherwise transferred
2	Gains and losses from investments in equity instruments designated at fair value through other comprehensive income (Ind AS 109)	To be included in book profits at the time of realisation / disposal / retirement or otherwise transferred
3	Re-measurement of defined benefit plans (Ind AS 19)	To be included in book profits every year as the re-measurement gains and losses arise
4	Any other item	To be included in book profits every year as the gains and losses arise.

3. Appendix A of Ind AS 10 provides that any distribution of non-cash assets to shareholders (for example, in a demerger) shall be accounted for at fair value. The difference between the carrying value of the assets and the fair value is recorded in the profit and loss account. Correspondingly, the reserves are debited at fair value to record the distribution as a 'deemed divided' to the shareholders. As there is a corresponding adjustment in retained earnings, this difference arising on demerger shall be excluded from the book profits. However, in the case of a resulting company, where the property and liabilities of the undertaking or undertakings being received by it are recorded at values different from values appearing in

the books of account of the demerged company immediately before the demerger, any change in such value shall be ignored for the purpose of computing book profits of the resulting company.

ii. MAT on first time adoption

1. The adjustments arising on account of transition to Ind AS from existing Indian GAAP is required to be recorded directly in Other Equity at the date of transition to Ind AS. Several of these items would subsequently never be reclassified to the statement of profit and loss / included in the computation of book profits. Accordingly, the following treatment is to be provided.

   A. Those adjustments recorded in other comprehensive income and which would subsequently be reclassified to the profit and loss, shall be included in book profits in the year in which these are reclassified to the profit and loss.

   B. Those adjustments recorded in other comprehensive income and which would never be reclassified to the profit and loss shall be included in book profits as specified hereunder:

Sr. No.	Items	Point of time
1	Changes in revaluation surplus PPE and Intangible assets (Ind AS 16 and Ind AS 38)	To be included in book profits at the time of realisation / disposal / retirement or otherwise transferred
2	Gains and losses from investments in equity instruments designated at fair value through other comprehensive income (Ind AS 109)	To be included in book profits at the time of realisation / disposal / retirement or otherwise transferred
3	Remeasurement of defined benefit plans (Ind AS 19)	To be included in book profits equally over a period of 5 years starting from the year of first time adoption of Ind AS

Sr. No.	Items	Point of time
4	Any other item	To be included in book profits equally over a period of 5 years starting from the year of first time adoption of Ind AS

C. All other adjustments recorded in Reserves and Surplus (excluding Capital Reserve and Securities Premium Reserve) as referred to in Division II of Schedule III of Companies Act, 2013 and which would otherwise never subsequently be reclassified to the profit and loss account, shall be included in the book profits, equally over a period of 5 years starting from the year of first time adoption of Ind AS subject to the following –

(a) PPE and intangible assets at fair value as deemed cost

An entity may use fair value in its opening Ind AS Balance Sheet as deemed cost for an item of PPE or and intangible asset as mentioned in paragraphs D5 and D7 of Ind AS 101. In such cases the treatment shall be as under –

- The existing provisions for computation of book profits under section 115JB of the Act provide that in case of revaluation of assets, any impact on account of such revaluation shall be ignored for the purposes of computation of book profits. Further, the adjustments in retained earnings on first time adoption with respect to items of PPE and intangible asset shall be ignored for the purposes of computation of book profits.
- Depreciation shall be computed ignoring the amount of aforesaid retained earnings adjustment.
- Similarly, gain / loss on realisation / disposal / retirement of such assets shall be computed ignoring the aforesaid retained earnings adjustment.

(b) Investments in subsidiaries, joint ventures and associates at fair value as deemed cost

An entity may use fair value in its opening Ind AS Balance Sheet as deemed cost for investment in subsidiary, joint venture or associate in its separate financial statements as mentioned in paragraph D15 of Ind AS 101. In such cases, retained earnings adjustment shall be included in the book profit at the time of realisation of such investment.

(c) Cumulative translation differences

- An entity may elect a choice whereby the cumulative translation differences for all foreign operations are deemed to be zero at the date of transition to Ind AS. Further, the gain or loss on a subsequent disposal of any foreign operation shall exclude translation differences that arose before the date of transition to Ind AS and shall include only the translation differences after the date of transition.
- In such cases, to ensure that such cumulative translation differences on the date of transition which have been transferred to retained earnings, are taken into account, these shall be included in the book profits at the time of disposal of foreign operations as mentioned in paragraph 48 of Ind AS 21.

2. All other adjustments to retained earnings (part of other equity) at the time of transition (including for example, application of amortised cost measurement of financial assets and liabilities, asset retirement obligations, foreign exchange capitalisation / de-capitalisation, borrowing costs adjustments, etc.) shall be included in book profits, equally over a period of 5 years starting from the year of first time adoption of Ind AS.

3. Section 115JB of the Act already provides for adjustments on account of deferred tax and its provision. Any deferred tax adjustments recorded in Reserves and Surplus on account of transition to Ind AS shall also be ignored.

iii. Reference year for first time adoption adjustments

In the first year of adoption of Ind AS, the companies would prepare Ind AS financial statement for reporting year with a comparative financial statement for immediately preceding year. As per Ind AS 101, a company would make all Ind AS adjustments on the opening date of the comparative financial year. The entity is also required to present an equity reconciliation between previous Indian GAAP and Ind AS amounts, both on the opening date of preceding year as well as on the closing date of the preceding year. It is proposed that for the purposes of computation of book profits for the year of adoption and the proposed adjustments, the amounts adjusted as of the opening date of the first year of adoption shall be considered. For example, companies which adopt Ind AS with effect from 1 April 2016 are required to prepare their financial statements for the year 2016-17 as per requirements of Ind AS. Such companies are also required to prepare and opening balance sheet as of 1 April 2015 and restate the financial statements for the comparative period 2015-16. In such a case, the first time adoption adjustments as of 31 March 2016 shall be considered for computation of MAT liability for previous year 2016-17 (Assessment Year 2017-18) and thereafter. Further, in this case, the period of 5 years proposed above shall be previous years 2016-17, 2017-18, 2018-19, 2019-2020 and 2020-21.

As the Ind AS is required to be adopted by certain companies for financial year 2016-17 mandatorily, these amendments will take effect from 1 April 2017 and will accordingly, apply in relation to the assessment year 2017-18 and subsequent assessment years.

Based on the above, an illustrative list of the MAT implications for Ind AS compliant financial statements is given hereunder:

Illustrative list of MAT Implications for Ind AS Compliant Financial Statements

Sr. No.	Nature of Adjustment	Impact on Book Profit	
		First Time Adoption (FTA)	Subsequent Years
1	Changes in revaluation surplus of PPE and Intangible assets and consequential incremental depreciation	To be included in book profit at the time of realisation / disposal / retirement or otherwise	To be included in book profit at the time of realisation / disposal / retirement or otherwise
2	Gains and losses from investments in equity instruments designated at	To be included in book profit at the time of realisation /	To be included in book profit at the time of realisation /

Sr. No.	Nature of Adjustment	Impact on Book Profit	
		First Time Adoption (FTA)	Subsequent Years
	fair value through (OCI)	disposal / retirement or otherwise	disposal / retirement or otherwise
3	Gains and losses from investments in equity instruments measured at fair value through Profit & Loss Account	To be included in book profits equally over period of five (5) years starting from the year of FTA of Ind AS	To be included in book profits every year as the gains / losses arise **(Note 2)**
4	Re-measurement of defined benefit plans	To be included in book profits equally over a period of five (5) years starting from the year of FTA of Ind AS	To be included in book profits every year as the Re-measurement gains or losses arise
5	Remeasurement of retention money payable	To be included in book profits equally over a period of five (5) years starting from the year of FTA of Ind AS	The unwinding interest cost will be expensed out in the Profit & Loss Statement and not under OCI and thus no further adjustment required
6	Reclassification of Financial Instruments by the issuers as Compound Financial Instrument, for example, Redeemable Preference Shares, Optionally / Compulsorily Convertible Debentures / Redeemable Debentures with mandatory interest payments	Equity Component of the Compound Financial Instrument to be included in book profits equally over a period of five (5) years starting from the year of FTA of Ind AS **(Note 3)**	The unwinding interest cost on the financial liabilities will be expensed out in the Profit & Loss Statement and not under OCI and thus no further adjustment required

Sr. No.	Nature of Adjustment	Impact on Book Profit	
		First Time Adoption (FTA)	Subsequent Years
7	Re-measurement of Transaction cost on borrowings	To be included in book profits equally over a period of five (5) years starting from the year of FTA of Ind AS	The transaction cost is spread over the tenure of the borrowed funds and each year the transaction cost would be expensed out in the Profit & Loss Account and not under OCI and thus no further adjustment required.
8	Impairment of Accounts Receivables (Provision for Doubtful Debts)	No impact as the amounts were already added back in earlier years pursuant to proviso in Explanation 1 to section 115JB(2)	No impact as the amounts is to be added back in the MAT computation pursuant to proviso in Explanation 1 to section 115JB(2)
9	Re-measurement of Security Deposits	The difference between the carrying value and the fair value is considered prepaid expenses and which is to be amortized over a period of agreement. The unwinding interest income / rent expenses for 2015-2016 appearing in other equity will be amortized / credited over period of 5 years	In subsequent years, unlikely impact, as the unwinding interest income would be off-set by the rent expenses

Sr. No.	Nature of Adjustment	Impact on Book Profit	
		First Time Adoption (FTA)	Subsequent Years
10	Re-measurement of corporate guarantee	Pre-transition period commission to be included in book profits equally over a period of five (5) years starting from the year of FTA of Ind AS	The commission income for subsequent years would be accounted as income in the Profit & Loss Account resulting in increase in book profits
11	Deferred tax adjustments on Ind AS	To be ignored as the Deferred Tax adjustments are already given effect to in the MAT computation as per Explanation 1 to section 115JB(2)	To be ignored as the Deferred Tax adjustments are already given effect to in the MAT computation as per Explanation 1 to section 115JB(2)
12	Expenses incurred on Issue of Shares	To be ignored	Expenses on account of Issue of shares would not be directly adjusted against the Equity and not routed through Profit & Loss Statement thereby resulting non-deduction for the purpose of calculating book profit
13	Re-measurement of Government Grant	To be included in book profits equally over a period of five (5) years starting from the year of FTA of Ind AS	Government Grant would be recognised as income in subsequent years in the in the Profit & Loss Statement

Sr. No.	Nature of Adjustment	Impact on Book Profit	
		First Time Adoption (FTA)	Subsequent Years
			resulting in increase in book profits
14	Reclassification / Re-measurement of Service Concession Agreement	To be included in book profits equally over a period of five (5) years starting from the year of FTA of Ind AS	In subsequent years, until completion, construction margin will be recorded each year. On completion, interest income (erstwhile annuity income) will be recorded. Also, margin on Operation & Maintenance and Major Maintenance Repairs, if any, as part of the Concession Agreement; would be recognized as income in the Profit & Loss Statement
15	Re-measurement of Share Based Payments	To be included in book profits equally over a period of five (5) years starting from the year of FTA of Ind AS	To be included in book profits every year based on fair value based amortisation

Notes:

1. The above is an illustrative list of adjustments which would impact the book profit calculations for MAT purposes and each entity preparing its financial statements in compliance with the Indian Accounting Standards would need to consider the adjustment to book profit based on whether the adjustment would be subsequently reclassified to the Profit & Loss Statement or not. Where the adjustment would never be subsequently

reclassified to the Profit & Loss Statement, in the year of First Time Adoption, the adjustment would be included in the book profits over a period of five (5) years and in subsequent years as and when the gains / losses arise. In case the adjustments would be subsequently reclassified, the impact of the adjustment would be considered in the book profits in the year in which such items would be reclassified to the Profit & Loss Statement.

2. It may be noted that under the proviso in Explanation 1 to Section 115JB(2), any diminution in value of assets is to be added back while computing the book profits. As such, where the losses on investments in equity is routed through Profit & Loss Statement, the tax authorities may not allow the same as deductible from book profit, although the gains would be added to book profits.

3. The issue proceeds towards issue of instruments, viz., Redeemable / Optionally Convertible or Compulsorily Convertible Preference Shares / Debentures is considered as capital receipt and as such not subject to tax unless otherwise provided under the Act. However, pursuant to reclassification of the Financial Instruments as Compound Financial Instrument in accordance with Ind AS requirements; the equity component of such Compound Financial Instrument would be credited to Other Equity on First Time Adoption. As per the newly amended MAT provisions, any item appearing in Other Equity on First Time Adoption is to be included in the book profits over the period of five (5) years.

   While the Equity Component is subjected to MAT, the issuer entity would also be entitled to deduction of the notional interest on a year on year basis and in this way, this adjustment seems to be a MAT neutral provision over a period of time. However, this may not be always the case, given the limitation of MAT credit provisions and the possibility of a company paying tax under the normal provisions in later years. As such, inclusion of capital receipt in the computation of MAT would effectively result in levy of tax on receipt which is not in the nature of income at all and thus, to some extent it would defeat the fundamental principle of taxation.

7.0 METHODOLOGY OF OUR APPROACH

Coverage

In this publication,we have perused the annual or latest available interim financial results announced by 126 companies across 18 sectors for the financial years ended 31 March 2017 and 31 March 2018. These include the Ind AS phase I and phase II listed companies. This list is based on market capitalization of the companies and does not find adequate representations of a few sectors, such as, real estate, retail, transportation and gems & jewelry. Therefore we have expanded our samples and included leading companies in respective sectors covered in either Ind AS phase I or Ind AS phase II, so as to have a sample size of at least 5 companies.

Companies in banking, insurance and financial services sectors have been excluded as they have not applied Ind AS until financial year ended 31 March 2018.

Sectors covered

	Sector categorization	Number of companies covered
1	Automotive and auto components	14
2	Cement and allied products	5
3	Fast moving consumer goods	17
4	Hospitality and leisure	5
5	Industrial products and heavy equipment	5
6	Infrastructure	6
7	Iron and steel	5
8	Jewelry and gems	5
9	Media and entertainment	5
10	Metals and other commodities	6
11	Oil and gas	5
12	Power and utilities	8
13	Pharmaceuticals and life sciences	10
14	Real estate and construction	5

	Sector categorization	Number of companies covered
15	Retail	6
16	Technology and IT enabling services	9
17	Telecom operations and infrastructure	5
18	Transportation and logistics	5

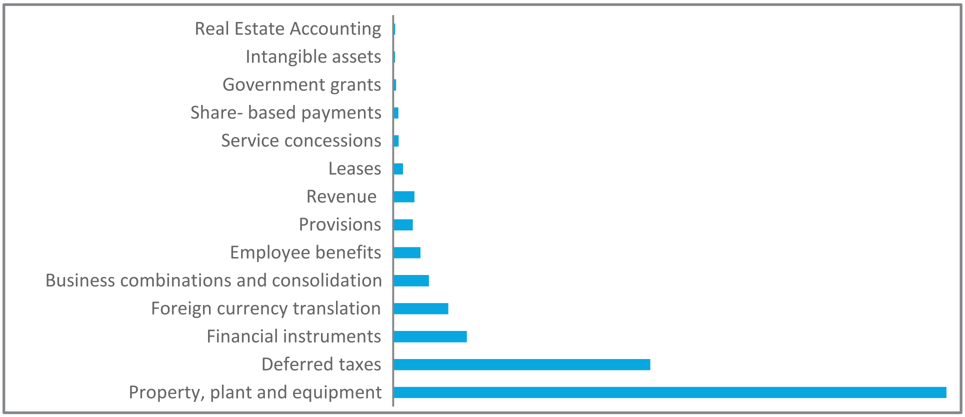
Basis

The publication analyses the Ind AS transition adjustments on the performance of Ind AS phase I and phase II companies based on the consolidated Indian GAAP versus Ind AS profit reconciliations for financial years ending 31 March 2016 and 31 March 2017 and equity reconciliations as at 31 March 2016 and 31 March 2017, respectively, as provided by the companies. We have also referred to the additional information and explanations provided by the companies by way of separate investor Ind AS presentations.

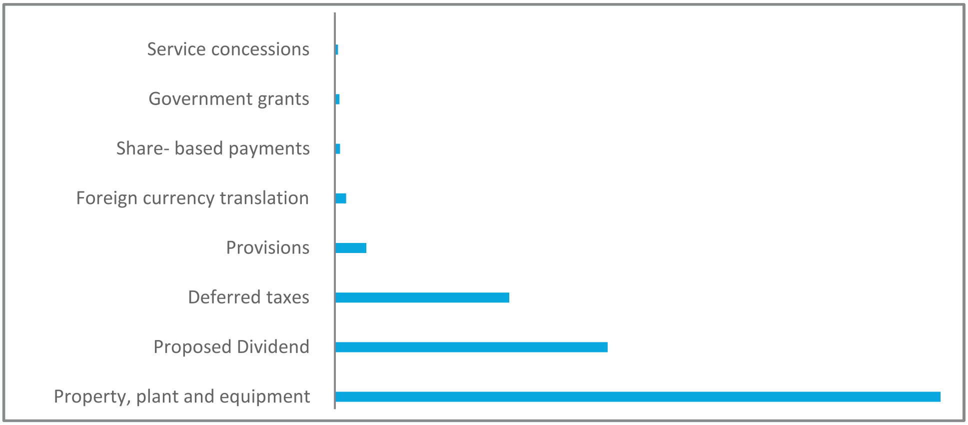
8.0 SUMMARY OF FINDINGS

The charts below summarise the area-wise Ind AS impact the aggregated profit and equity reconciliations and the number of sample companies that were affected by the Ind AS areas.

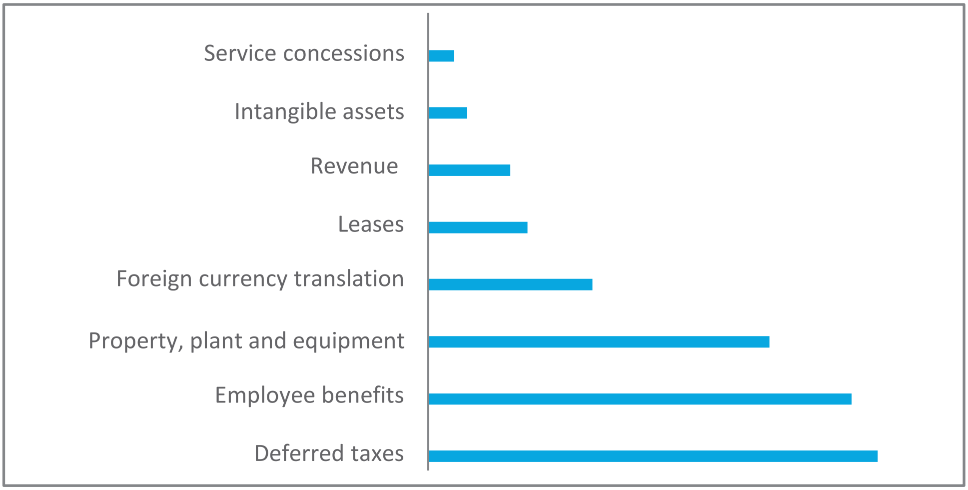
Key Ind AS Impact Areas based on Impact on Profit and Loss Reconciliations for FY 2015-16 for phase I companies and FY 2016-17 for phase II companies included in our sample.



Key Ind AS Impact Areas based on number of companies having an Ind AS transition adjustment for the particular area of impact.



Key Ind AS Impact Areas based on number of companies having an Ind AS transition adjustment for the particular area of impact.



The table below summarises the major area of impact, key reasons for the impact and the sectors mainly impacted.

Major area of impact	Main reasons for pervasive impact	Main sectors impacted
Property, plant and equipment	– Use of fair value deemed cost exemption at transition – Provision and capitalization of asset retirement obligation – Capitalization of eligible spare parts – Capitalization of major overhaul	– Oil & gas – Metals & mining – Cement – Iron & steel – Power & utilities – Industrial products & heavy engineering.
Business combinations and consolidation	– Purchase price allocation–acquisition accounting based on fair values of assets and liabilities – Common control business combinations accounted for using pooling of interest method – Goodwill cannot be amortised, but should be tested for impairment at least annually – Deferred and contingent	– Technology & ITES, – Pharmaceuticals & life sciences – Iron & steel

Major area of impact	Main reasons for pervasive impact	Main sectors impacted
	consideration payable to be fair valued through P&L – Allocation of loss to non-controlling shareholders	
Financial instruments	– Investments to be categorised – fair value through profit or loss (FVTPL), fair value through other comprehensive income (FVOCI) and amortised cost – All investments, including unquoted equity shares, except investments in subsidiary/Joint venture/ associate measured at fair value – All derivative instruments to be carried at fair value – Redeemable preference shares classified as liability and unwound through P&L as interest expense – Amortised cost based on effective interest rate – Initial recognition of all financial assets and financial liabilities at fair value (interest-free security deposits, employee loans, etc.) – Impairment of financial assets – expected loss model	Generally across all sectors
Share-based payments	– Mandatory use of fair value for share based payments – Consolidation of trusts dealing with employee share based payment	– Fast moving consumer goods – Technology & ITES
Employee benefits	– Actuarial gains and loss recognized in equity through OCI rather than in P&L	Generally across all sectors
Revenue	– Gross vs. net presentation (excise	– Excise duty

Major area of impact	Main reasons for pervasive impact	Main sectors impacted
	duty, other charges) – Customer incentive schemes in some cases reduced from revenue – Timing of recognition of revenue (estimated sales return, dispatch vs. delivery) – Deferral of revenue due to multiple deliverable arrangements – Fair valuation of consideration – time value of money to be considered – Deferral of revenue due to linked transactions (to reflect the substance) – Customer loyalty schemes	presentation affected all the manufacturing companies – Adjustments on account for customer incentives presentation were evident in fast moving consumer goods, pharmaceutical & life sciences and automotive – Revenue deferral due to multiple-element, estimated sale returns, linked transactions, etc. were evident in pharmaceutical & life sciences and automotive – Revenue deferral due to customer loyalty schemes were evident in retail and hospitality & leisure
Leases	– Accounting for leases embedded in sale, purchase, other contracts – Not straight-lining of the lease escalations on account of inflation	– Power & utilities – Automotive – Telecom & related infrastructure
Foreign currency	– Foreign exchange fluctuations to be immediately charged to the statement of profit and loss	– Mining & metals – Oil & gas – Automotive

Major area of impact	Main reasons for pervasive impact	Main sectors impacted
	– Functional currency assessment for all operations	– Telecom & related infrastructure
Deferred tax	– Deferred tax arising on temporary differences arising on Ind AS adjustments – Deferred tax on undistributed reserves on subsidiaries, joint venture, associate, unless certain criteria met – Deferred tax on intercompany eliminations	– Pharmaceutical & life sciences – Technology & ITES – Telecom & related infrastructure – Mining & metals

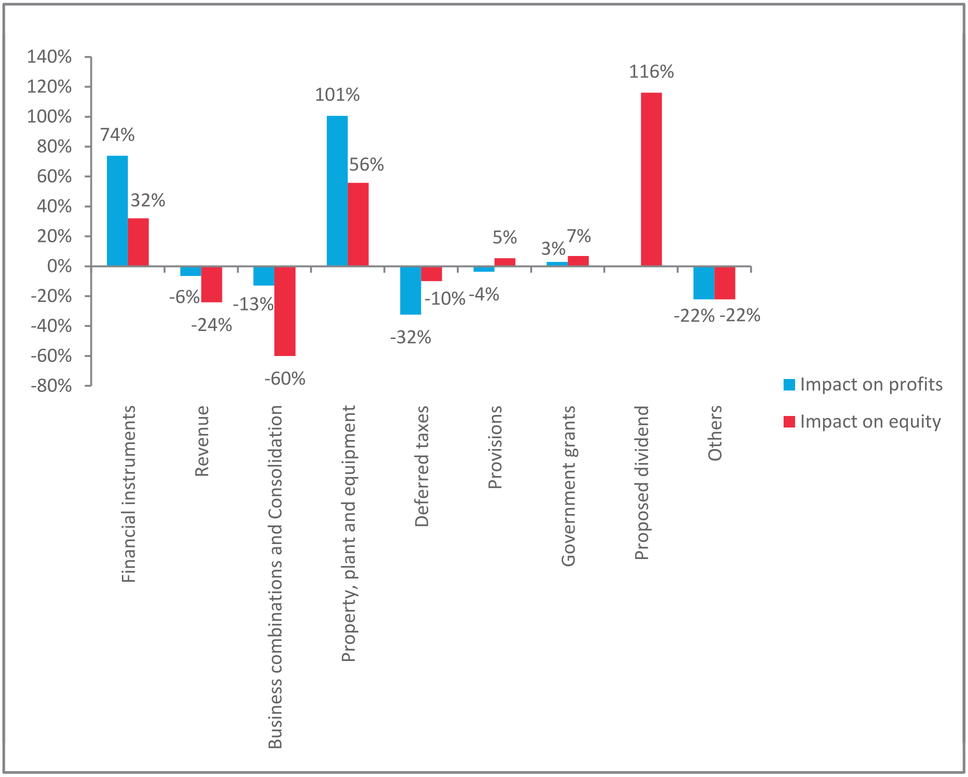
9.0 SECTOR–WISE IND AS ANALYSIS

In this chapter, we take a closer look at the key Ind AS impact areas for each sector identified

9.1 Automotive and ancillary components

Sample size – **14** companies manufacturing commercial vehicles, passenger vehicles, including 2/3 wheelers, and automotive parts and equipment.

% of net impact on FY March 2016 (for phase I) and FY March 2017(for phase II) profits and March 2016 equity (phase I) and March 2017 equity (phase II) as a % of net Ind AS Impact.



- **Property, plant and equipment**
  - **Capitalisation of Foreign currency exchange differences**

    Under Indian GAAP, exchange differences arising on translation of monetary items are recognised as income or expense in the period in which they arise. Further, paragraph 46A of AS 11 allows companies to adjust exchange differences arising on long-term foreign currency monetary items to the carrying value of depreciable capital assets (to the extent they relate to the acquisition of such assets) and are depreciated through P&L over the useful lives of the assets. If the long term foreign currency monetary item relates to other than acquisition of a depreciable capital asset, exchange differences are accumulated in the 'Foreign Currency Monetary Item Translation Difference Account' which is subsequently amortised through the P&L over the life of such long term asset or liability. Ind AS 21 requires exchange differences arising on translation/settlement of all foreign monetary items, including long-term foreign currency monetary items, to be recognized in P&L for the period in which they arise. It does not give an option to defer or to capitalize exchange differences arising on long- term foreign currency monetary items.

- **Fair valuation as deemed cost for property, plant and equipment**

  On transition to Ind AS, instead of recalculating the carrying value of PPE under Ind AS, a company has certain choices with respect to PPE balances on the transition date. In the event that a company elects such a choice, the amounts so substituted are referred to as the 'deemed cost' of the PPE. One such choice is to revalue some or all items of PPE to their fair value as at the transition date with a corresponding adjustment in the retained earnings/ reserves.

■ **Financial instruments**

- **Fair valuation of investments**

  Investments in equity shares of other companies (other than that in subsidiaries, joint venture and associates) and mutual fund units are required to be fair valued under Ind AS.

- **Expected credit loss model**

  Ind AS introduces a new 'expected credit loss' (ECL) model for impairment of financial assets. This model requires more forward looking information to recognize either a 12-month or a lifetime expected credit losses. Consequentially, provision for bad debts no longer depends on a company identifying a credit loss or a default event. Rather, a company always estimates an 'expected loss' considering a broader range of information including; past events such as, historical loss trend for similar assets; current economic and trade conditions; and, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the financial instruments.

- **Revenue**

  - **Multiple-element sales**

    Automotive companies often provide after-sales services to its customers in the form of 'free' servicing/maintenance or extended warranties, etc. Ind AS requires an entity to identify all such components or elements within a sale contract with the customer. Consequently, the accounting would be as though the company has sold vehicle and an additional element (e.g. after sales maintenance) together. Revenue from sale of vehicle would be recognized when at the point when risks and rewards are transferred while revenue from after-sales maintenance is recognized over a period of time when the services are rendered. Indian GAAP does not explicitly require such accounting for multiple-element sales and therefore, generally, the entire revenue is recognized on sale of vehicles.

  - **Extended credit terms**

    Under Indian GAAP, revenue is recognised at the contractual value of the consideration receivable. Ind AS requires measurement of revenue at fair value of the consideration receivable. If the company offers an extended credit period to customers, revenue is recognised at the present value of future cash inflows. Interest income is recognised over the credit period for the difference between the revenue recognised and the stated transaction value.

Business Combinations and Consolidation

Restatement of past business combinations

On transition to Ind AS, a company has the following three options in relation to the business combination transactions before the transition date:

- Not to restate business combinations before the transition date and apply Ind AS only to subsequent business combinations; or
- Restate all past business combinations before the transition date; or
- Restate all past business combinations done after a chosen date, prior to the transition date.

If the company elects not to restate past business combinations, the carrying value of goodwill as per Indian GAAP is required to be carried over to Ind AS without any modification. Under this approach, any previous goodwill amortisation under Indian GAAP is not required to be reversed. However, goodwill will need to be tested for impairment on transition date to Ind AS.

Reversal of amortisation of goodwill

Under Indian GAAP, there are separate standards that deal with amalgamation, consolidation and assets acquisition. Acquisitions through share acquisition are recorded at carrying values of assets and liabilities of the acquired company under AS 21. Under Ind AS 103, all assets and liabilities acquired are recognized at fair value. Additionally, contingent liabilities and intangible assets not recorded in the acquiree's balance sheet are likely to be recorded in the acquirer's balance sheet on acquisition date. Ind AS 103 prohibits amortization of goodwill arising on business combinations, and requires it to be tested for impairment annually. Indian GAAP, on the other hand, required amortization of goodwill in the case of amalgamations. Upon first-time adoption of Ind AS, application of Ind AS 103 to past business combinations prior to the date of transition to Ind AS is optional under Ind AS 101.

- **Consolidation**

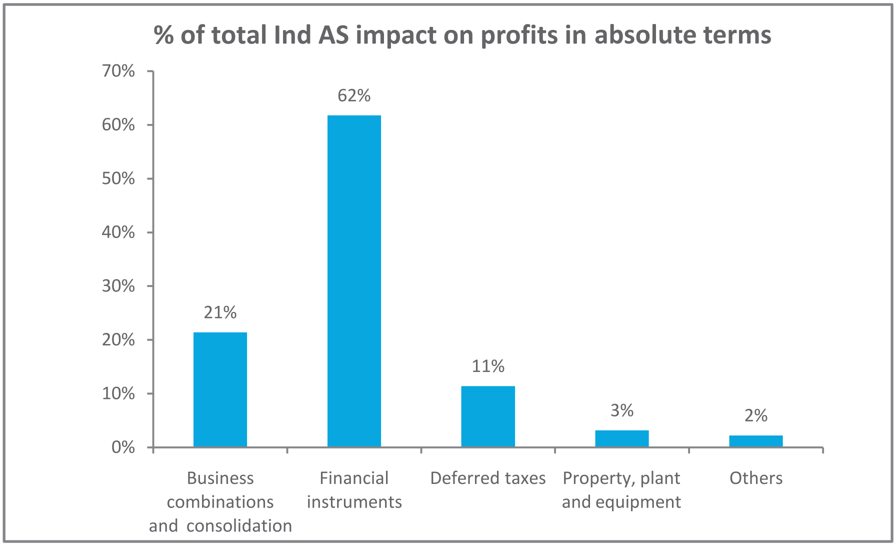
  Under Ind AS, the assessment of control is not solely based on majority voting interest or ability to control the composition of the board of directors, but it is also based on existence of the investor's rights, exposure/rights to variable returns and ability to use rights over the investee to affect the amount of the investor's returns. For example, an investor with less than majority voting interest in a company may result in consolidation of the company as a subsidiary if the investor has substantive participative rights. Participative rights are rights to participate in the operating and financial policies of the company that go beyond just protecting the interests of the minority shareholder. Approval of budgets, veto rights, appointment and termination of key management personnel are examples of such participative rights, which may preclude consolidation by the majority shareholder.

- **Government grant**

  Under Indian GAAP, two broad approaches are followed for recognition of government grants – the capital approach or the income approach. Government grants in the nature of promoter's contribution are credited directly to the shareholders' funds (capital reserves). Grants related to depreciable assets are either treated as deferred income and transferred to the profit and loss account in proportion to the depreciation; or deducted from the cost of the asset. Ind AS does not permit recognition of grants directly in reserves. Therefore, government grants will be recognized as income, on a systematic basis, over the periods necessary to match them with the related cost, which they are intended to compensate. Further, government grants related to assets are presented in the balance sheet only by setting up the grant as deferred income and not as a reduction from PPE.

9.2 Cement and allied products

Sample size– **5** cement companies. Following table provides an impact area wise contribution in % to the overall Ind AS FY March 2016 (phase I) and FY March 2017 (phase II) profit impact in absolute terms.



- **Business Combinations and Consolidation**

  - **Common Control business combinations**

    Common control business combinations refer to a business combination involving companies or businesses in which all the combining companies or businesses are ultimately controlled by the same party or parties both before and after the business combination and such control is not transitory. In the case of common control business combinations Ind AS requires the assets, liabilities and reserves of the acquired company to be recognised at their carrying values (the only adjustment allowed is for harmonisation of policies).

  - **Acquisition related costs**

    Acquisition related costs (for example, stamp duty) are treated as capital costs under Indian GAAP and included in the cost of the investment. Ind AS generally requires all such acquisition related costs to be charged to the profit and loss account as incurred.

  - **Acquisition accounting**

    Under Ind AS, fair valuation of all assets and liabilities would be mandatory, except for common control transactions. Accounting for amalgamation/acquisition transactions in pharmaceutical sector under Ind AS would lead to recognition of several intangible assets by the acquirer/transferee companies.

- **Property plant and equipment (PPE)**

  PPE was one of the main impact areas and all the sample companies had Ind AS adjustments on this account.

  - **Major spare parts**

    Cement plants regularly require wear parts, resistance parts, mechanical and electrical spares for their normal operations. Major spares and stand-by equipment have been accounted for using divergent practices under Indian GAAP. Many cement companies treated them as inventory. Under Ind AS, all spare parts, stand-by and servicing equipment qualify as PPE if the company intends to use these during more than a period of 12 months. This capitalization constituted 19% of the total net Ind AS P&L impact in case of one large cement company in our sample.

  - **Decapitalisation of foreign exchange difference**

    Under Indian GAAP, exchange differences arising on translation of monetary items are recognised as income or expense in the period in which they arise. Further, paragraph 46A of AS 11 allows companies to adjust exchange differences arising on long-term foreign currency monetary items to the carrying value of depreciable capital assets (to the extent they relate to the acquisition of such assets) and are depreciated through P&L over the useful lives of the assets. Ind AS 21 requires exchange differences arising on translation/settlement of all foreign monetary items, including long-term foreign currency monetary items, to be recognized in P&L for the period in which they arise. It does not give an option to defer or to capitalize exchange differences arising on long-term foreign currency monetary items.

- **Government grant**

  Many state governments in India provide sales tax deferral schemes to encourage and ensure development of underdeveloped areas. Ind AS 12 requires the benefit of a government loan at nil or below-market rate of interest to be treated as a government grant. Initially, the loan is measured at fair value. The difference between initial fair value of the loan and proceeds received is a government grant to be recognized over the future period depending on the nature of the grant i.e. asset-related or revenue grant. Going forward, the loan is measured at amortised cost using effective interest method. Indian GAAP does not require/allow fair valuation or discounting for such deferral schemes.

- **Timing of revenue recognition**

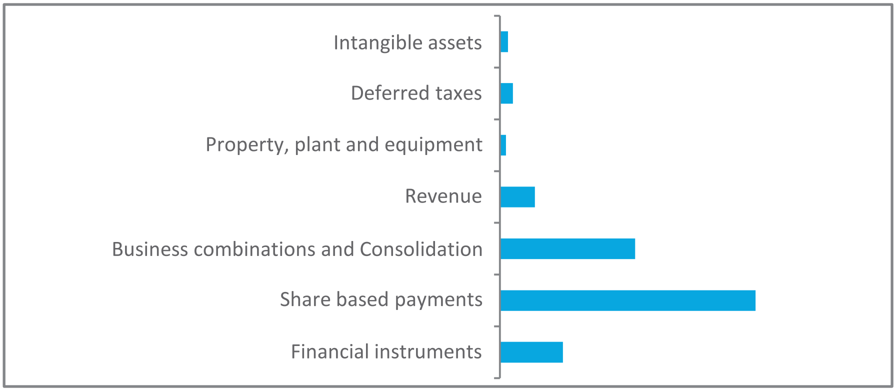
  Under Ind AS 18, revenue from sale of goods is recognized when an entity transfers the significant risks and rewards of ownership and gives up managerial involvement, usually associated with ownership or control, if economic benefits are likely to flow. This means that the accounting should reflect the economic substance of transactions and not merely their legal form.

9.3 Fast Moving Consumer Goods

Sample size – **17** companies.

Following bar diagram illustrates the major Ind AS impact areas based on impact on profit reconciliations.

The following chart shows the impact of Ind AS on the sample companies' equity (reserves), in absolute terms, based on the equity reconciliations for financial year ending 31 March 2016 (phase I) and 31 March 2017 (phase II).



- ## Share Based payments

  - ### Group share-based payments

    Many FMCG companies, particularly, multinationals, give stock based or share based compensation to their employees. Under Indian GAAP, companies could have used intrinsic value method or fair value method to measure their share based arrangements. Ind AS requires the use of fair value method to measure the employee costs over the vesting period. Also, where parent company provides share based compensation to employees of the subsidiary, the subsidiary is required to recognize employee costs in its individual financial statements. This dented the profits of many FMCG companies.

  - ### Fair value measurement

    Under Indian GAAP, companies could have used intrinsic value method or fair value method to measure their share based arrangement. Ind AS requires the use of fair value method to measure the employee costs over the vesting period.

- ## Financial instruments

  - ### Fair valuation on investments

    As can be seen from above, the biggest impact area in the sample companies was financial instruments. Ind AS generally requires investments in equity shares (other than that of subsidiaries, joint ventures and associates), investment in mutual funds units and derivative instruments at fair value. For investments in equity shares, there is an irrevocable choice to measure at fair value either through P&L or through OCI (FVOCI). If the FVOCI option is availed, fair value movement and gains/ losses on sale of the investments permanently escape P&L.

  - ### Redemption premium

    The other Ind AS requirement that caused impacts on the sample companies was on account of redemption premium on debentures/ redeemable preference shares. Two companies in our sample were charging redemption premium to securities premium account under Indian GAAP. Under Ind AS, these instruments are required to be measured at effective interest rate through a charge in P&L.

- **Intangible assets**

  Under Indian GAAP intangible assets are amortised over their useful lives. There is a rebuttable presumption that the useful life cannot 10 years. Under Ind AS, an intangible can be assessed to have an indefinite useful life if there is no predictable time period over which it is expected to generate economic benefits for the company. In practice, certain FMCG companies have assessed their brands with certain attributes to be having indefinite useful lives.

- **Employee benefits**

  Under Indian GAAP, actuarial gains and losses on remeasurement of post-employment benefit plans are recognised immediately in the P&L. Under Ind AS, all such re-measurements are to be recognised in reserves through OCI. This increased the reported earnings of almost all the companies.

- **Revenue**

  Revenue is an important performance metric for FMCG sector. Under Indian GAAP revenue was reported net of excise duty, while under Ind AS, it has been clarified that revenue would be gross of excise duty and excise duty is recognized as an expense.

  – **Timing of revenue recognition**

    Under Ind AS 18, revenue from sale of goods is recognized when an entity transfers the significant risks and rewards of ownership and gives up managerial involvement, usually associated with ownership or control, if economic benefits are likely to flow.

  – **Trade promotion schemes**

    FMCG companies often provide extensive sales incentives, discounts, rebates, consumer coupons and early settlement cash discounts to their customers, dealers, retailers or ultimate consumers in order to incentivize them to purchase the company's products. Under Indian GAAP, some of these costs were included in 'advertising and sales promotion' expenses. Under Ind AS, revenue is measured at the consideration received/receivable considering trade discounts, volume rebates, cash discounts and other incentives. Although this is a reclassification, this would not affect the profits,the key ratios such as gross margins, return on sales, etc., which are derived from revenue would be affected.

- **Deferred Tax**
  - **Balance sheet approach**

    Under Indian GAAP, deferred taxes are recognised on timing differences based on what is known as the income statement approach. Under Ind AS, deferred taxes are recognised on temporary differences based on what is known as the balance sheet approach. Deferred tax is also recognized for the Ind AS transition adjustments giving rise to temporary differences. As can be seen from the above table, this impacted all the companies in the sample.

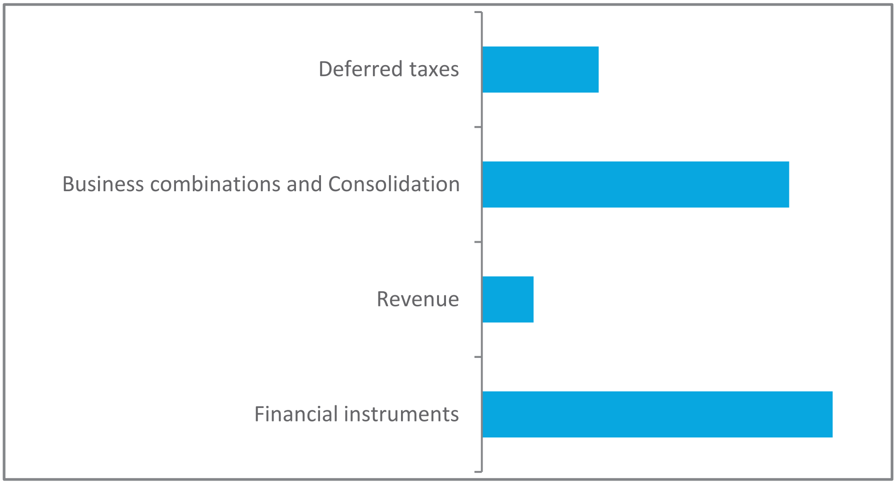
  - **Deferred taxes on unrealized profits on intra-group transactions**

    Under Indian GAAP, deferred tax in the consolidated financial statements is the sum of the tax expense of the parent and the subsidiaries. Under Ind AS, deferred tax adjustments are made on account of this inter-company elimination of unrealized profits. When unrealized profits are eliminated on unsold inventory purchased by a subsidiary from a parent, deferred taxes are recognized for the temporary difference arising between the tax base (normally the invoiced value) and the carrying amount in the consolidated financial statements (the group's cost after eliminating the unrealized profits).

9.4 Hospitality and leisure

Sample size- **5** companies including those involved in hotel operations and holiday management.

The following chart shows the impact of Ind AS on the sample companies' equity (reserves), in absolute terms, based on the equity reconciliations for financial year ending 31 March 2016 (phase I) and 31 March 2017 (phase II).



- **Financial instruments**

  – **Accounting for redemption premium and measurement using effective interest method**

  Hotel companies have long term borrowings in the form of loans and debentures. Ind AS requires financial liabilities, such as loans and borrowing, to be initially fair valued, net of initial transaction costs, and subsequently to be measured at amortised cost with finance cost being recognized at effective interest rates in P&L.

  Many companies issue debentures or redeemable preference shares which are required to be redeemed with a back ended redemption premium. Under Indian GAAP, there was a practice of charging the redemption premium to securities premium account rather than to P&L. Under Ind AS, these instruments are required to be measured at effective interest rate with a charge in P&L. Depending on the length of balance tenure of the debenture/ redeemable preference shares at the date of transition to Ind AS, this may have a significant impact.

  – **Fair valuation of investments and derivative contracts**

  Ind AS generally requires investments in equity shares (other than that of subsidiaries, joint ventures and associates), investment in mutual funds units and derivative instruments at fair value. For investments in equity shares, there is an irrevocable choice to measure at fair value either through P&L or through OCI (FVOCI). If the FVOCI option is availed, fair value movement and gains/ losses on sale of the investments permanently escape P&L– all remeasurement changes other than dividend income are recognized in equity through OCI.

- **Consolidation**

  Under Indian GAAP, the assessment of existence of control over a company and consolidation as a subsidiary is based on ownership of majority of the voting power or control over the composition of the board of directors. Under Ind AS, the assessment of control is not solely based on majority voting interest or ability to control the composition of the board of directors, but it is also based on existence of the investor's rights, exposure/rights to variable returns and ability to use rights over the investee to affect the amount of the investor's returns. For example, an investor with less than majority voting interest in a company may result in consolidation of the company as a subsidiary if the investor has substantive participative rights. Participative rights are rights to participate in the operating and financial policies of the company that go beyond just protecting the interests of the minority shareholder. Approval of budgets, veto rights, appointment and termination of key management personnel are examples of such participative rights, which may preclude consolidation by the majority shareholder.

- **Revenue– customer loyalty award schemes**

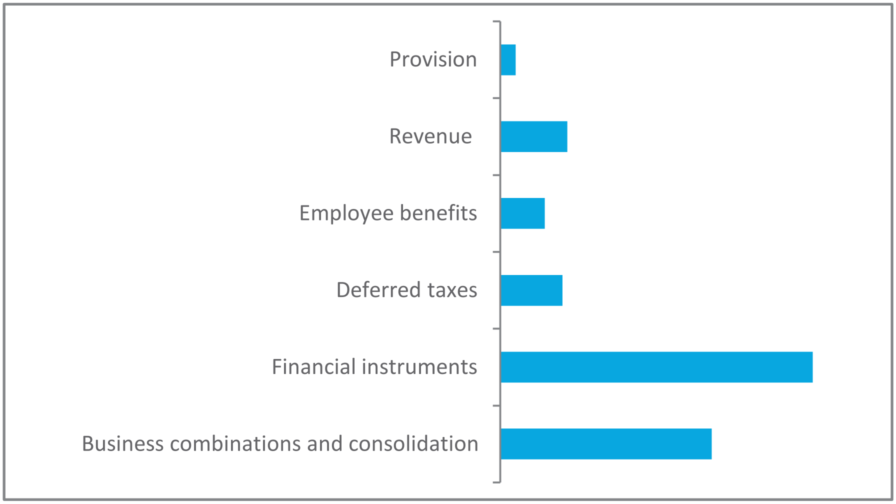
  Almost all hospitality and leisure companies provide loyalty incentives to their customers. Under Indian GAAP, there was no specific accounting standard dealing with accounting for award credits and loyalty point schemes. As a result, divergent practices emerged. Certain companies made provision towards redemption of the award credits based on the actual costs that will be incurred to honour the award credits. Under Ind AS, award credits and other loyalty schemes are considered as a separate component of the main service transaction. Under this approach, the fair value of the award credits/points is separated, based on a fair value allocation of the overall revenue, and deferred.

Such deferred income is subsequently recognised when the award credits/points are utilized by the customer or when the same lapse unutilized.

9.5 Industrial products and heavy equipment

Sample size- **5** covering engineering companies including those manufacturing of industrial products such as power transformers and heavy equipment.

The following chart shows the impact of Ind AS on the sample companies' equity (reserves), in absolute terms, based on the equity reconciliations for financial year ending 31 March 2016 (phase I) and 31 March 2017 (phase II).



■ Consolidation

Under Indian GAAP, there are separate standards that deal with amalgamation, consolidation and assets acquisition. Acquisitions through share acquisition are recorded at carrying values of assets and liabilities of the acquired company under AS 21. Under Ind AS 103, all assets and liabilities acquired are recognized at fair value. Additionally, contingent liabilities and intangible assets not recorded in the acquiree's balance sheet are likely to be recorded in the acquirer's balance sheet on acquisition date. Ind AS 103 prohibits amortization of goodwill arising on business combinations, and requires it to be tested for impairment annually.

- **Financial instruments**

  - **Measurement at effective interest method**

    This sector is capital-intensive and has a fairly long operational cycle. Therefore, most companies borrow long term funds for projects and operations. Ind AS requires financial liabilities, such as loans and borrowing, to be initially fair valued, net of initial transaction costs, and subsequently to be measured at amortised cost using effective interest rates. This affected all the companies in our sample.

  - **Expected credit loss impairment provision**

    Under Indian GAAP, there is no detailed guidance on methodology for determining the impairment of financial assets, such as loans and receivables. Ind AS introduces a new 'expected credit loss' (ECL) model for impairment of financial assets. This model requires more forward looking information to recognize either a 12-month or a lifetime expected credit losses. Consequentially, provision for bad debts no longer depends on a company identifying a credit loss or a default event. Rather, a company always estimates an 'expected loss' considering a broader range of information including; past events such as, historical loss trend for similar assets; current economic and trade conditions; and, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the financial instruments.

- **Deferred taxes**

  - **Deferred tax of Ind AS adjustments**

    All Ind AS transition adjustments that cause in temporary differences between book base and tax base of assets and liabilities result in recognition of deferred tax assets or liabilities. This was an adjustment in all the sample companies.

  - **Deferred tax on undistributed profits of subsidiaries, joint ventures and associates**

    The differences in tax base and carrying amount of investments would arise due to the existence of undistributed profits of a subsidiary, joint venture or associate. Under Ind AS, deferred taxes are recognized on such temporary differences, unless the parent or investor is able to control the timing of the reversal of the temporary difference; and it is probable that the temporary difference will not reverse in the foreseeable future. This exemption is generally available for undistributed profits of a subsidiary or a joint venture where the parent or investor controls distribution of dividends, and there is no current management intention to declare dividend from such undistributed profits. Deferred taxes are recognised on the portion of undistributed profits of a subsidiary, which have already been proposed for or are intended for distribution as dividend.

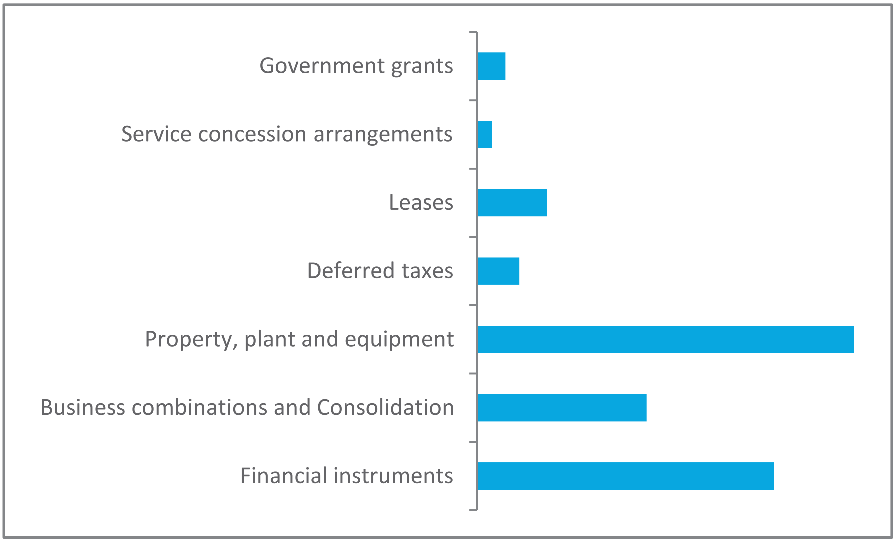
- **Accounting for spare parts**

Historically, spares and stand-by equipment have been accounted for using divergent practices under Indian GAAP. Many companies accounted them as fixed assets, while other treated them as inventory. Under Ind AS, all spare parts, stand-by and servicing equipment qualify as PPE if the company intends to use these during more than a period of 12 months.

9.6 Infrastructure

Sample size – **6** companies representing BOT operator for road tolls, ports and airport.

The following chart shows the impact of Ind AS on the sample companies' equity (reserves), in absolute terms, based on the equity reconciliations for financial year ending 31 March 2016 (phase I) and 31 March 2017 (phase II).



Financial instruments

– Interest free / subordinated loans

The holding company has to often provide what is known as subordinated loans to its subsidiaries which carry out the BOT agreements. These are generally interest-free and have long tenure – ranging from 25-35 years.

All financial assets including assets such as interest free lease deposits, low interest or interest free loans, have to be fair valued at inception under Ind AS. The initial difference that arises from the fair valuation of such financial assets and liabilities is accounted for to reflect the substance of the underlying transaction. For example, the initial difference on fair valuation of interest free loans to subsidiaries would be considered as equity contribution from the holding company to the subsidiary and added to the overall cost of investment in equity shares of the subsidiary. The loan is subsequently accounted at amortised cost using effective interest method – resulting in recognition of interest income in P&L of the holding company's separate financial statements.

– **Financial guarantees**

Under Ind AS, financial guarantees issued in favour of bank on behalf of another company, for example, a subsidiary, are accounted for and are initially recognised and measured at fair value. Subsequently, the measurement is at the higher of: amount of loss allowance determined as per impairment requirements of Ind AS 109, and amount initially recognized less, where appropriate, cumulative amortization.

– **Preference shares**

Under Ind AS, the liability and equity classifications of financial instruments may change substantially. Redeemable preference shares, classified as part of equity under Indian GAAP, are treated as, partly or entirely, as debt under Ind AS. This is due to the nature of the instrument giving rise to redemption obligation at a future date. Such debt instruments are initially measured at fair value and subsequently amortised through P&L by booking finance cost. Dividend distribution tax payable on such debt instruments are charged to P&L as finance cost.

– **Expected credit loss model**

Under Indian GAAP, there was no detailed guidance on methodology for determining the impairment of financial assets, such as loans and receivables. Ind AS introduces a new 'expected credit loss' (ECL) model for impairment of financial assets. This model requires more forward looking information to recognize either a 12-month or a lifetime expected credit losses. Consequentially, provision for bad debts no longer depends on a company identifying a credit loss or a default event. Rather, a company always estimates an 'expected loss' considering a broader range of information including past events such as, historical loss trend for similar assets; current economic and trade conditions; and, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the financial instruments.

- **Service concession arrangements**

Service concession arrangements are arrangements between a public sector government agency and a private sector company /operator for construction of infrastructure assets, such as highways, ports and airports, in which the government agency controls or regulates the services provided with the infrastructure, controls their price, and controls any significant residual interest in the infrastructure.

There is no mandatory Indian GAAP standard dealing with service concession agreements and therefore, practice in this area varies significantly. Under Ind AS, the operator does not recognise the fixed asset constructed as a part of the service concession arrangement. The operator is considered to have a right to access, rather than a right to use/right of ownership control over the infrastructure asset. This right is recognised either as an intangible asset or a financial asset depending on the terms of the arrangement. Ind AS considers the arrangement to be in the nature of a barter, wherein the operator initially provides construction services to the government agency earning a right to collect consideration either from public or from a government agency or partly from both. Subsequently, the operator is also required to render operating & maintenance services. Consequently, the arrangements have two phases —construction phase and operations & maintenance phase. During construction phase, the operator is required to recognise revenue as construction activity progresses, based on the fair value of the services performed (cost of constructing the infrastructure plus fair margin).

- **Accounting for Negative Grants/ NHAI premium**

  Certain arrangements include the provision for negative grants, wherein the operator is required to make the payment to the grantor during the duration of the arrangement. Negative grant may be either in the form of fixed payment (upfront or annual throughout the SCA) or in the form of a percentage of revenue earned during the arrangement. Under Ind AS, a company is required to evaluate whether upfront fixed payment should be treated as an intangible asset given that it is paid towards getting the right to earn revenues by running the infrastructure and in case of annual fixed payment, whether to recognize intangible assets by crediting the liability with present value of the annual amounts payable during SCA.

- **Embedded leases**

  Indian GAAP does not provide explicit guidance on accounting for lease transactions which are embedded in purchase/sale arrangements. Such arrangements are generally recognised based on their legal form. Ind AS provides specific guidance for the identification of embedded leases. Once identified as a lease, the principles for classification and accounting of the embedded lease would be the same as other leases.

  Under Ind AS, leasing would extend to arrangements which, in substance, meet the definition of a lease, even though not be structured as 'lease'. These arrangements convey a right to use an asset or assets for an agreed period of time in return for a payment or series of payments.

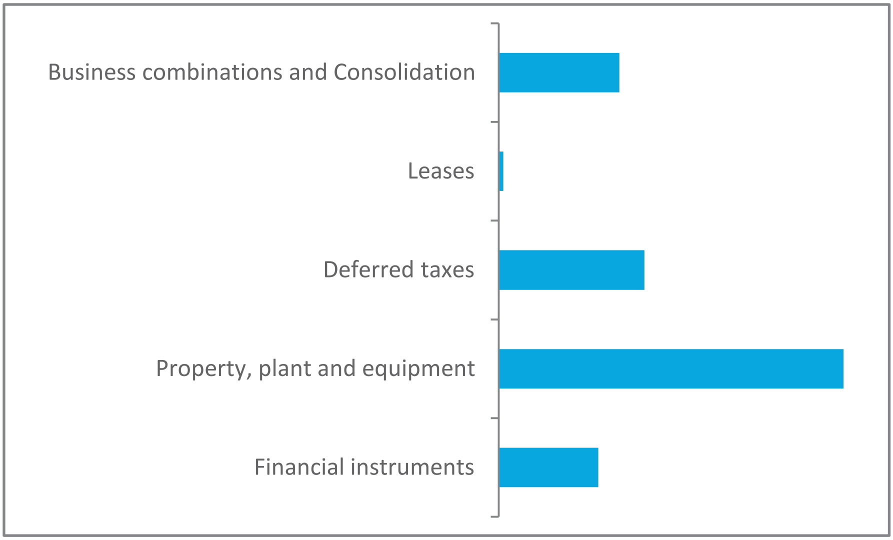
- **Government grant**

  Under Indian GAAP, government grants in the nature of promoter's contribution were to be credited directly to the shareholders' funds (reserves). Grants related to depreciable assets were either treated as deferred income and transferred to the P&L in proportion to the depreciation; or deducted from the cost of the asset. Ind AS does not permit recognition of grants directly in reserves. Therefore, government grants will be recognized as income, on a systematic basis, over the periods necessary to match them with the related cost, which they are intended to compensate. Further, asset-related government grants are presented in the balance sheet only by setting up the grant as deferred income and not as a reduction from PPE.

9.7 Iron and steel

Sample size- **5** companies

The following chart shows the impact of Ind AS on the sample companies' equity (reserves), in absolute terms, based on the equity reconciliations for financial year ending 31 March 2016 (phase I) and 31 March 2017 (phase II).



- **Property, plant and equipment**

  Steel industry is characterized by high capital intensity and therefore, expectedly, PPE was a major impact area.

  – **Fair valuation as deemed cost for property, plant and equipment**

    On transition to Ind AS, instead of recalculating the carrying value of PPE under Ind AS, a company has certain choices with respect to PPE balances on the transition date. In the event that a company elects such a choice, the amounts so substituted are referred to as the 'deemed cost' of the PPE. One such choice is to revalue some or all items of PPE to their fair value as at the transition date with a corresponding adjustment in the retained earnings/ reserves. Subsequent depreciation charge is based on the fair valued asset base.

  – **Accounting for major overhaul**

    Mechanical and electrical equipment of power stations generally require regular overhauls, repair and refurbishment. Under Indian GAAP, generally, major overhaul expenses were charged off to P&L as and when incurred. Ind AS requires major repairs and overhaul expenditure to be capitalized as replacement costs, if they satisfy the recognition criteria.

- **Accounting for spares**

  Major spares and stand-by equipment were generally treated as inventory under Indian GAAP. Under Ind AS, all spare parts, stand-by and servicing equipment qualify as PPE if the company intends to use these during more than a period of 12 months.

Financial instruments

- **Fair valuation of investments**

  Ind AS generally requires investments in equity shares (other than that of subsidiaries, joint ventures and associates), investment in mutual funds units and derivative instruments at fair value. For investments in equity shares, there is an irrevocable choice to measure at fair value either through P&L or through OCI (FVOCI). If the FVOCI option is availed, fair value movement and gains/ losses on sale of the investments permanently escape P&L- all remeasurement changes other than dividend income are recognized in equity through OCI.

- **Reclassification of perpetual bonds**

  Few companies issue perpetual non-redeemable callable bond with a fixed coupon rates. The bonds are normally redeemable only at the issuer's option. Coupon interest can be deferred in perpetuity at the issuer's option. Under Ind AS, if certain criteria are met, such instruments get classified as equity.

  Measurement at effective interest method

  Steel companies borrow long term funds for projects and operations. Ind AS requires financial liabilities, such as loans and borrowing, to be initially fair valued, net of initial transaction costs, and subsequently to be measured at amortised cost using effective interest rates. This affected all the companies in our sample. Measurement of financial liabilities at amortised cost caused 10% increase in net loss of a major steel company in our sample.

- **Embedded derivatives– provisionally priced contracts**

  Steel is traded on the London Metal Exchange (LME) or other exchanges. Many contracts in the industry are initially provisionally priced and subsequently finalized based on the on the future pricing observable on these exchanges. In many cases, these futures prices are not the same as expected future spot prices. Under Ind AS, at contract inception the entity is required to determine whether the provisional pricing mechanism represents an embedded derivative that needs to be separated from the host sales purchase/ sale contract.

- **Employee benefits**

  Under Indian GAAP, actuarial gains and losses on post employment benefit plans and other long term employment plans are to be recognised immediately in P&L. Under Ind AS, all actuarial gains and losses with respect to defined benefit plans employment benefit plans are to be recognised in equity through other comprehensive income and permanently escape P&L.

- **Business combinations**

  - **Acquisition accounting**

    Currently, Indian GAAP does not mandatorily require fair valuation of assets and liabilities acquired on amalgamation/acquisition. However, with the introduction of Ind AS, fair valuation of all assets and liabilities would be mandatory, except for common control transactions. Accounting for amalgamation/ acquisition transactions in pharmaceutical sector under Ind AS would lead to recognition of several intangible assets by the acquirer/transferee companies.

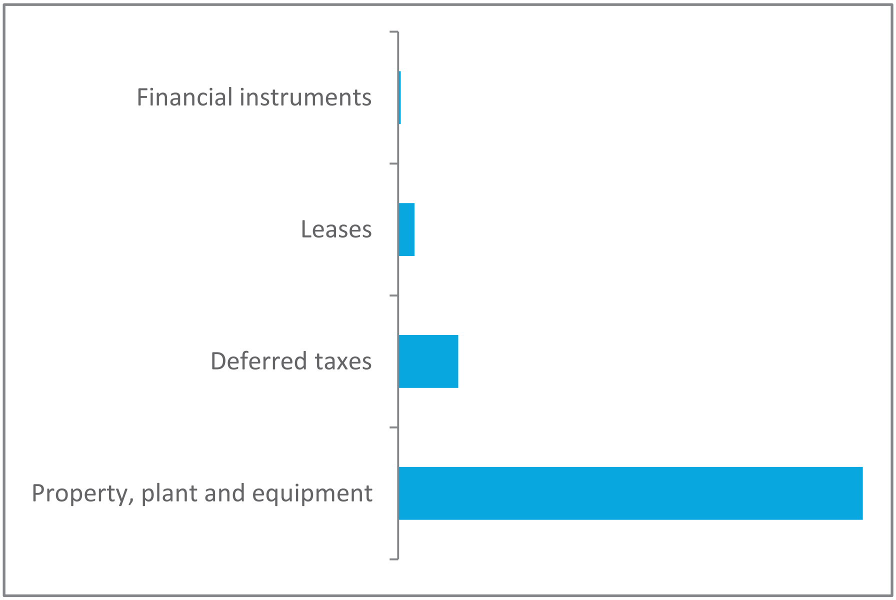
  - **Consolidation of employee welfare trust**

    The concept of "control" under Ind AS is broader than that under Indian GAAP, and goes beyond the shareholding and board nomination rights. Under Ind AS, such SPEs, such as employee welfare trusts, may be required to be consolidated.

9.8 Jewelry & Gems

Sample size– **5** companies

The following chart shows the impact of Ind AS on the sample companies' equity (reserves), in absolute terms, based on the equity reconciliations for financial year ending 31 March 2016 (phase I) and 31 March 2017 (phase II).



- ### Fair valuation as deemed cost for property, plant and equipment

On transition to Ind AS, instead of recalculating the carrying value of PPE under Ind AS, a company has certain choices with respect to PPE balances on the transition date. In the event that a company elects such a choice, the amounts so substituted are referred to as the 'deemed cost' of the PPE. One such choice is to revalue some or all items of PPE to their fair value as at the transition date with a corresponding adjustment in the retained earnings/ reserves. Subsequent depreciation charge is based on the fair valued asset base.

- **Financial instruments**

  - **Measurement of financial asset and liability using effective interest method**

    If it is impracticable for an entity to apply retrospectively the effective interest method in Ind AS 109, the fair value of the financial asset or the financial liability at the date of transition to Ind AS shall be the new gross carrying amount of that financial asset or the new amortised cost of that financial liability at the date of transition to Ind AS.

  - **Interest-free promoters' loans and lease deposits**

    Under Ind AS, all financial instruments are recognized initially at their fair value plus directly attributable transaction costs (except those classified as fair value through profit or loss, where transaction costs are expensed as incurred). All financial assets including assets such as interest free lease deposits, low interest or interest-free loans from promoters or group companies will have to be fair valued at inception. The initial difference that arises from the fair valuation of such financial assets and liabilities is accounted for to reflect the substance of the underlying transaction. For example, the initial difference on fair valuation of interest free lease deposits relating to an operating lease is considered as prepaid lease rent to be amortised as additional lease expense over the lease term.

  - **Financial instruments- fair valuation of investments and derivative contracts**

    Ind AS requires investments in equity shares (other than that of subsidiaries, joint ventures and associates) and derivative instruments at fair value. For investments in equity shares, there is an irrevocable choice to measure at fair value either through P&L or through OCI (FVOCI).

    Financial guarantees

    Under Ind AS, financial guarantees issued in favour of bank on behalf of another company, for example, a subsidiary, are accounted for and are initially recognised and measured at fair value. Subsequently, the measurement is at the higher of: amount of loss allowance determined as per impairment requirements of Ind AS 109, and amount initially recognized less, where appropriate, cumulative amortization.

- **Employee benefits**

  Under Indian GAAP, actuarial gains and losses on post-employment benefit plans and other long term employment plans are to be recognised immediately in P&L. Under Ind AS, all actuarial gains and losses with respect to defined benefit plans employment benefit plans are to be recognised in equity through other comprehensive income.

- **Deferred tax**

  All Ind AS transition adjustments that cause in temporary differences between book base and tax base of assets and liabilities result in recognition of deferred tax assets or liabilities. This was an adjustment in all the sample companies.

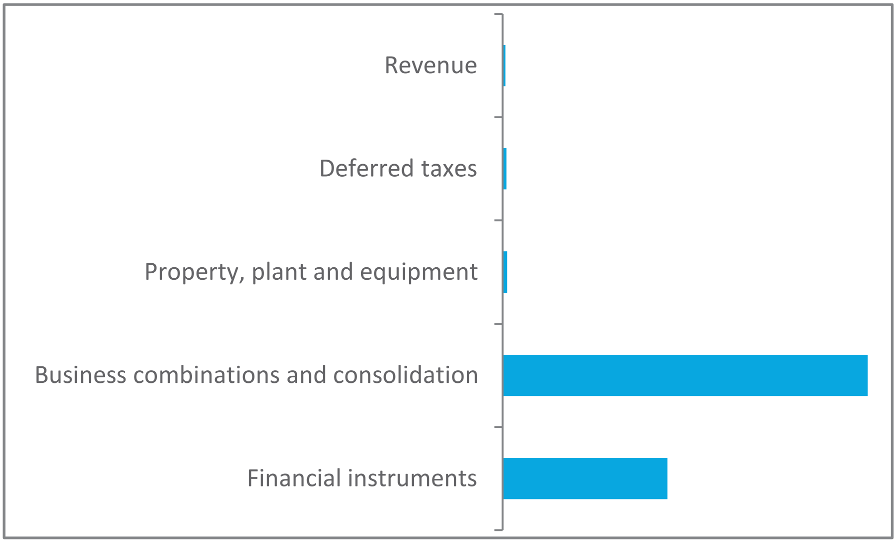
- **Leases**

  Indian GAAP requires lease rental escalations to be straight-lined over the lease term. In the Indian context, given the inflationary situation, Ind AS states that the straight lining of lease rentals may not be required in cases where periodic rent escalation is due to inflation. Indian GAAP did not contain this relaxation for straight lining.

9.9 Media and entertainment

Sample size- **5** companies, including companies involved in broadcasting.

The following chart shows the impact of Ind AS on the sample companies' equity (reserves), in absolute terms, based on the equity reconciliations for financial year ending 31 March 2016 (phase I) and 31 March 2017 (phase II).



- **Financial instruments**
  - **Preference shares**

    Under Ind AS, the liability and equity classifications of financial instruments may change substantially. Redeemable preference shares, classified as part of equity under Indian GAAP, are treated, partly or entirely, as debt under Ind AS. This is due to the nature of the instrument giving rise to redemption obligation at a future date. Such debt instruments are initially measured at fair value and subsequently amortised through P&L by booking finance cost. Dividend distribution tax payable on such debt instruments are charged to P&L as finance cost.

  - **Fair valuation of investments**

    Ind AS generally requires investments in equity shares (other than that of subsidiaries, joint ventures and associates) at fair value. For investments in equity shares, there is an irrevocable choice to measure at fair value either through P&L or through OCI (FVOCI).

  - **Initial fair valuation of refundable deposits**

    All financial assets including assets such as interest free lease deposits, have to be fair valued at inception under Ind AS. The initial difference that arises from the fair valuation of such financial assets and liabilities is accounted for to reflect the substance of the underlying transaction. For example, the initial difference on fair valuation of interest free lease deposits relating to an operating lease is considered as prepaid lease rent to be amortised as additional lease expense over the lease term.

- **Impairment provision based on expected credit loss model**

  Under Indian GAAP, there was no detailed guidance on methodology for determining the impairment of financial assets, such as loans and receivables. Ind AS introduces a new 'expected credit loss' (ECL) model for impairment of financial assets. This model requires more forward looking information to recognize either a 12-month or a lifetime expected credit losses. Consequentially, provision for bad debts no longer depends on a company identifying a credit loss or a default event. Rather, a company always estimates an 'expected loss' considering a broader range of information including; past events such as, historical loss trend for similar assets; current economic and trade conditions; and, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the financial instruments.

Revenue

- Sale contracts with extended credit period

  Ind AS requires measurement of revenue at fair value of the consideration receivable. If the seller offers an extended credit period to customers, revenue is recognised at the present value of future cash inflows. Subsequently, interest income is recognised over the credit period for the difference between the revenue recognised and the stated transaction value.

- **Non-cash consideration (barter advertising transactions)**

  Arrangements in the sector at times involve non-cash consideration in the form of barter advertising. For example, a media company may provide advertisement to an advertiser (generally a startup) for a period of 2-3 years, partly or fully, in exchange of right to subscribe for the equity shares of the advertiser. There are several variations of such arrangements amongst the media companies. Ind AS requires entities to measure the consideration at fair value whenever the arrangement includes non-cash consideration. This would require estimation of fair value of the non-cash consideration, i.e. the equity shares of the advertiser and recognize revenue over the period as and when the advertisement services are rendered.

- **Business combinations and consolidation**

  - **Common Control business combinations**

    Indian GAAP does not differentiate between common control transactions and other acquisitions. Common control business combinations refer to a business combination involving companies or businesses in which all the combining companies or businesses are ultimately controlled by the same party or parties both before and after the business combination and such control is not transitory. In the case of common control business combinations Ind AS requires the assets, liabilities and reserves of the acquired company to be recognised at their carrying values (the only adjustment allowed is for harmonisation of policies). The difference between the consideration paid and share capital of the acquired company is recorded as capital reserve. Comparative information is restated.

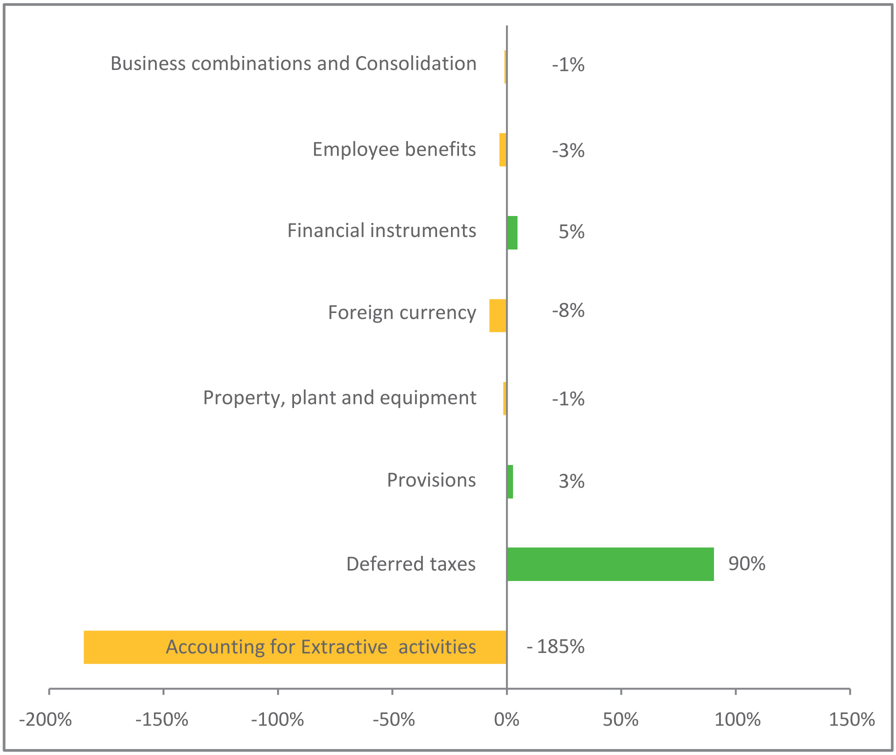
  - **Loss allocation to non-controlling interest**

    Minority interest regarded as non-controlling interest (as a part of equity) and losses in subsidiaries to attributable to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

9.10 Mining and metals

Sample size- **6** companies involved in metal mining and trading operations.

The diagram below depicts the impact wise contribution to the net impact on the aggregated FY March 2016 profits (phase I) and aggregated FY March 2017 profits (phase II) of sample companies.



- ### Upstream accounting– stripping costs

  In surface mining operations, entities may find it necessary to remove mine waste materials ('overburden') to gain access to mineral ore deposits. This waste removal activity is known as 'stripping'. Ind AS set out the principles for recognition of stripping costs incurred during production phase and acknowledges that some of these costs will benefit production in future and sets out the criteria for capitalizing such costs. Indian GAAP did not specifically deal with such costs. Many companies used to either expense such costs as incurred or allocate them to inventory produced in the period.

- ### Impairment of extractive/mining assets

  Under Ind AS, companies have to identify and account for pre-exploratory expenditure, exploration and evaluation (E&E) expenditure and development expenditure separately. E&E expenditure can either be expensed as incurred or capitalised in accordance with the company's selected accounting policy. Capitalised E&E costs are segregated into tangible and intangible assets, according to their nature.

Extractive / mining asset are subjected to an impairment test under Ind AS 36 to ensure that they are not overstated on the balance sheet. The basic principle of impairment is that an asset may not be carried on the balance sheet above its recoverable amount. Recoverable amount is defined as the higher of the asset's fair value less costs of disposal and its value in use.

- **Deferred tax**

  As can be seen from the above, Ind AS adjustment on account of deferred tax has been one of the main impact areas in the sector. In aggregate, deferred tax resulted in 3% decrease in the aggregated net profit of our sample companies. In case of one of the companies, the deferred tax adjustment was as high as 18% of net profit.

  - **Deferred tax of Ind AS adjustments**

    All Ind AS transition adjustment that cause in temporary differences between book base and tax base of assets and liabilities result in recognition of deferred tax assets or liabilities. This was an adjustment in all the sample companies.

  - **Deferred tax on undistributed profits of subsidiaries, joint ventures and associates**

    The differences in tax base and carrying amount of investments would arise due to the existence of undistributed profits of a subsidiary, joint venture or associate. Under Ind AS, deferred taxes are recognized on such temporary differences, unless the parent or investor is able to control the timing of the reversal of the temporary difference; and it is probable that the temporary difference will not reverse in the foreseeable future. This exemption is generally available for undistributed profits of a subsidiary or a joint venture where the parent or investor controls distribution of dividends, and there is no current management intention to declare dividend from such undistributed profits. Deferred taxes are recognised on the portion of undistributed profits of a subsidiary, which have already been proposed for or are intended for distribution as dividend.

- **Financial instruments– fair valuation of investments and derivative contracts**

  Ind AS requires investments in equity shares (other than that of subsidiaries, joint ventures and associates), investment in mutual funds units and derivative instruments at fair value. For investments in equity shares, there is an irrevocable choice to measure at fair value either through P&L or through OCI (FVOCI).

- **Foreign currency exchange differences**

  Given the international nature of metals market, mining entities often enter directly into transactions that are denominated in foreign currencies; and conduct foreign operations through a subsidiary, an equity interest, a joint venture or a directly owned operation.

  Under Indian GAAP, companies prepared their financial statements using Indian rupees. Under Ind AS, a company needs to determine its functional currency, which may not necessarily be the currency of the country in which it is domiciled. Thus, it is possible that the functional currency of an Indian company may be a foreign currency. Each within the group financial statements should undertake its own determination of functional currency based on its primary economic environment.

  Functional currency determination under Ind AS can have a considerable effect on the results and financial position of a company because Ind AS requires all foreign currency amounts (e.g., foreign currency assets, liabilities, revenues and expenses) to be translated into the functional currency.

- **Property, plant and equipment: Fair valuation deemed cost exemption**

  On transition to Ind AS, instead of recalculating the carrying value of PPE under Ind AS, one of the choices that a company has is to measure PPE at fair value at the Ind AS transition date. In the event that a company elects such a choice, the amounts so substituted are referred to as the 'deemed cost' of the PPE. If this choice is availed, the subsequent P&L depreciation charge is based on the fair valued asset base. One large mining and metal company in our sample, opted for this deemed cost exemption.

- **Provision for long term mine restoration obligations**

  Provision for long term mine restoration obligations are required to be initially measured at a discounted amount. Subsequently there is P&L charge on account of unwinding of the discount. Under Indian GAAP, such provisions were accrued at the gross values.

- **Business combinations – reversal of goodwill amortization charge**

  Indian GAAP required amortization of goodwill in the case of amalgamations. Many companies also followed the practice of amortization of goodwill arising of consolidation. Ind AS 103 prohibits amortization of goodwill arising on business combinations, and requires it to be tested for impairment annually.

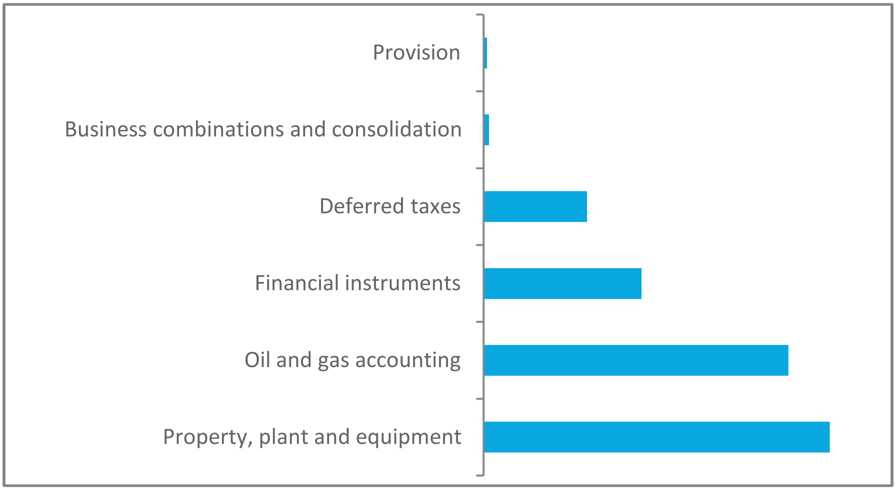
- **Employee benefits**

  Under Indian GAAP, actuarial gains and losses on postemployment benefit plans and other long term employment plans are to be recognised immediately in P&L. Under Ind AS, all actuarial gains and losses with respect to defined benefit plans employment benefit plans are to be recognised in equity through other comprehensive income.

9.11 Oil and gas

Sample size- **5** covering oil and gas extraction companies, oil refining and marketing & retailing companies.

The following chart shows the impact of Ind AS on the sample companies' equity (reserves), in absolute terms



- ### Property, plant and equipment (PPE)

This sector is capital-intensive and, expectedly, the biggest impact area was around PPE.

- **Fair valuation as deemed cost for property, plant and equipment**

On transition to Ind AS, instead of recalculating the carrying value of PPE under Ind AS, a company has certain choices with respect to PPE balances on the transition date. In the event that a company elects such a choice, the amounts so substituted are referred to as the 'deemed cost' of the PPE. One such choice is to revalue some or all items of PPE to their fair value as at the transition date with a corresponding adjustment in the retained earnings/ reserves.

Use of this option for land by an oil and gas major resulted in increase of the 31 March 2016 Indian GAAP consolidated net worth by 21%. The consequential impact on P&L on account of depletion and reversal of impairment charged under Indian GAAP boosted net profits up by 14%.

– **Accounting for enabling assets**

Companies, particularly, public sector undertakings, setting up their factories/plant in remote places, incur significant expenditure on building roads (e.g. approach roads to factory) on land which is not owned by them. Under Indian GAAP, there was an EAC opinion issued a couple of years back which required such expenditure on construction of roads on land not owned by them to be expensed. Under Ind AS, if the expenditure is necessary for the item of PPE capable of operating in the manner intended by the management, it is capitalised. Having such approach roads are often necessary for the construction and running of the factory/plant. Therefore, Ind AS would require capitalisation of expenditure on enabling assets such as roads as a component of the factory/plant.

– **Major spare parts**

Oil refineries regularly require wear parts, resistance parts, mechanical and electrical spares for their normal operations. Major spares and stand-by equipment have been accounted for using divergent practices under Indian GAAP. Many cement companies treated them as inventory. Under Ind AS, all spare parts, stand-by and servicing equipment qualify as PPE if the company intends to use these during more than a period of 12 months.

- **Change in accounting for extractive assets**

Foreign currency accounting

Under Indian GAAP, exchange differences arising on translation of monetary items are recognised as income or expense in the period in which they arise. Further, paragraph 46A of AS 11 allows companies to adjust exchange differences arising on long-term foreign currency monetary items to the carrying value of depreciable capital assets (to the extent they relate to the acquisition of such assets) and are depreciated through P&L over the useful lives of the assets. If the long term foreign currency monetary item relates to other than acquisition of a depreciable capital asset, exchange differences are accumulated in the 'Foreign Currency Monetary Item Translation Difference Account' which is subsequently amortised through the P&L over the life of such long term asset or liability. Ind AS 21 requires exchange differences arising on translation/settlement of all foreign monetary items, including long-term foreign currency monetary items, to be recognized in P&L for the period in which they arise. It does not give an option to defer or to capitalize exchange differences arising on long- term foreign currency monetary items.

- **Deferred tax**

  Deferred tax is recognized for the Ind AS transition adjustments giving rise to temporary differences. This impacted all the companies in the sample.

- **Financial instruments**

  - **Fair valuation of investments**

    Investments in equity shares of other companies (other than that in subsidiaries, joint venture and associates) and mutual fund units are required to be fair valued under Ind AS. Under Indian GAAP, they are generally classified as long term or current. Long term investments are measured at cost less other than temporary diminution in the value of investment. Current investments are measured at lower of cost or market price.

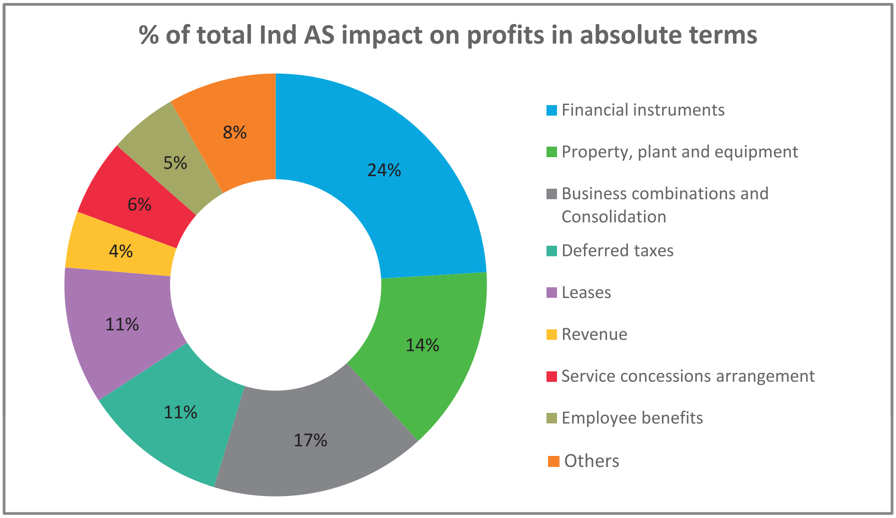
  - **Treasury shares**

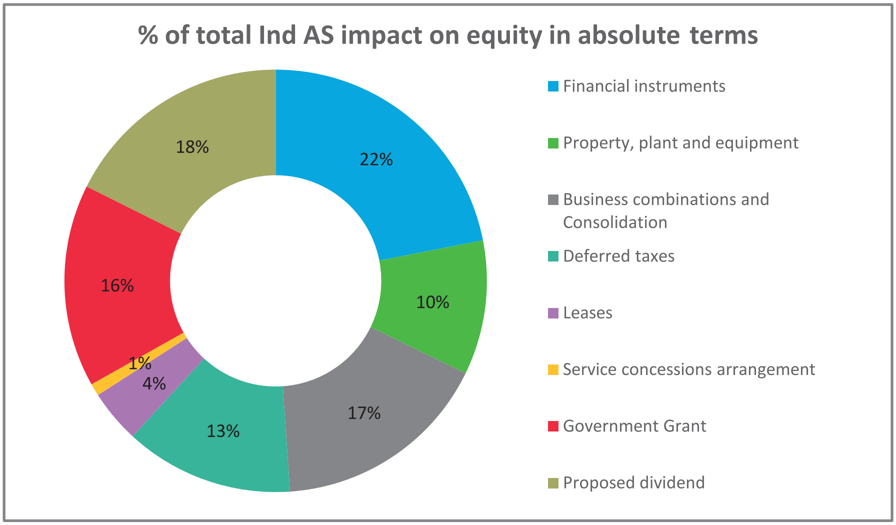
    Companies often hold their own shares through consolidated or unconsolidated trusts. Public sector companies (oil companies) followed this to administer their employee welfare schemes. Accounting practice varied under Indian GAAP on treatment of 'gains' that arise on any subsequent 'sale' of such shares. Ind AS requires consideration paid for repurchased shares (referred to as 'treasury shares') to be recognised as a deduction from equity. Further, no gain or loss is recognized in P&L on purchase, sale, issuance, re-issuance or cancellation of a company's own equity instruments.

9.12 Power and utilities

Sample size- 8 companies, including companies involved in generation, distribution and transmission of power or gas.

Following diagrams provide the impact area wise contribution to the aggregated Ind AS impact in absolute terms for the phase I and phase II companies analysed.





- ## Financial instruments

  - **Fair valuation**

    Ind AS generally requires investments in equity shares (other than that of subsidiaries, joint ventures and associates), investment in mutual funds units and derivative instruments at fair value. For investments in equity shares, there is an irrevocable choice to measure at fair value either through P&L or through OCI (FVOCI). If the FVOCI option is availed, fair value movement and gains/ losses on sale of the investments permanently escape P&L- all remeasurement changes other than dividend income are recognized in equity through OCI.

  - **Measurement of effective interest rate**

    Debt instruments are treated as financial assets and liabilities under Ind AS and are accounted for at amortised cost using effective interest method. Indian GAAP did not contain any such requirement and interest was generally accrued based on the stated interest rates.

  - **Redemption premium**

    The other Ind AS requirement that caused impacts on the sample companies was on account of redemption premium on debentures/ redeemable preference shares. Two companies in our sample were charging redemption premium to securities premium account under Indian GAAP. Under Ind AS, these instruments are required to be measured at effective interest rate through a charge in P&L.

  - **Reclassification from equity to financial liability or vice-versa**

    Under Ind AS, the liability and equity classifications of financial instruments may change substantially. Redeemable preference shares, classified as part of equity under Indian GAAP, are treated as, partly or entirely, as debt under Ind AS. This is due to the nature of the instrument giving rise to redemption obligation at a future date. Such debt instruments are initially measured at fair value and subsequently amortised through P&L by booking finance cost. Dividend distribution tax payable on such debt instruments are charged to P&L as finance cost.

- **Business combinations and consolidation**

  - **Purchase price allocation**

    Currently, Indian GAAP does not mandatorily require fair valuation of assets and liabilities acquired on amalgamation/acquisition. However, with the introduction of Ind AS, fair valuation of all assets and liabilities would be mandatory, except for common control transactions. Accounting for amalgamation/ acquisition transactions in pharmaceutical sector under Ind AS would lead to recognition of individual assets by the acquirer/transferee companies at fair values. There would be resultant impact of depreciation of fair valuation charges.

  - **Consolidation of joint venture and associates**

    Under Indian GAAP, all joint ventures are classified into three types, jointly controlled assets, jointly controlled operations and jointly controlled entities. An entity's investments in joint controlled entities are accounted for using proportionate consolidation method. Ind AS classifies joint arrangements into two types, joint ventures and joint operations. An entity's interest in joint venture is accounted for by using equity method. Investments in associates are also accounted for using equity method. Consolidation of all the joint ventures and associates is based on their Ind AS financial statements.

- **Property plant and equipment**

  PPE was one of the main impact areas and all the sample companies Ind AS adjustments on this account. All companies in our sample had Ind AS adjustment on account of PPE.

  - **Fair valuation as deemed cost for property, plant and equipment**

    On transition to Ind AS, instead of recalculating the carrying value of PPE under Ind AS, a company has certain choices with respect to PPE balances on the transition date. In the event that a company elects such a choice, the amounts so substituted are referred to as the 'deemed cost' of the PPE. One such choice is to revalue some or all items of PPE to their fair value as at the transition date with a corresponding adjustment in the retained earnings/ reserves. If this choice is availed, the subsequent P&L depreciation charge is based on the fair valued asset base.

The additional depreciation charge arising on fair value deemed cost of PPE caused 35% decrease in the net profits on a major gas utility company in our sample.

- **Accounting for major overhaul**

  Mechanical and electrical equipment of power stations generally require regular overhauls, repair and refurbishment. Under Indian GAAP, generally, major overhaul expenses were charged off to P&L as incurred. Ind AS requires major repairs and overhaul expenditure to be capitalized as replacement costs, if they satisfy the recognition criteria.

- **Accounting for spares**

  Major spares and stand-by equipment were treated as inventory by many power companies. Under Ind AS, all spare parts, stand-by and servicing equipment qualify as PPE if the company intends to use these during more than a period of 12 months.

- **Decapitalisation of foreign exchange**

  Under Indian GAAP, exchange differences arising on translation of monetary items are recognised as income or expense in the period in which they arise. Further, paragraph 46A of AS 11 allows companies to adjust exchange differences arising on long-term foreign currency monetary items to the carrying value of depreciable capital assets (to the extent they relate to the acquisition of such assets) and are depreciated through P&L over the useful lives of the assets. Ind AS requires exchange differences arising on translation/settlement of all foreign monetary items, including long-term foreign currency monetary items, to be recognized in P&L for the period in which they arise. It does not give an option to defer or to capitalize exchange differences arising on long- term foreign currency monetary items.

– **Discontinuing operations**

Ind AS requires that non-current assets (or disposal groups) that meet criteria to be classified as held for sale to be carried at the lower of its carrying amount and fair value less cost to sell on the initial date of such identification. Ind AS also requires that a non-current asset classified as held for sale or forming part of disposal group should not be depreciated. These requirements are different from those under Indian GAAP which require that depreciation charge to continue.

- **Embedded leases**

Indian GAAP does not provide explicit guidance on accounting for lease transactions which are embedded in purchase/sale arrangements. Such arrangements are generally recognised based on their legal form. Ind AS provides specific guidance for the identification of embedded leases. Once identified as a lease, the principles for classification and accounting of the embedded lease would be the same as other leases. Under Ind AS, leasing would extend to many power purchase agreements which, in substance, meet the definition of a lease, even though not be structured as 'lease'. These arrangements convey a right to use an asset or assets for an agreed period of time in return for a payment or series of payments.

- **Government grant**

Under Indian GAAP, government grants in the nature of promoter's contribution were to be credited directly to the shareholders' funds (reserves). Grants related to depreciable assets were either treated as deferred income and transferred to the P&L in proportion to the depreciation; or deducted from the cost of the asset. Ind AS does not permit recognition of grants directly in reserves. Therefore, government grants will be recognized as income, on a systematic basis, over the periods necessary to match them with the related cost, which they are intended to compensate. Further, asset-related government grants are presented in the balance sheet only by setting up the grant as deferred income and not as a reduction from PPE.

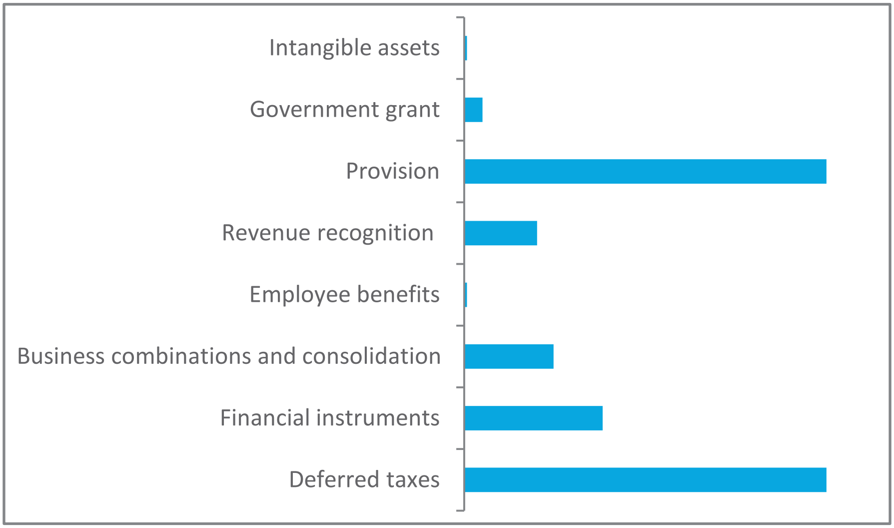
- **Service concession arrangements:**

  There is no specific guidance under Indian GAAP for accounting for service concession agreements and accordingly, practice in this area varies significantly. Ind AS provides specific guidance for public-to-private service concession arrangements in which: the public sector entity controls or regulates the services provided with the infrastructure and their prices; and controls any significant residual interest in the infrastructure. The operator does not recognise the PPE constructed as a part of the service concession arrangement. As per the service concession agreement, the operator is considered to have a right to access, rather than a right to use/right of ownership over the infrastructure asset. This right is recognised either as an intangible asset or a financial asset based on terms of the arrangement.

9.13 Pharmaceuticals and life science

Sample size – **10** companies. Our sample companies ranged from generic drug manufacturers to clinical research companies.

The following chart shows the impact of Ind AS on the sample companies' equity (reserves), in absolute terms, based on the equity reconciliations for financial year ending 31 March 2016 (phase I) and 31 March 2017 (phase II).



- ## Deferred tax

As can be seen from the above, Ind AS adjustment on account of deferred tax significantly impacted the sector. Under Ind AS, deferred taxes computations are based on the temporary differences rather than timing differences under Indian GAAP. This approach often results in more deferred tax to be considered for more items, which may be outside a company's P&L.

- **Deferred taxes on unrealized profits on intra-group transactions**

In pharmaceuticals sector, one of the main reasons for Ind AS adjustment for deferred tax is primarily due to consolidation related adjustment arising on elimination of unrealized profit on subsidiary. Most Indian pharmaceutical companies who export their products overseas, first sell their products to their foreign subsidiaries, who, in turn, subsequently sell the products locally. In the consolidated financial statements of the group, the unrealized profits on the unsold inventory at the subsidiary's books have to be eliminated.

Under Indian GAAP, deferred tax in the consolidated financial statements is the sum of the tax expense of the parent and the subsidiaries. Under Ind AS, deferred tax adjustments are made on account of this inter company elimination of unrealized profits. When unrealized profits are eliminated on unsold inventory purchased by a subsidiary from a parent, deferred taxes are recognized for the temporary difference arising between the tax base (normally the invoiced value) and the carrying amount in the consolidated financial statements (the group's cost after eliminating the unrealized profits).

- ## Financial instruments

- **Fair valuation**

Pharma companies were also affected by the Ind AS requirement to fair value financial instruments such as investments in equity shares (other than that of subsidiary, joint venture and associate companies). There is an irrevocable option to designate investments in equity shares, not held for trading, as fair value through other comprehensive income (FVOCI). At least two companies in the sample used this option.

- **Sales tax deferral scheme**

  Under Ind AS, all financial instruments (including below market borrowings from the government) are initially recognised at fair value with reference to the market rate of interest for a borrowing with similar terms (currency, tenure, etc.) The difference between the initial carrying amount of the borrowing and the present value of future cash inflows and outflows discounted using the market rate of interest would be accounted for as a government grant. This government grant would be recognised as income over the period of the loan. Sales tax deferral schemes are treated as borrowings from government at below-market interest rates.

- **Impairment provision based on expected credit loss model**

  Under Indian GAAP, there was no detailed guidance on methodology for determining the impairment of financial assets, such as loans and receivables. Ind AS introduces a new 'expected credit loss' (ECL) model for impairment of financial assets. This model requires more forward looking information to recognize either a 12-month or a lifetime expected credit losses. Consequentially, provision for bad debts no longer depends on a company identifying a credit loss or a default event. Rather, a company always estimates an 'expected loss' considering a broader range of information including; past events such as, historical loss trend for similar assets; current economic and trade conditions; and, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the financial instruments.

Business combinations

- **Purchase price allocation**

  Currently, Indian GAAP does not mandatorily require fair valuation of assets and liabilities acquired on amalgamation/acquisition. However, with the introduction of Ind AS, fair valuation of all assets and liabilities would be mandatory, except for common control transactions. Accounting for amalgamation/ acquisition transactions in pharmaceutical sector under Ind AS would lead to recognition of several intangible assets by the acquirer/transferee companies. For example, know-how and formulations, in-process research & development, distribution network of distributors, customer relationships and so on.

- **Reversal of goodwill amortization charge**

  Indian GAAP required amortization of goodwill in the case of amalgamations. Ind AS 103 prohibits amortization of goodwill arising on business combinations, and requires it to be tested for impairment annually.

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  Indian GAAP required amortization of goodwill in the case of amalgamations. Ind AS 103 prohibits amortization of goodwill arising on business combinations, and requires it to be tested for impairment annually.

- **Acquisition related costs**

  Acquisition related costs (for example, fees paid to investment banks and costs of due diligence) are treated as capital costs under Indian GAAP and included in the cost of the investment. Ind AS generally requires all such acquisition related costs to be charged to the profit and loss account as incurred. This adjustment constituted 40% of the net Ind AS impact on profits of one of our sample companies.

- **Intangible assets**

  Under Indian GAAP intangible assets are amortised over their useful lives. There is a rebuttable presumption that the useful life cannot exceed 10 years. Under Ind AS, an intangible can be assessed to have an indefinite useful life if there is no predictable time period over which it is expected to generate economic benefits for the company. Many pharmaceutical companies in our sample assessed their brands with certain attributes to be having indefinite useful lives. This caused reversal of Indian GAAP amortization charge, increasing earnings of 3 sample companies.

- ## Revenue

Although revenue does not feature in the above table as a high impact Ind AS area of adjustments in quantitative terms, there have been several discussions and deliberations around revenue under Ind AS in the industry. Following are a few key issues.

– **Estimated sales returns**

One of the prevalent trade practices in the Indian pharmaceutical industry is for the drug manufacturers to accept from the distributors and retailers the returns of products whose shelf lives have either expired or are nearing expiry. Under Indian GAAP, AS 9 provides that when goods are sold with an unlimited right of return to the buyer, it would be appropriate to recognise revenue, but a provision for the anticipated returns based on past experience is required. Consequently, under Indian GAAP, this provision can be presented as a separate expense item in the P&L without any adjustment to revenue.

Under Ind AS, when the buyer has a right of return the goods and there is uncertainty about the possibility of return, revenue is not recognised until the shipment has been accepted by the customer or the goods have been delivered and the time period for rejection has elapsed. Under Ind AS 18, an adjustment would be made to revenue, cost of revenue, and inventories for estimated sales return based on past experience.

– **Linked transaction/ multiple element transactions**

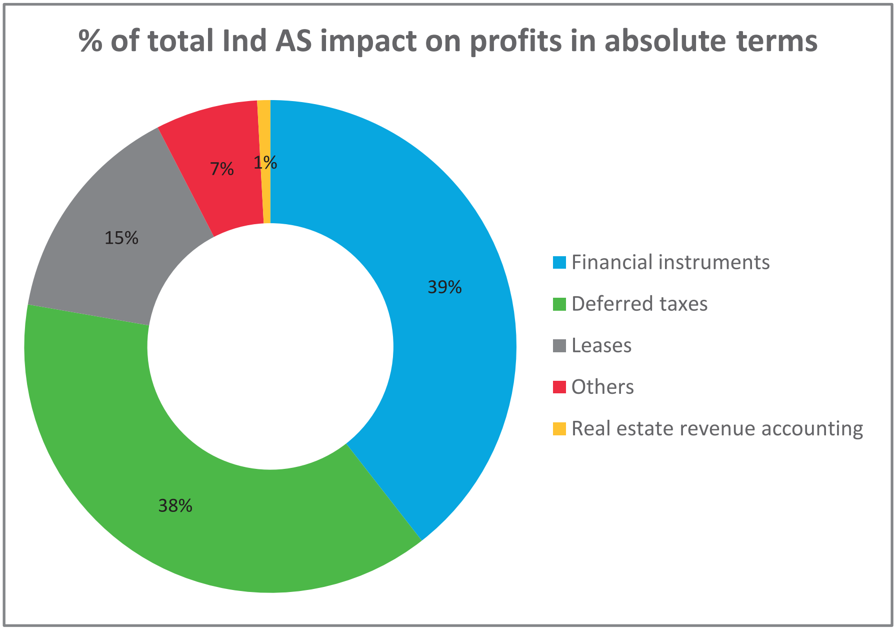
Many Indian pharmaceutical companies enter in to out licensing agreements for the purpose of selling their products overseas. Generally there are two deliverables – sale of product dossier based on which the customer gets 'market authorisation' and commitment to supply the products for sale in that specific country. Such arrangements take various structures and variations. Under Indian GAAP, revenue from sale of dossiers is generally recognized based on the contractual milestones while revenue from sale of goods is recognised separately on supply of goods when risks and rewards of ownership are transferred for those goods.

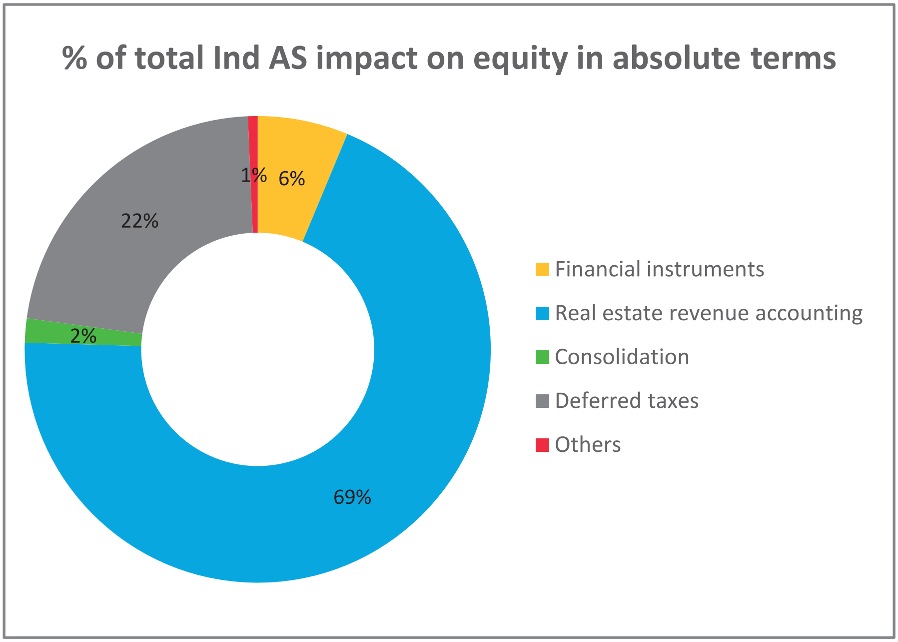
Under Ind AS, it is necessary to apply the revenue recognition criteria to the separately identifiable components of a single transaction in order to reflect the substance of the transaction. Conversely, the recognition criteria are applied to two or more transactions together when they are linked in such a way that the commercial effect cannot be understood without reference to the series of transactions as a whole.

9.14 Real estate and construction

Sample size– **5** companies, including companies involved in construction& development of real estate projects and/or renting out commercial properties.

Aggregated profit and equity reconciliations, in absolute terms,for financial year ending 31 March 2016 (phase I) and 31 March 2017 (phase II) of the sample companies are as follows:





- **Revenue**

One of the major Ind AS issues in the sector is around revenue recognition for real estate development. In fact, one of the carve outs from IFRS is on account of non-inclusion of the equivalent of an IFRS interpretation, IFRIC 15 – Agreements for the Construction of Real Estate, under Ind AS. Instead, there is guidance note issued by the ICAI for real estate sales that is to be applied. As per the Ind AS GN, revenue is recognized generally by applying the percentage of completion method on the basis of the methodology explained in Ind AS 11 Construction Contracts. The treatment is similar to that given in the ICAI GN of real estate issued by the ICAI under Indian GAAP.

  - **Barters and joint development agreement**

    Real estate companies in India often enter into redevelopment agreements with residential flat owners/societies for the demolition and reconstruction of existing building. The developer gets the development rights are acquired by way of construction of built-up area. Real estate companies also enter into various types of joint development agreements (JDAs) with land owners for permission to construct buildings in return for ownership of a part of the building. In practice such agreements are structured in different ways, often to optimize the tax impact or to facilitate fund-raising.

Under the Indian GAAP, most developers treated the construction cost as the acquisition cost of development rights. However, Ind AS requires intangible assets (development rights) acquired in an exchange transaction to be measured at the fair value of the asset given up. This resulted in fair value of the development right to be accounted for.

Real estate developers often provide add-on incentives to buyers in addition to the construction/ development of real estate — e.g., property management services, decorative fittings, etc. The practice under Indian GAAP was to club all the amenities along with revenue from flats, while applying the percentage of completion method. However, under Ind AS, some of such amenities will need to be evaluated for a multiple-element arrangement.

- **Financial instruments**
  - **Measurement at effective interest method**

    Real estate companies are debt heavy. Ind AS requires financial liabilities, such as loans and borrowing, to be initially fair valued, net of initial transaction costs, and subsequently to be measured at amortised cost using effective interest rates. This affected all the companies in our sample. This adjustment caused 31% decrease in the net profit of a company in our sample.

  - **Fair valuation**

    Ind AS generally requires investments in equity shares (other than that of subsidiaries, joint ventures and associates), investment in mutual funds units and derivative instruments at fair value. For investments in equity shares, there is an irrevocable choice to measure at fair value either through P&L or through OCI (FVOCI).

– **Accounting financial guarantee obligations**

Real estate entities often provide financial guarantees to related parties in respect of banks loans. Under Indian GAAP, such borrowings were disclosed as contingent liabilities in the financial statements of the issuer. Under Ind AS, financial guarantee contracts are initially measured at fair value.

- **Lease escalations**

Indian GAAP requires lease rental escalations to be straight-lined over the lease term. In the Indian context, given the inflationary situation, Ind AS states that the straight-lining of lease rentals may not be required in cases where periodic rent escalation is due to inflation. Indian GAAP did not contain this relaxation for straight lining.

The net profit of a sample company with operations in real estate and letting out property increased by 14% on account of this difference.

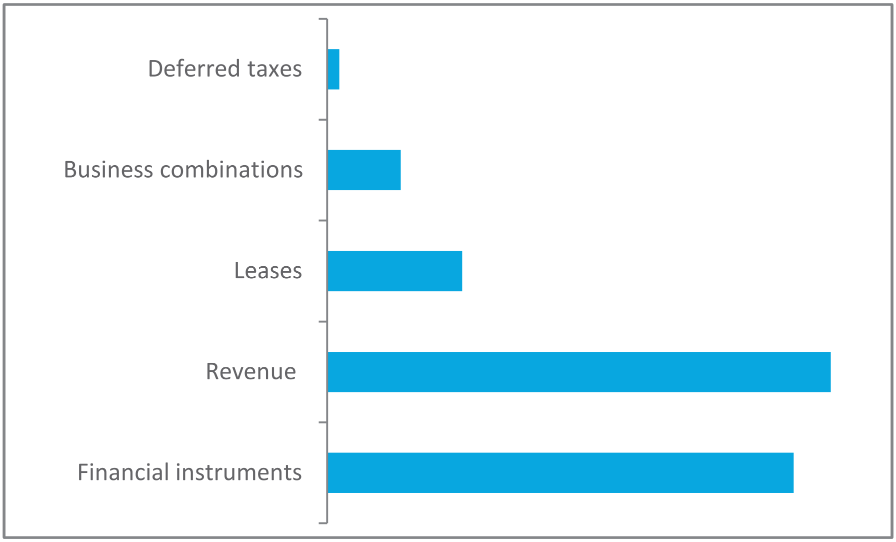
- **Deferred tax**

Deferred tax is recognized for the Ind AS transition adjustments giving rise to temporary differences. This impacted all the sample companies.

9.15 Retail

Sample size- **6** companies involved in retail of merchandise including through e-commerce platform.

The following chart shows the impact of Ind AS on the sample companies' equity (reserves), in absolute terms, based on the equity reconciliations for financial year ending 31 March 2016 (phase I) and 31 March 2017 (phase II).



- **Financial instruments**

  – **Discounting of interest-free lease deposits**

  Retail companies, particularly those who have physical stores, largely take stores on lease basis. In India, interest-free refundable lease deposits are integral to the leasing arrangements. All financial assets including, interest-free lease deposit, have to be fair valued at inception under Ind AS. Subsequently, the deposit is measured using effective interest method and there is an interest income that accrues in the P&L due to unwinding.

  The initial difference that arises from the fair valuation of such financial assets and liabilities is accounted for to reflect the substance of the underlying transaction. The initial difference on fair valuation of interest free lease deposits relating to an operating lease is considered as prepaid lease rent to be amortised as additional lease expense over the lease term.

  – **Fair valuation of investments and derivative contracts**

  Ind AS generally requires investments in equity shares (other than that of subsidiaries, joint ventures and associates), investment in mutual funds units and derivative instruments at fair value. For investments in equity shares, there is an irrevocable choice to measure at fair value either through P&L or through OCI (FVOCI).

- **Measurement at effective interest method**

  Ind AS requires financial liabilities, such as loans and borrowing, to be initially fair valued, net of initial transaction costs, and subsequently to be measured at amortised cost using effective interest rates. This affected all the companies in our sample.

Revenue

- **Deferral of revenue**

  Under Ind AS 18, revenue from sale of goods is recognized when an entity transfers the significant risks and rewards of ownership and gives up managerial involvement, usually associated with ownership or control, if economic benefits are likely to flow. This means that the accounting should reflect the economic substance of transactions and not merely their legal form.

- **Customer loyalty award schemes**

  All retail companies provide loyalty incentives to their end-customers. Under Indian GAAP, there was no specific accounting standard dealing with accounting for award credits and loyalty point schemes. As a result, divergent practices emerged. Many retail companies made provision towards redemption of the award credits based on the actual costs that will be incurred to honor the award credits. Under Ind AS, award credits and other loyalty schemes are considered as a separate component of the main service transaction. Under this approach, the fair value of the award credits/points is separated, based on a fair value allocation of the overall revenue, and deferred. Such deferred income is subsequently recognised when the award credits/points are utilized by the customer or when the same lapse unutilized.

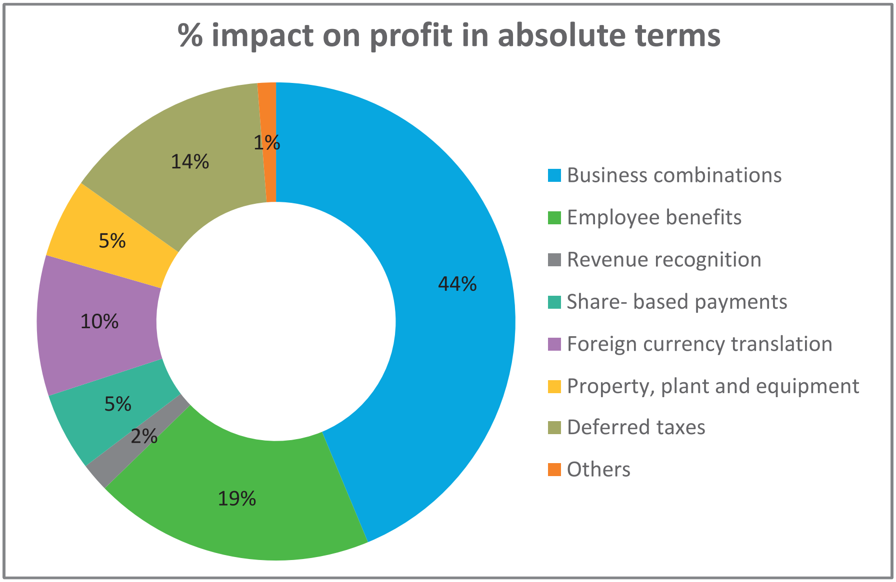
- **Deferred tax**

All Ind AS transition adjustment that cause in temporary differences between book base and tax base of assets and liabilities result in recognition of deferred tax assets or liabilities.

9.16 Technology and Information Technology enabling services

Sample size – **9** companies. Our sample consisted of IT and business process outsourcing companies. We have analysed based on the consolidated financial results of the sample companies.

The following chart shows the impact of Ind AS on the sample companies' profit and loss, in absolute terms, based on the profit and loss reconciliations for financial year ending 31 March 2016 (phase I) and 31 March 2017 (phase II).



- **Deferred tax**

Deferred tax consisted of more than half of the total net Ind AS impact on net profits of our sample companies. Technology companies generally have foreign subsidiaries, joint venture or associates in order to cater to clients overseas. Deferred tax on undistributed profits of such foreign operations was one of the most significant differences that impacted our sample companies.

- **Deferred tax on undistributed profits of subsidiaries, joint ventures and associates**

  The differences in tax base and carrying amount of investments would arise due to the existence of undistributed profits of a subsidiary, joint venture or associate. Under Ind AS, deferred taxes are recognized on such temporary differences, unless the parent or investor is able to control the timing of the reversal of the temporary difference; and it is probable that the temporary difference will not reverse in the foreseeable future. This exemption is generally available for undistributed profits of a subsidiary or a joint venture where the parent or investor controls distribution of dividends, and there is no current management intention to declare dividend from such undistributed profits. Deferred taxes are recognised on the portion of undistributed profits of a subsidiary, which have already been proposed for or are intended for distribution as dividend. The exemption from recognition of deferred taxes would most likely not be met for investments in associates since an investor only has significant influence over an associate and not control.

- **Business combinations**

  There has been fair deal of mergers and acquisitions in technology space in recent times. Intangibles such as customer contracts and relationships are one of the main value drivers in sector.

  Under Indian GAAP, assets and liabilities acquired are recognised at carrying value in the books of the acquired entity. Under Ind AS, all assets including intangibles and contingent liabilities are recorded at fair value. Such intangibles are amortized over their useful life. This resulted in a decrease in the net profits in the sample companies.

- **Earn outs in an acquisition– contingent and deferred considerations**

  Acquirers often have earn-outs in their acquisition agreements wherein a variable consideration is agreed based on subsequent profits or revenues of the acquired companies is agreed upon in addition to the fixed consideration. The practice under Indian GAAP was that such contingent considerations were generally recorded as additional goodwill, when the contingency is resolved. Ind AS requires the fair value of the contingent consideration to be recorded upfront as a component of the total consideration. Any subsequent changes to the value of cash-settled contingent consideration are recorded in P&LUnder Indian GAAP, any deferred consideration was recorded at the amount contractually payable. Under Ind AS, deferred consideration is recorded at its present value. Subsequent accrual of imputed interest expense for such deferred payments is recorded in P&L.

- **Common control acquisitions**

  A common control business combination transaction refers to a business combination involving companies or businesses in which all the combining companies or businesses are ultimately controlled by the same party or parties both before and after the business combination and such control is not transitory. For instance, an amalgamation of two companies controlled by the same parent would be considered as a common control transaction.In the case of common control business combinations Ind AS requires the assets, liabilities and reserves of the acquired company to be recognised at their carrying values (the only adjustment allowed is for harmonisation of policies). The difference between the consideration paid and share capital of the acquired company is recorded as capital reserve. Comparative information is restated. This treatment is similar to the pooling of interests method prescribed under Indian GAAP.

- **Foreign currency**

  Technology companies significantly operate in foreign countries and are thereby exposed to foreign currency exposures. Accounting for foreign currencies was another major impact area for the sample companies.

  Under Ind AS, a company needs to determine its functional currency, which may not necessarily be the currency of the country in which it is domiciled. Thus, it is possible that the functional currency of an Indian company may be a foreign currency. Determination of functional currency is based on the primary economic environment in which the company operates. Factors used for determining the functional currency include the currency that determines the sales price, currency in which costs of providing goods and services are incurred, currency of the country whose competitive forces and regulations mainly determine the sales prices of goods and services, and currency in which funds are raised and retained. For foreign subsidiaries, one of additional factors include – whether the operations of the foreign company are an extension of the parent.

In practice, technology companies operate using a mixture of currencies, example costs are incurred in INR, while revenues are denominated in USD. The consideration of the above factors may not result in an obvious conclusion as to the company's functional currency. Further, in some cases, an analysis of the criteria may indicate mixed results and would involve management judgement.

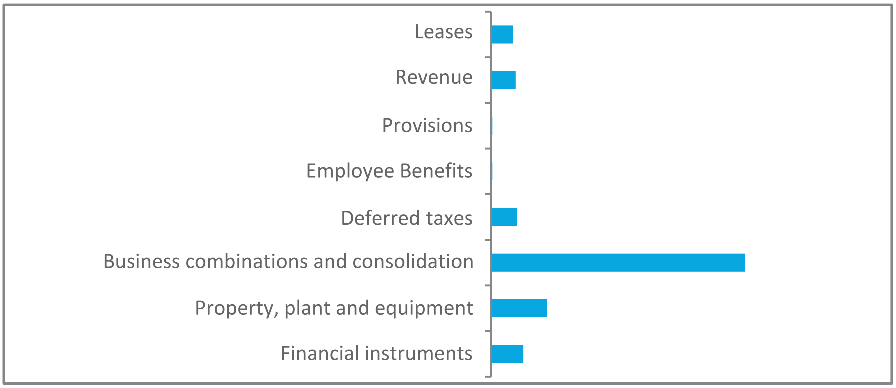
- **Employee benefits**

Technology sector is characteristically employee intensive. Therefore any GAAP difference around accounting for employee difference would affect the sector. Under Ind AS, all actuarial gains and losses with respect to defined benefit plans employment benefit plans are to be recognised in equity through other comprehensive income and permanently escape P&L.

9.17 Telecommunication

Sample size– **5** covering telecom operators, infrastructure and transmission companies.

The following chart shows the impact of Ind AS on the sample companies' equity (reserves), in absolute terms, based on the equity reconciliations for financial year ending 31 March 2016 (phase I) and 31 March 2017 (phase II).



- **Business combinations**

  Indian telecom sector has witnessed several big-ticket mergers, acquisitions and cross-border deals in recent years. Aptly, the GAAP difference between Indian GAAP and Ind AS accounting for business combinations caused the biggest P&L impact for our sample companies.

  - **Reversal of amortisation of goodwill**

    Under Indian GAAP, there are separate standards that deal with amalgamation, consolidation and assets acquisition. Acquisitions through share acquisition are recorded at carrying values of assets and liabilities of the acquired company under AS 21. Under Ind AS 103, all assets and liabilities acquired are recognized at fair value. Additionally, contingent liabilities and intangible assets not recorded in the acquiree's balance sheet are likely to be recorded in the acquirer's balance sheet on acquisition date. Ind AS 103 prohibits amortization of goodwill arising on business combinations, and requires it to be tested for impairment annually. Indian GAAP, on the other hand, required amortization of goodwill in the case of amalgamations. Upon first-time adoption of Ind AS, application of Ind AS 103 to past business combinations prior to the date of transition to Ind AS is optional under Ind AS 101.

- **Financial instruments**

  - **Fair valuation of investments**

    Financial instruments such as investments in equity shares of other companies (other than that in subsidiaries, joint venture and associates) and investments in mutual fund units are required to be fair valued under Ind AS. Under Indian GAAP, they are generally classified as long term or current. Long term investments are measured at cost less other than temporary diminution in the value of investment. Current investments are measured at lower of cost or market price. The Indian GAAP FY 2015-16 net profit of one telecom operator decreased by 9% on account of fair valuation of financial instruments.

- **Expected credit loss impairment provision**

  Under Indian GAAP, there is no detailed guidance on methodology for determining the impairment of financial assets, such as loans and receivables. Ind AS introduces a new 'expected credit loss' (ECL) model for impairment of financial assets. This model requires more forward looking information to recognize either a 12-month or a lifetime expected credit losses. Consequentially, provision for bad debts no longer depends on a company identifying a credit loss or a default event. Rather, a company always estimates an 'expected loss' considering a broader range of information including; past events such as, historical loss trend for similar assets; current economic and trade conditions; and, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the financial instruments.

- **Revenue**

  Telecommunication companies charge initial fees for right of use of their cable infrastructure. Under Indian GAAP, the fees were recognized upfront. Ind AS requires such revenue to be recognized over a period of underlying contract of services.

- **Deferred tax**

  Under Indian GAAP, deferred taxes are recognised on timing differences based on what is known as the income statement approach. Under Ind AS, deferred taxes are recognised on temporary differences based on what is known as the balance sheet approach. Deferred tax is also recognized for the Ind AS transition adjustments giving rise to temporary differences. As can be seen from the above table, this impacted all the companies in the sample.

- **Lease escalations**

  Lease accounting was one of the other impact areas in the sector. Long term arrangements, that are, in form, and/or, in substance, leasing arrangements is a typical feature of the sector. Indian GAAP requires lease rental escalations to be straight-lined over the lease term. In the Indian context, given the inflationary situation, Ind AS states that the straight lining of lease rentals may not be required in cases where periodic rent escalation is due to inflation. Indian GAAP did not contain this relaxation for straight lining.

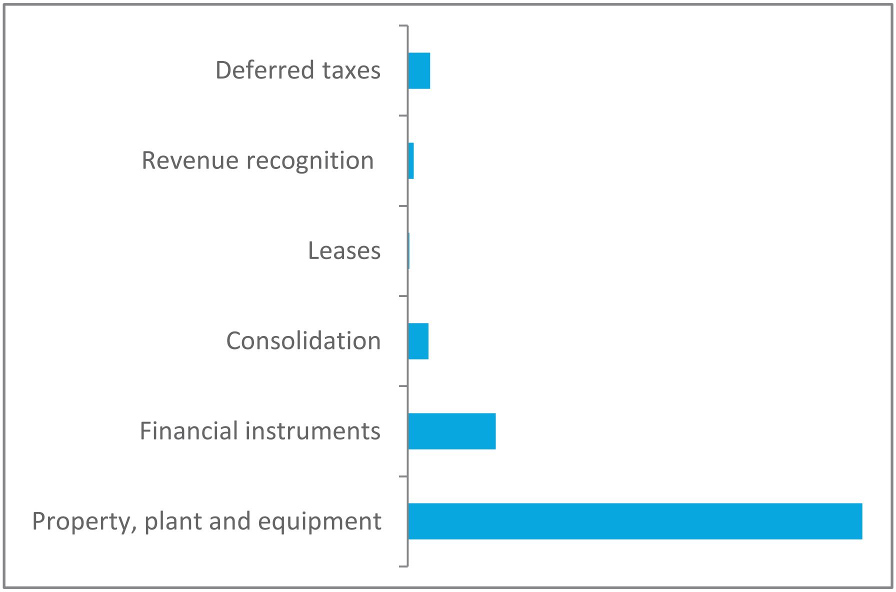
- **Asset retirement obligations**

  Telecom infrastructure companies often have asset retirement obligations (ARO) at network infrastructure sites. Under Ind AS, an ARO provision is created at the present value of the best estimate of future cost of dismantling/ removing the asset and is generally measured as the best estimate of the expenditure to settle the obligation as of the balance sheet date. Provisions for such constructive obligations are required even though they may not represent legal obligations.

9.18 Transportation and logistics

Sample size– **5** companies, including companies involved in civil air transportation, shipping and logistics.

The following chart shows the impact of Ind AS on the sample companies' equity (reserves), in absolute terms, based on the equity reconciliations for financial year ending 31 March 2016 (phase I) and 31 March 2017 (phase II).



- **Financial instruments**

  This sector is capital-intensive and most companies are debt-heavy. Therefore, one of the main Ind AS impact areas was financial instruments.

  - **Measurement at effective interest method**

    Ind AS requires financial liabilities, such as loans and borrowing, to be initially fair valued, net of initial transaction costs, and subsequently to be measured at amortised cost using effective interest rates. This affected all the companies in our sample.

  - **Fair valuation**

    Ind AS generally requires investments in equity shares (other than that of subsidiaries, joint ventures and associates), investment in mutual funds units and derivative instruments at fair value. Shipping companies generally contract in foreign currency derivatives to hedge their foreign currency exposure.

- **Property, plant and equipment**

  - **Accounting for dry dock/ major overhaul expense**

    Ships and aircrafts have to regularly undergo major dry dock/overhaul. Under Indian GAAP, there were mixed practice for accounting for such costs. Broadly, there were two methods of accounting for dry-docking costs; capitaised cost method, i.e., capitalization of all costs related to dry-docking and depreciation of the same over the period until the next expected dry-dock; and the accrual method, i.e., estimating the cost of the next dry-docking and accruing for the same on a systematic basis up to the next dry-docking. Ind AS requires major repairs and overhaul expenditure to be capitalized as replacement costs, if they satisfy the recognition criteria.

  - **Fair valuation as deemed cost for property, plant and equipment**

    On transition to Ind AS, instead of recalculating the carrying value of PPE under Ind AS, a company has certain choices with respect to PPE balances on the transition date. In the event that a company elects such a choice, the amounts so substituted are referred to as the 'deemed cost' of the PPE. One such choice is to revalue some or all items of PPE to their fair value as at the transition date with a corresponding adjustment in the retained earnings/ reserves. Subsequent depreciation charge is based on the fair valued asset base.

- **Leases**

  Indian GAAP requires lease rental escalations to be straight-lined over the lease term. Ind AS states that the straight lining of lease rentals may not be required in cases where periodic rent escalation is due to inflation. Indian GAAP did not contain this relaxation for straight lining.

- **Revenue**

  Under Indian GAAP, revenue on account of shipping voyages was accounted for either based on percentage of completion or the completed voyage method. Ind AS does not allow the completed contracts method; the percentage of completion method should be followed to recognise revenue from services.

Glossary

Terms	Definition
NBFCs	Non-banking financial companies
Ind AS	Indian Accounting Standards
IFRS	International Financial Reporting Standards
Indian GAAP	Indian Generally Accepted Accounting Principles accounting standards notified in Companies (Accounting Standards) Rules, 2006
IRDA	Insurance Regulatory and Development Authority of India
SEBI	Securities and Exchange Board of India
IT	Information Technology
MCA	Ministry of Corporate Affairs
MAT	Minimum Alternate Tax under section 115 JB of Income Tax Act, 1961
GST	Goods and Services Tax
ICDS	Income computation and disclosure standards under IncomeTax Act, 1961
FVTPL	Fair value through profit and loss
FVOCI	Fair value through other comprehensive income
OCI	Other comprehensive income
P&L	Profit and loss account
PPE	Property, plant and equipment
Ind AS 101	Indian Accounting Standard (Ind AS) 101 – First time Adoption of Indian Accounting Standards
ECL	Expected credit loss model under Ind AS 109 Financial Instruments
FMCG	Fast moving consumer goods
SPE	Special purpose entities

RSM India

Mumbai
13th Floor, Bakhtawar
229, Nariman Point
Mumbai – 400 021

3rd Floor, A Wing,
Technopolis Knowledge Park
Mahakali Caves Road, Andheri (E)
Mumbai – 400 093

201, Shree Padmini
Teli Galli Junction
Andheri (E), Mumbai – 400 069

New Delhi – NCR
2nd Floor, Tower-B
B-37, Sector-1
Noida – 201 301

Chennai
Apex Towers, 2nd Floor
No.54, II Main Road
R.A. Puram
Chennai – 600 028

1A, Chamiers Apartments
62/121, Chamiers Road
R. A. Puram, Chennai – 600 028

Kolkata
A-6, 12th Floor
Chatterjee International Centre
33A, Jawaharlal Nehru Road
Kolkata – 700 071

Bengaluru
3rd Floor, B Wing
Jubilee Building, 45, Museum
Road, Bengaluru – 560 025

Surat
DTA-2, G-02 to G-05 Plot
Gujarat Hira Bourse
Ichhapore-2
Surat – 394 510

T-720, Belgium Tower
Opp. Linear Bus Stop
Ring Road, Surat – 395 002

B/604-605, Tirupati Plaza
Athwa Gate, Nanpura
Surat – 395 001

Hyderabad
217, Maruthi Corporate Point
Swapnalok Complex
92, Sarojini Devi Road
Secunderabad – 500 003

Ahmedabad
B-504, Narnarayan Complex
Navrangpura
Ahmedabad – 380 009

Pune
102, 1st Floor
Shree Residency
Baner Balewadi Road
Balewadi, Pune – 411 045

Gandhidham
Divyasarika, Plot No. 41
Ward 10-A, Gurukul
Gandhidham – 370 201

Jaipur
346, 3rd Floor
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