Singhi & Co.

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Assurance and Advisory

INDIAN ACCOUNTING STANDARDS **(IND AS)**

Preamble

On February 16, 2015, the Ministry of Corporate Affairs (MCA) released a roadmap for the next phase of implementation of IND AS which would be applicable on companies in the financial year 2015-16 as voluntarily and from 2016-17 on a mandatory basis. Its applicability was detailed in Companies (Indian Accounting standard) Rules 2015.

Further Clarifications

- Companies covered in the above rules will have to apply IND AS only and companies not covered above will apply AS specified under Section 133 of the Act, read with Rule 7 of the Companies (Accounts) Rules, 2014 only and not IND AS.
- Every company applying IND AS for the first time will require an opening IND AS compliant Balance sheet I.e. for Phase 1 as on 31st March 2015 and For Phase 2 as on 31st March 2016 for comparatives.
- Net worth criteria is not applicable on Holding, Subsidiary, Joint Venture and Associate Companies of companies covered under rules and they will also apply IND AS without exception.
- There are no restrictions on voluntary adoptions of IND AS but once they have been adopted they shall continue to be applied for all subsequent Statements
- Once a company is required by the rules to comply with the IND AS it shall apply to both stand-alone and consolidated financial statements.
- Company's Net worth would be calculated on the basis of its last audited stand-alone financial statements.

Mandatorily Applicable

- **Phase 1 - For Accounting Period Beginning On Or After 1st April 2016**
  - All listed Companies, other than those listed on SME Exchange, with net worth of Rs 500 cr or more
  - Any other Co with Net worth of 500 Cr or more
  - Holding, Subsidiary, Joint Venture or Associate Companies of such company.
- **Phase 2 - For Accounting Period Beginning On Or After 1st April 2017**
  - All Listed Companies, other than those listed on SME Exchange, with net worth of less than Rs.500 cr.
  - Any other company with net worth of more than 250 Cr but less than 500 cr.
  - Holding, Subsidiary, Joint Venture or Associate Companies of such company

Voluntary Adoption

- Any company may apply Ind As from 1st April 2015.

Deffered Applicability

- Banking , Insurance and NBFCs are not required to comply wiht IND AS either voluntarily or mandatorily. Their date will be notified separately.

Transition

Implementation of IND AS would have far reaching impact on various aspects of company. Transition to Ind AS is not just an “accounting change”. Considering the potential wide-ranging effects of the transition, the implementation effort would impact functions outside of the finance department, including IT, legal, sales, marketing, human resources, investor relations and senior management. A number of related work streams should be considered in this effort, including:

- Accounting and financial reporting
- Tax
- Business processes and systems
- Change management, communication and training
- Control Environment
- Investor relation
- Business operations and project management

In addition, it is critical to have strong project management skills to coordinate the roles of the various business functions and to keep the work streams running smoothly and on schedule.

Concluding Remarks

Introduction of IND AS marks a partial convergence of accounting standards in India with the IFRS. However, India will continue with the two sets of accounting standards – IND AS and the existing accounting standards read with Rule 7 of the Companies (Accounts) Rules, 2014 only and not IND AS, which may gradually align with IND AS.

INTERNAL FINANCIAL CONTROL (IFC)

Preamble

- Indian regulations have been modified to reflect the developments in the Western world. Introduction of Internal Financial Controls (IFC) in the Companies Act 2013, reflect the continuation of this trend.
- Section 134 (5) (e) explains the meaning of the term, "Internal Financial Controls" as "the policies and procedures adopted by the company for ensuring the orderly and efficient conduct of its business, including

  - Adherence to company's policies,

  - Safeguarding of its assets,

  - Prevention and detection of frauds and errors,

  - Accuracy and completeness of the accounting records, and the

  - Timely preparation of reliable financial information."

PDCA	5 Components of Internal Control
Plan	Control Environment
	Risk Assessment
Do	Control Activities
Check	Information & Communication
Act	Monitoring Activities

Key Requirements as per the Companies Act, 2013

Section 134 – Director's Responsibility Statement: In the case of a listed company, the Directors' Responsibility states that directors have laid down IFC to be followed by the company and that such controls are adequate and operating effectively.

Section 177 – Audit Committee Responsibility: Audit committee may call for comments of auditors about internal control systems before their submission to the Board and may also discuss any related issues with the internal and statutory auditors and the management of the company. Audit committee should act in accordance with the terms of reference specified in writing by the board, which should, inter alia, include evaluation of IFC and risk management systems.

Section 143 – Auditor's Report: The auditor's report should also state whether the company has adequate IFC system in place and the operating effectiveness of such controls.

Schedule IV – Independent Directors Responsibility: The independent directors should satisfy themselves on the integrity of financial information and ensure that financial controls and systems of risk management are robust and defensible.

INCOME COMPUTATION & DISCLOSURE STANDARDS

Income Computation and Disclosure Standards (effective from 1st April 2015)

The Central Board of Direct Taxes vide its Notification No: 33/2015 dated 31st March 2015 notified 10 Income Computation and Disclosure Standards ('ICDS') which is to be followed by all assessees at the time of computation of income chargeable to tax under the head "Profit and Gains of Business or Profession" or "Income from other sources".

Section 145(2) of the Income tax Act, 1961 empowers Central Government to issue Accounting Standards for computation of Income. Earlier in 1996, the Central Government had notified only two accounting standards i.e., 'Disclosure of Accounting Policies' & 'Disclosure of Prior Period Items and Extraordinary Items and Changes in Accounting Policies'. During December 2010, the Central Government constituted a committee to draft ICDS. Thereafter, in October 2012, the Committee issued draft of 14 tax accounting standards for public comments. Finally, on revision, now 10 ICDS have been notified for compliance by all taxpayers following mercantile system of accounting.

Executive Summary

These ICDS now supersede the two standards notified in 1996 and the same is effective from 1st April, 2015 i.e., tax year 2015-16 (Assessment Year 2016-17).

ICDS Number	Name of the ICDS
I	Accounting Policies
II	Valuation of Inventories
III	Construction Contracts
IV	Revenue Recognition
V	Tangible Fixed Assets
VI	Effects of Changes in Foreign Exchange Rates
VII	Government Grants
VIII	Securities
IX	Borrowing Costs
X	Provisions, Contingent Liabilities & Contingent Assets

Key features of ICDS

- Effective date of ICDS is 1st April, 2015 i.e., financial year 2015-16
- ICDS is applicable to all taxpayers i.e., corporate & non-corporate and whether resident or non-resident
- No net-worth or turnover criteria prescribed for its applicability
- The entity need not maintain separate books of accounts for ICDS. ICDS is only for the purpose of computation of income under the head "Profit and Gains of Business or Profession" or "Income from other sources"
- ICDS shall have no impact on minimum alternate tax computation
- In the case of conflict between the provisions of the Income tax Act, 1961 and ICDS, the provisions of the Act shall prevail to that extent

Significant deviations

A summary of significant deviations in ICDS I to ICDS V from the existing Accounting Standards is as follows:

ICDS I (Accounting Policies)

- Expected losses or mark-to-market losses shall not be recognized unless permitted by any other ICDS
- Concept of materiality for selection of accounting policies is omitted
- Accounting policies shall not be changed without a reasonable cause

ICDS II (Valuation of Inventories)

- Use of standard cost method, as a technique for measurement of cost, is not permitted
- Method of valuation of inventory once adopted by a taxpayer in any tax year shall not be changed without a reasonable cause
- Inventory on the date of dissolution of a partnership firm, association of persons and body of individuals shall be valued at net realizable value regardless of whether business is discontinued or not

ICDS III (Construction Contracts)

- During the early stages of a contract, where the outcome of the contract cannot be estimated reliably contract revenue is recognised only to the extent of costs incurred. The early stage of a contract shall not extend beyond 25 % of the stage of completion
- Condition of non-recognition of contract revenues, if it is not possible to reliably measure the outcome of a contract, is not incorporated in ICDS

ICDS – Objective and Idea

1. Filling Gaps that are existing in the current direct taxation regime
2. Bringing Consistency and clarity in computation of Taxable Income and providing stability on tax treatments of various items
3. Tax neutral framework in facilitation of smooth implementation of Ind AS

- Retention money to be considered for computing revenue based on percentage of completion method
- Losses incurred on a contract shall be allowed only in proportion to the stage of completion. As per committee, future or anticipated losses shall not be allowed, unless such losses are actually incurred

ICDS IV (Revenue Recognition)

- Revenue from service transactions shall be recognized based on “percentage completion method”

ICDS V (Tangible fixed assets)

- In case of acquisition of an asset in exchange for another asset, shares or other securities, fair value of the tangible fixed asset so acquired shall be recorded as actual cost of the asset

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