Indian Accounting Standards – Industry wise impact on transition

Session at Pune

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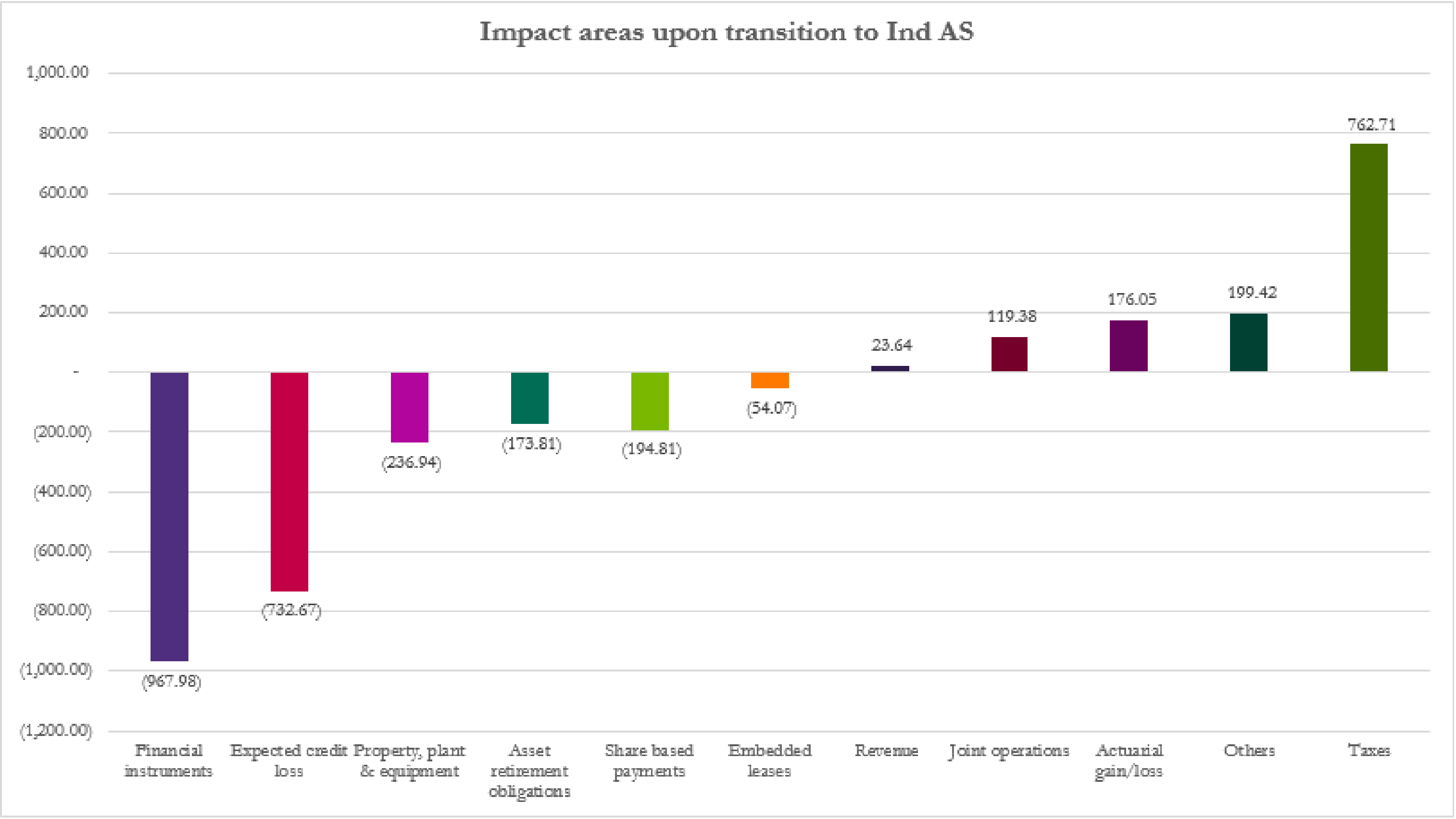
Sector	Accounting area							
	Financial instruments	Property, plant & equipment	Asset retirement obligations	Share based payments	Leases (incl Embedded leases)	Revenue	Taxes	Others
Automotive and ancillary	■	■				■	■	■
Construction, engineering and infrastructure	■				■		■	■
Manufacturing	■	■					■	
Power	■	■			■		■	
Real estate	■				■	■	■	
Telecommunications	■	■	■		■	■	■	
Chemicals and fertilisers	■	■					■	■
Information technology	■	■		■		■	■	■
Media and entertainment	■					■	■	
Oil, gas and mining	■	■	■				■	■
Retail	■	■				■	■	
Pharma industry	■	■		■			■	■
Logistics						■	■	■
Services				■	■	■	■	



Impact areas upon transition to Ind AS
1,000.00
800.00
600.00
400.00
200.00
-
(200.00)
(400.00)
(600.00)
(800.00)
(1,000.00)
(1,200.00)
(967.98)
(732.67)
(236.94)
(173.81)
(194.81)
(54.07)
23.64
119.38
176.05
199.42
762.71
Financial instruments
Expected credit loss
Property, plant & equipment
Asset retirement obligations
Share based payments
Embedded leases
Revenue
Joint operations
Actuarial gain/loss
Others
Taxes

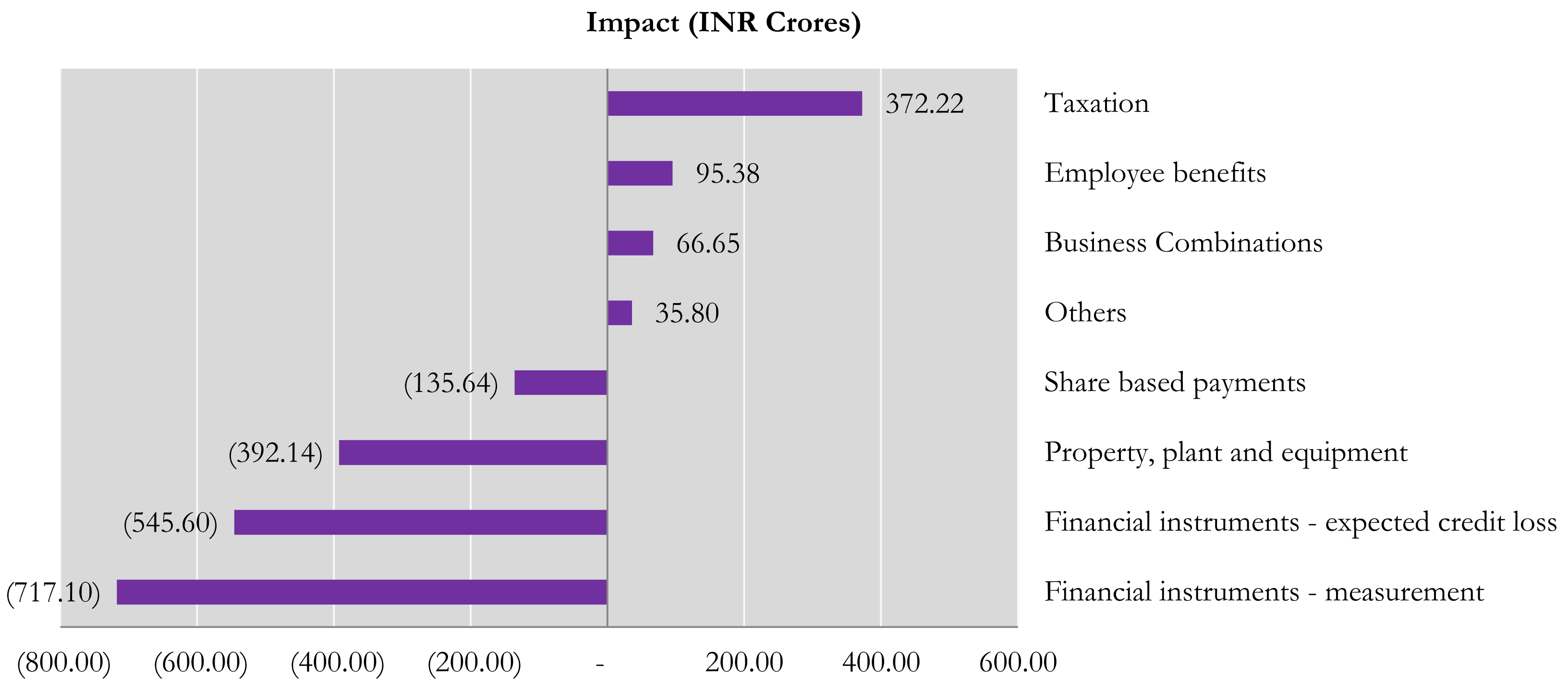
Critical areas of Impact

S.No	Accounting area	Our experience
1.	Consolidation of entities: there is a new guidance on principles of consolidation, where rule (majority voting rights and/or board control) has given way to cover more scenarios where consolidation is possible	This guidance is more critical for industries that have to create multiple entities (SPV) to conduct their business, for instance, Real Estate
2.	Business combination: accounting has moved from book value accounting to fair value determination	All industries that have seen/continue to see significant deals will be most impacted. Pharma, IT/ITES
3.	Financial instruments: capital structures or investment structures shall move to understanding debt/equity and recorded at fair value	All industries are impacted, mostly those that have seen PE investments of late or those that deploy surplus cash
4.	Taxes: Concept of deferred taxes has moved from timing differences to temporary differences and recognition of DTA on losses is more realistic	All industries have been impacted, particularly those having losses
5.	Embedded Leases: new concept, toll manufacturing, dedicated assets	Power, Auto components, manufacturing have been impacted

Manufacturing Sector – Key Impacts

Sr No	Impact Areas	Impact on		
		Revenue	Profit	Net Assets
1	**Capitalization** of certain stores and spares, major repairs, inspection and overhaul expenses as per the principles of component accounting.	↔	↑	↑
2	Recognition of **Asset Retirement Obligation** for plants constructed on leasehold land or for environmental obligations	↔	↓	↓
3	Capitalization of **exchange differences** on long term foreign currency monetary items as per Para D13 AA of Ind AS 101	↔	↑ ↓	↑ ↓
4	Derecognition of **transaction costs incurred on borrowings**	↔	↑	↑

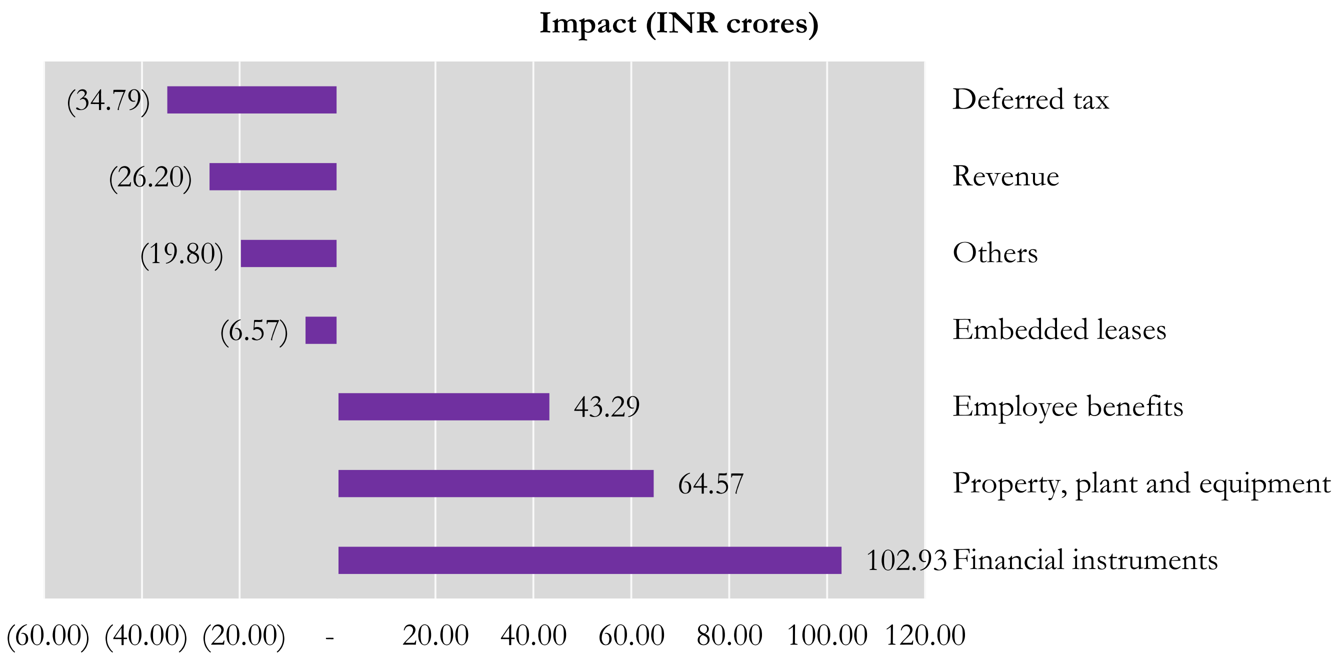
Manufacturing sector - Ind AS heat map (Q1 15-16)



Power Sector – Key Impacts

Sr No	Impact Areas	Impact on		
		Revenue	Profit	Net Assets
1	**Embedded Leases** – Arrangements whereby such customers are granted a right to use specified assets, explicitly or implicitly with a common feature of "take or pay". The presence of such features results in the classification of the arrangement as a "lease".			
2	**Service Concession arrangements** - Revenue and profitability will improve in construction Stage			
3	**Decommissioning Obligations** - Decommissioning or environmental restoration work required at the end of the useful life of the plant or in case of promise made to remediate damage can give rise to legal or constructive obligation and thus a liability under Ind AS.			

Power Sector - Ind AS heat map (Q1 15-16)



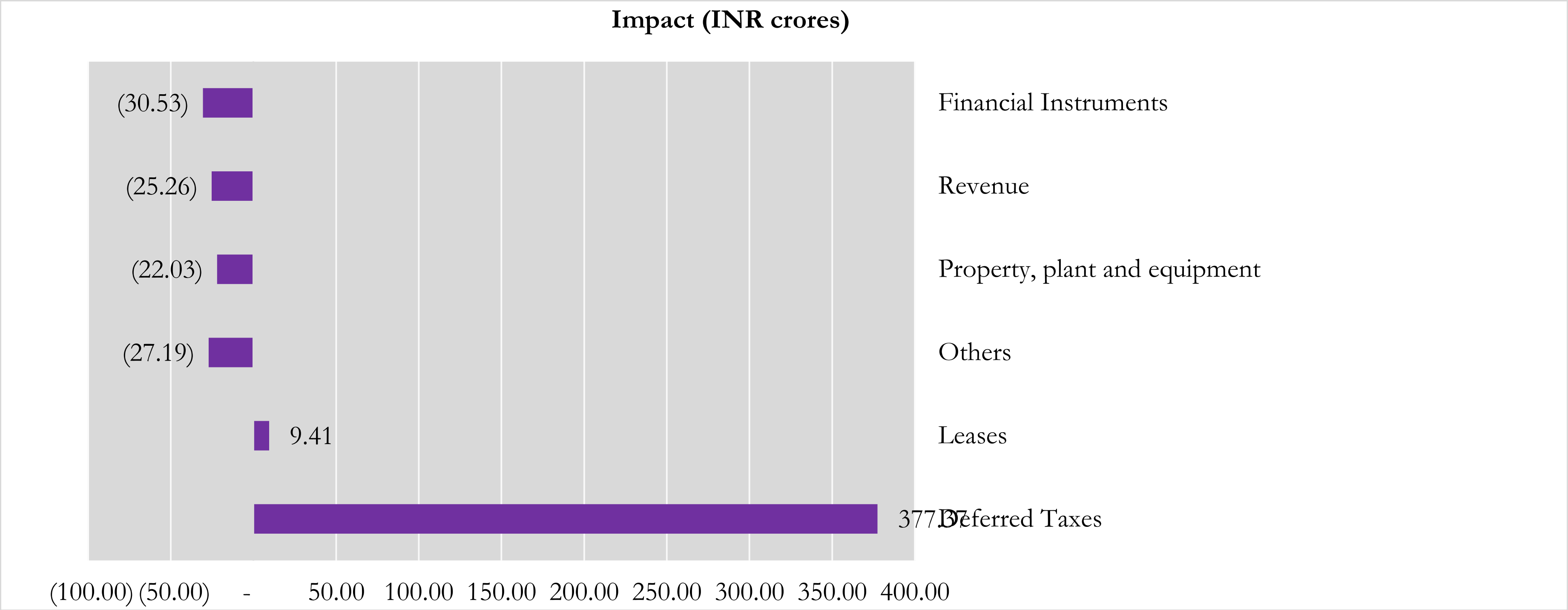
Telecom Sector – Key Impacts

Sr No	Impact Areas	Impact on		
		Revenue	Profit	Net Assets
1	**Activation or installation charges** – Under Ind AS such charges have been deferred and recognised over the customer relationship period as under Ind AS, revenue is recognised at fair value of consideration received.	↓	↓	↓
2	**Multiple Elements** - Telecom companies offers services under one package i.e. talk time along with value added services like data packs, SMS services etc. Under Ind AS Revenue needs to be recognised for each such service separately.	↓	↓	↓
3	**Subscriber deposits** – Being in the nature of financial liabilities, such deposits needs to be accounted at fair value on initial recognition and subsequently at amortised costs	↑	↑ ↓	↔

Telecom Sector – Key Impacts

Sr No	Impact Areas	Impact on		
		Revenue	Profit	Net Assets
4	**Decommissioning obligation** – such obligation needs to be recognised for telecom towers situated on leased sites or where there is any legal obligation to dismantle the same at the end of the lease period	↔	↓	↓

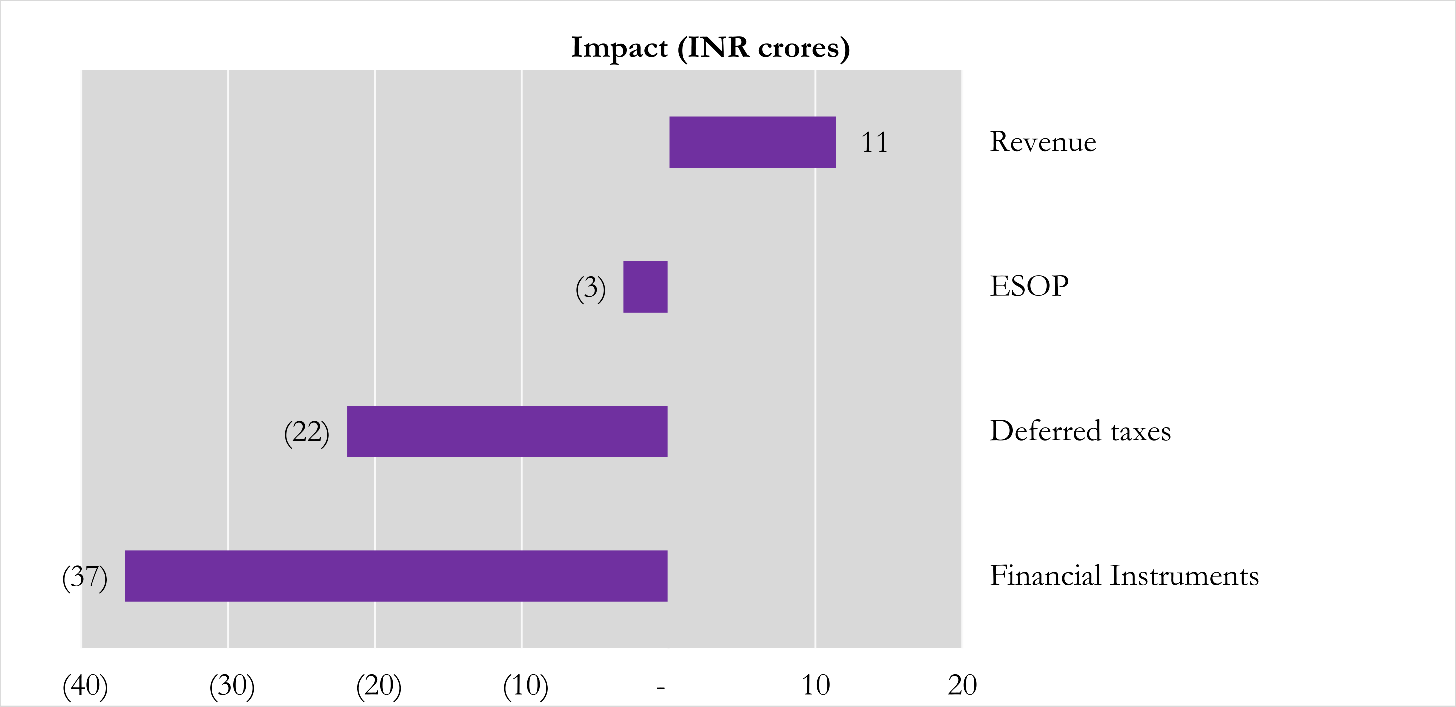
Telecom Sector - Ind AS heat map (Q1 15-16)



Media & Entertainment Sector – Key Impacts

Sr No	Impact Areas	Impact on		
		Revenue	Profit	Net Assets
1	**Free advertising** – Under Ind AS revenue to be apportioned between initial and free slots and recognized separately on broadcasting i.e. as per the principles of Multiple Elements arrangements	↓	↓	↔
2	**Barter transactions** – Both revenue and costs are recognised at fair value.	↑	↔	↔

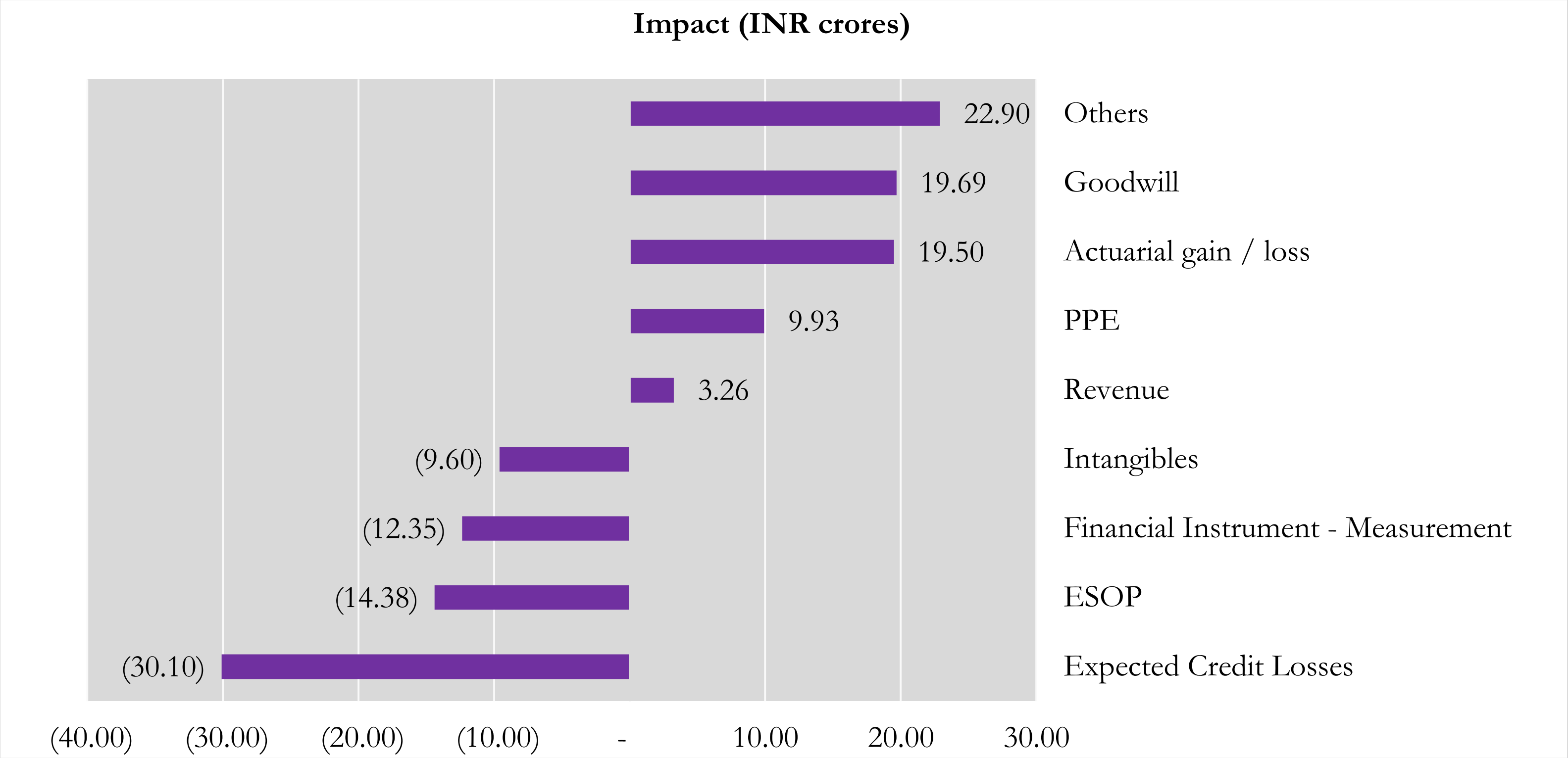
Media & Entertainment Sector – Ind AS heat map (Q1 15-16)



Pharma Sector – Key Impacts

Sr No	Impact Areas	Impact on		
		Revenue	Profit	Net Assets
1	**Revenue Recognition** – Incentives like free goods, cash rebates, gifts etc., which are typically recognized as costs in Indian GAAP, may need to be netted off from revenue, thus reducing top line.	↓	↔	↔
2	**Revenue Recognition** – Provision for sale returns would now be mandatorily required.	↓	↓	↓
3	**Out-licencing/Dossier Agreements** – One time non-refundable upfront payment received without any substantive effort carried out might have to be straight lined over the life of the contract.	↓	↓	↓

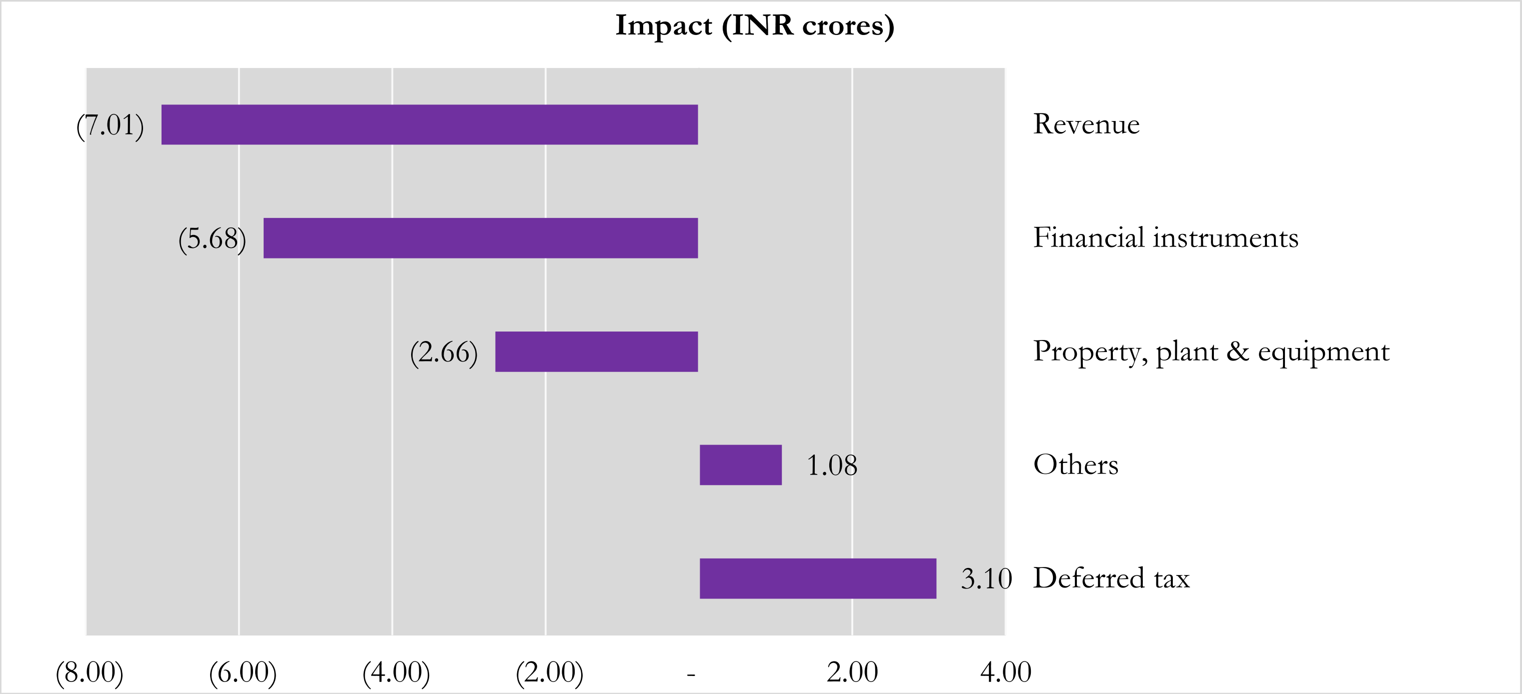
Pharma Sector – Ind AS heat map (Q1 15-16)



Retail Sector – Key Impacts

Sr No	Impact Areas	Impact on		
		Revenue	Profit	Net Assets
1	**Customer loyalty programs** – measured at fair value. This would result in deferral of revenue. Further, certain incentives may be netted off from revenue.	↓	↓	↓
2	**Security deposits** – Interest free security deposits shall initially recognised at their fair value, usually represented by the present value of expected cash flows discounted at market interest rate. This would significantly impact EBITDA.	↔	↓	↓
3	**Lease straight lining** – Under Ind-AS, lease income from operating leases is recognised on straight line basis, unless the payments to lessor are structured to increase in line with expected general inflation to compensate for lessor's expected inflationary cost increases.	↔	↓↑	↓↑

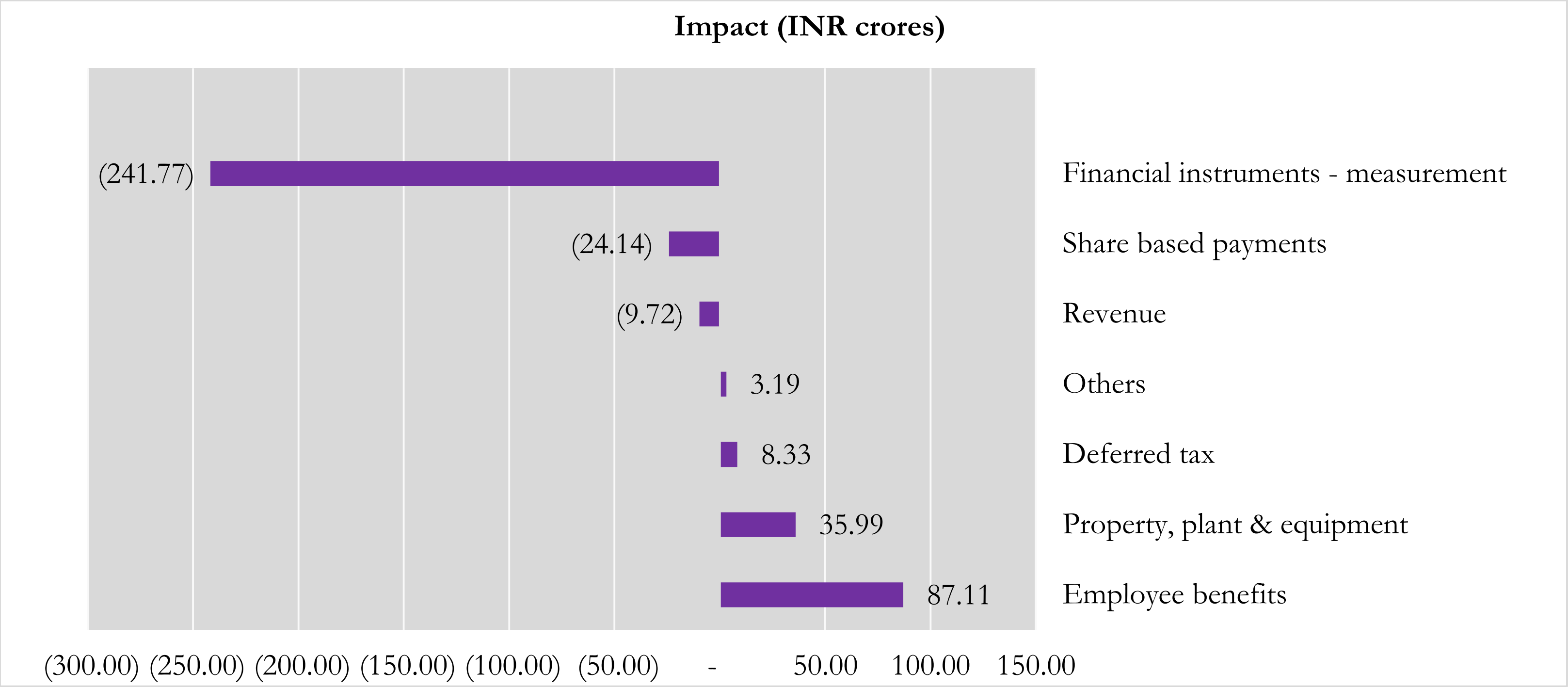
Retail Sector – Ind AS heat map (Q1 15-16)



IT/ITES Sector – Key Impacts

Sr No	Impact Areas	Impact on		
		Revenue	Profit	Net Assets
1	**Multiple element arrangements** – It is a common feature of this industry to bundle up multiple deliverables in one packaged deal. Under Ind AS, these are usually called "multiple element arrangements" whereby revenue in respect of each identifiable component of a single transaction is accounted for separately to reflect the substance of the transaction.	↓	↓	↓
2	**Foreign currency derivatives** – Derivatives are required to be carried at fair value in Ind AS, and thus MTM gains shall be recognised. Guidance for hedge accounting has also changed.	↔	↑	↑
3	**Financing element** – Since IT projects are long-term in nature and customers prefer to protect their interests by either back-loading the consideration or retaining some portion of milestone based payment, there is an inherent element of time value of money which would need to be stripped out in Ind AS.	↓	↓	↓

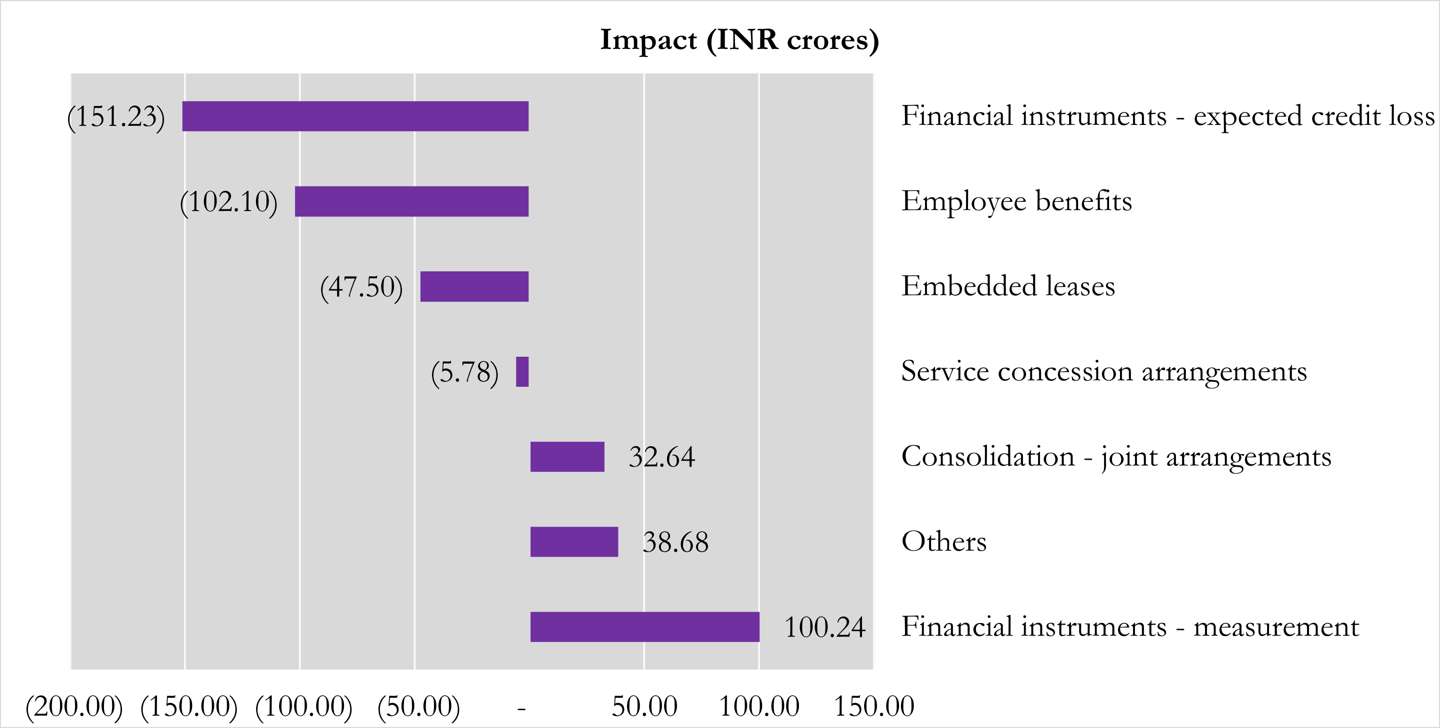
IT / ITES Sector – Ind AS heat map (Q1 15-16)



Infra Sector – Key Impacts

Sr No	Impact Areas	Impact on		
		Revenue	Profit	Net Assets
1	**Build, own, operate and transfer (BOOT) arrangements -** Under Ind AS, SCAs are treated as construction contracts, where the private operator, in capacity of a construction contractor, builds infrastructure for the government. This construction service is accounted for by the private operator at fair value and recognised as revenue, generally using the percentage of completion method.			
2	**Expected Credit Losses** – Ind AS prescribes the "expected credit loss model" whereby a loss allowance for expected credit losses is recognised on financial assets based on expectation of events which may happen in future which could be derived from recent historical counterparty default rates.			
3	**Joint arrangements through unincorporated vehicles** – Depending on the facts, joint arrangements can become subsidiaries, jointly operation or joint venture.			

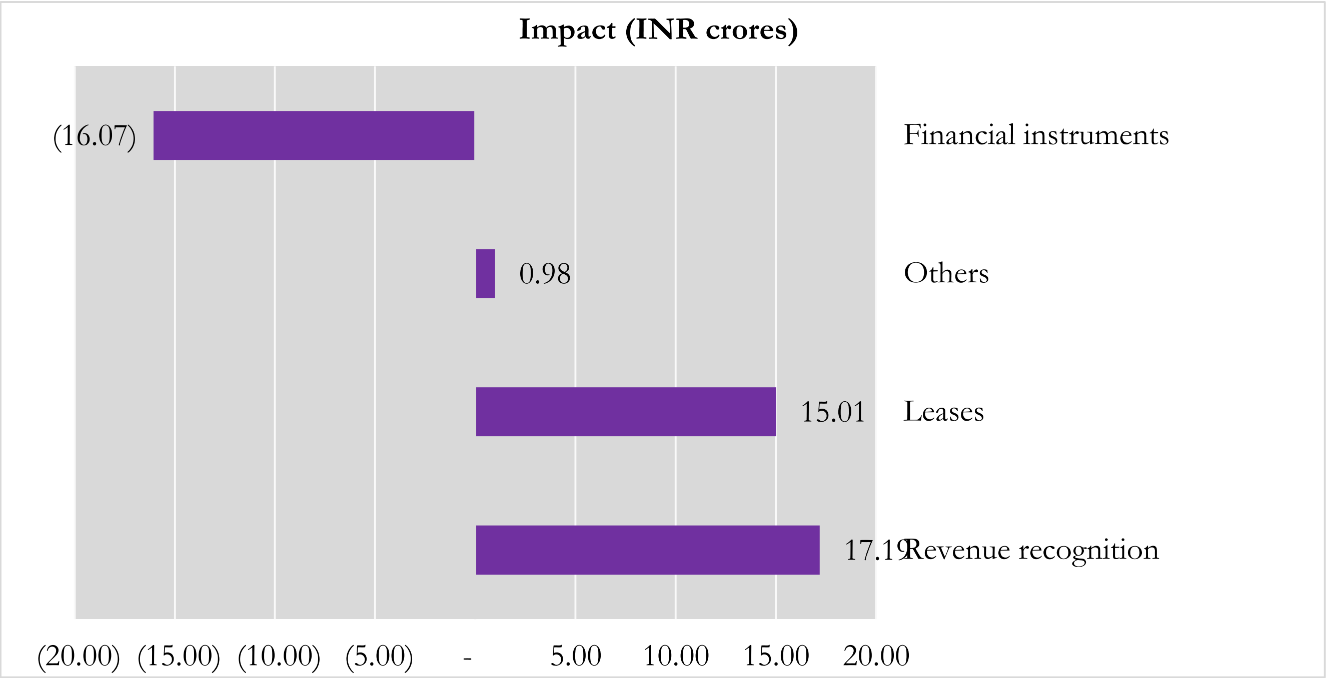
Infra Sector – Ind AS heat map (Q1 15-16)



Real Estate Sector – Key Impacts

Sr No	Impact Areas	Impact on		
		Revenue	Profit	Net Assets
1	**Structured payment plans -** From accounting point of view, whenever payment for the constructed property is deferred and the impact of time value of money is significant, consideration is presumed to include a financing component.			
2	**Discounts/Incentives** – Certain incentives like subvention interest, assured returns, penalties etc. will affect the timing and amount of revenue recognized.			
3	**Interest free or off-market interest rate loans and advances** – It is common business practice to extend such loans and advances to related or unrelated entities. Under Ind-AS, loans and advances recoverable in cash are financial instruments and hence are initially recognised at their fair value, usually represented by the present value of expected cash flows discounted at market interest rate.			

Real Estate Sector – Ind AS heat map (Q1 15-16)



Summary: Key considerations for industry

Lack of consistency

As evident from our analysis, there exist various inconsistencies in how certain Ind AS guidance is considered within the same industry.

We expect that the inconsistencies would get ironed out or clarified over time, but till that time peer comparisons would remain a challenge for stakeholders.

Regulatory landscape

Taxes have remained a key problem area for industry constituents that have moved to Ind AS. With ongoing lack of clarity with respect to ICDS, and its inconsistencies with Ind AS standards, it remains a significant concern for companies.

MAT regulations in the Finance Bill was a big step, but several questions remain with respect to implementation of that as well.

Eye on the moving target!

As was expected, it has taken time for interpretations on certain contentious issues to come, specially on the new financial instruments standard (which Ind AS is adopting before IFRS), and the carve ins/carve outs.

ITFG has played a key role in assisting on some of the areas but the recent revisions in ITFG bulletins illustrate the questions that still remain.

Thank you!