VOLUME-8, ISSUE-11, NOVEMBER-2019 • PRINT ISSN No. 2277 - 8160 • DOI : 10.36106/gjra

Original Research Paper

Commerce

INDIA INC IN THE POST IND AS PHASE

Ms Harini	Asst. Professor MES Institute Of Management
Dr. Ds. Prathima*	Professor, Govt. First Grade College, Vijaynagar *Corresponding Author

ABSTRACT With the IFRS-convergent Ind AS having already arrived in the country, it is but natural on the part of the various associated stakeholder categories to be curious of the outcome of the implementation of the new regime. Two important categories associated with India Inc are the companies that are required to comply with the new regime and the practising finance professionals who have been advising the said companies. The researcher interacted with 30 companies and 30 practising finance professionals for the purpose. Expectedly, the comments of the practising finance professionals dwelt more on the micro-level implications of the Ind AS while that of the companies dwelt on the micro as well as macro level implications of Ind AS, perhaps more of the former than of the latter, for obvious reasons. However, both the categories believe in various degrees that the carve-outs defined in Ind AS may affect the acceptability of Ind AS financial statements at the global level. This is something all the stakeholder categories should look into for obvious reasons. Another issue that should be looked into is the comment of the companies that the options available for alternative accounting treatments under Ind AS impact the comparability of financial statements. Both the categories admit that Ind AS implementation has affected corporate governance and control processes significantly and this is a good tiding. Teething troubles are to be expected when a new system is put in place, but they will sort themselves out sooner rather than later, believes the researcher.

KEYWORDS : Carve-outs; Comparability; Corporate Governance; Ifrs-convergent; Ind As

1.1 INTRODUCTION

Listed Indian companies with a net worth of INR 500 crores plus, were mandated to implement the new accounting standards from 1st April 2016, aka Ind AS or IFRS-convergent Ind AS. It was hoped that the migration to IFRS would help India Inc to become more investor-friendly, foreign and domestic, since superior corporate governance practices and higher transparency levels would be triggered by the IFRS-convergent Ind AS regime. After all, global investors, prospective and present, would be in a better position to understand and interpret the IFRS-based financials.

1.2 STATEMENT OF THE PROBLEM

Now that the new regime has been implemented, albeit in phases, it is time a review of the implementation and its impact on the various stakeholders of India Inc was made. The shortcomings, if any, in its implementation and the problems that the compliant companies had to encounter, could be identified and addressed appropriately as a result.

1.3 REVIEW OF LITERATURE

In the following paragraphs, the existing literature on the subject is reviewed:

1. ICAI reviewed the disclosures made by 75 randomly selected companies in their FY 2017 consolidated financials (ICAI, 2018). The review revealed that the companies had generally complied with the disclosure requirements mandated by *Ind AS*, leading to improved quality and greater coverage of the disclosures. A good number of the companies had furnished line-by-line reconciliations of *Equity and Total Comprehensive* to meet the underlying rationale of *Ind AS 101*, *First Time Adoption of Indian Accounting Standards*, (to furnish sufficient information to help users understand the material adjustments to the Balance Sheet and Statement of Profit and Loss). However, in a few cases, the carrying amount of *Intangible Assets and Borrowings* reported in the reconciliations were wanting in some respects.
2. Ind AS-compliant entities have to follow the new Ind AS 115, Revenue from Contract with Customers from April 1, 2018 (Sumit, 2018). This standard will impact all companies, in various degrees depending on the industrial sector they belong to, existing contracting practices and their existing accounting policies. But there is a sweetener - revenue will be recognised in the same way across the globe as it is a substantially converged standard. But the flip side is that the requirement of immediate adoption has left little time for implementation. It is going to be tougher for the Phase II entities that have lately transitioned to Ind AS and hence will have to transition once again to the new Ind AS 115, beginning April 1, 2018.
3. India Inc has broken by breaking new ground, aligning its accounting practices with International Financial Reporting Standards (IFRS) (Siddharth, 2017). It has adopted a new set of accounting standards called 'Indian Accounting Standards' or 'Ind AS' . Compliance with Ind AS is mandatory from April 1, 2016 for companies with a net worth exceeding INR 500 crore as of 31 March 2014. These are classified as "Phase 1 companies". Their group entities namely subsidiaries, associates and joint ventures are also reckoned as Phase 1 companies for the purpose and hence have to comply with Ind AS. There are more than 1,000 such corporate groups in India that are part of this first phase of transition – a transition from the existing Indian Generally Accepted Accounting Principles (GAAP) to Ind AS. By March 31, 2020 more than 10,000 corporate groups outside the financial services and insurance sector and more than 12,000 groups in the financial services and insurance sector, including non-banking financial companies, have to migrate to Ind AS.
4. An analysis of the first financial results released by entities under Ind AS, for the quarter ended June 30, 2016 and representing ten key sectors of the economy, revealed a common thread: 10 key areas of Ind AS had impacted their earnings for the comparative period. The veracity levels varied across the (Siddharth, 2017) sectors, though. The measurement of financial instruments was one area where transition to Ind AS had had a pervasive impact across sectors. Further, the manufacturing sector apparently was the most affected sector, as a result of the transition.
5. An analysis by Deloitte's Global Manufacturing competitive index (Deloitte Touche Tohmatsu Limited and US Council on Competitiveness, 2016) and India brand equity foundation's manufacturing sector among nations

is rapidly evolving.

6. Manufacturing earnings and exports earnings have been stimulating countries economic prosperity making nations to increase their focus on advanced manufacturing capabilities. (Foundation, 2018)
7. The 2016 study by Deloitte's Global Manufacturing competitive index (Deloitte Touche Tohmatsu Limited and US Council on Competitiveness, 2016) revealed that US, China, Japan, Germany, South Korea and India collectively accounted for 60 percent of the global Manufacturing GDP demonstrating the influence exerted by the said countries on global manufacturing trends.
8. The past decade has witnessed several changes in the way business is conducted across the world. This was triggered in particular by the wave of globalization that embraced the business world (Parvathy, 2017). It has led to drastic changes in the process of financial reporting in particular, enforcing the implementation of IFRS (International Financial Reporting Standards) worldwide. IFRS represent high quality, understandable, enforceable and globally acceptable accounting standards issued by IASB (International Accounting Standards Board). They are a set of international accounting standards that state how a particular type of transaction or for that matter, other events should be reported in the financial statements. Thus, IFRS are designed as a common global language for business information that lends itself to comparability across the globe. IFRS is becoming the global language of business with over 40 of the countries adopting it for reporting purposes. India enforced an IFRS-convergent accounting system (and not IFRS per se) called Ind AS on April 1, 2016 . The enforcement is being done in a phased manner.

1.4 RESEARCH GAP
The reviewed literature has not adequately dwelt on the outcome of the implementation of Ind AS, particularly from the perspective of the businesses the Ind AS regime currently applies to and the practising finance professionals associated with such businesses.

1.5 SCOPE OF THE PRESENT STUDY
The study covers 30 companies that the Ind AS currently applies to and 30 practising finance professionals.

1.6 OBJECTIVES OF THE STUDY
The objective of the study is to ascertain the views / comments of the said companies and the practising finance professionals on the outcome of the implementation of the IFRS convergent Ind AS regime

1.7 HYPOTHESIS PROPOSED TO BE TESTED
The study proposes to test the following hypothesis:
"The carve-outs defined in Ind AS may affect the acceptability of Ind AS financial statements at the global level"

1.8 RESEARCH DESIGN
1.8.1 RESEARCH METHODOLOGY
The study is descriptive in nature and has used the 'fact-finding' survey method

1.8.2 SOURCES OF DATA
Data required for the research has been collected from both primary and secondary sources.

Primary data has been collected by administering Interview Schedules to the respondents, namely, the companies and the practising finance professionals.

In addition, the researcher interacted extensively with other stakeholders, namely, trade / industry bodies like CII, FICCI and ASSOCHAM; officers of the central government connected with the ministry of finance, ministry of corporate affairs, ministry of industries and commerce, etc; senior officers of SEBI and senior officers of commercial banks, etc.

Secondary data has been collected from books relating to the topic, articles, reputed journals, the financial press, government publications, websites and company annual reports.

1.8.3 SAMPLING PLAN
COMPANIES:
Given the limited availability of companies (operating from the area selected by the researcher for the study) that had to migrate to the Ind AS regime, purposive or judgement sampling under the non-probability method was employed. The researcher selected 30 such companies for the study. This criterion is ideal for the present study. What is important is the typicality and the relevance of the sampling units to the study and not the overall representativeness to the population. It guarantees the inclusion of the relevant elements in the sample. Probability sampling plans cannot give such a guarantee.

Practising finance professionals: Given the limited availability of practising finance professionals (operating from the area selected by the researcher for the study) that advise companies that have migrated to the Ind AS regime, purposive or judgement sampling under the non-probability method was employed. The researcher selected 30 such professionals for the study. This criterion is ideal for the present study. What is important is the typicality and the relevance of the sampling units to the study and not the overall representativeness to the population. It guarantees the inclusion of the relevant elements in the sample. Probability sampling plans cannot give such a guarantee.

1.8.4 DATA COLLECTION INSTRUMENTS
Interview schedules, specially designed for the purpose, were administered to the respondents for collection of primary data.

1.8.5 DATA PROCESSING AND ANALYSIS PLAN
Non-parametric statistical units have been used to test the association between some qualitative characters and conclusions has been drawn based on formation of H_o and H_1. To be specific, chi-square test has been applied to test the hypotheses.

1.8.6 LIMITATIONS OF THE STUDY
Primary data could sometimes be deduced through constant topic-oriented discussions with the respondents. A certain degree of subjectivity, even if negligible, could have clouded their views. However, the researcher is confident that the subjectivity has been too insignificant to affect the accuracy of the findings of the study.

1.9 COMPANIES
In the following paragraphs, the primary data collected from the 30 companies is analysed.

1.9.1 COMMENTS ON THE OUTCOME OF THE IMPLEME NTATION OF THE IFRS CONVERGENT IND AS
With the implementation of the IFRS convergent Ind AS having become a reality, the researcher sought the comments on the outcome of the implementation of the IFRS convergent Ind AS regime from the respondents. Their replies to the query appear in the following Table.

Table-1 Comments on the outcome of the implementation of the IFRS convergent Ind AS

Comments	Number of respondents
Financial statements under Ind AS have become a bit more complex to understand	26
The options available for alternative accounting treatments under Ind AS impact the comparability of financial statements.	26
The Ind AS regime conveys the economic substance of the business transactions more effectively, fairly and transparently	25
The carve-outs defined in Ind AS may affect the acceptability of Ind AS financial statements at the global level.	24
Tangible benefits will accrue to the companies in two years from now	23
Ind AS implementation has affected the corporate governance and control processes significantly	22

Financial statements under Ind AS have become a bit more complex to understand, according to 26 respondents. The options available for alternative accounting treatments under Ind AS impact the comparability of financial statements, according to 26 respondents. The Ind AS regime conveys the economic substance of the business transactions more effectively, fairly and transparently, according to 25 respondents. The carve-outs defined in Ind AS may affect the acceptability of Ind AS financial statements at the global level, according to 24 respondents. Tangible benefits will accrue to the companies in two years from now, according to 23 respondents. Ind AS implementation has affected their corporate governance and control processes significantly, according to 22 respondents.

1.10 PRACTISING FINANCE PROFESSIONALS

In the following paragraphs, the primary data collected from the 30 practising finance professionals is analysed.

1.10.1 COMMENTS ON THE OUTCOME OF THE IMPLEME NTATION OF THE IFRS CONVERGENT IND AS

With the implementation of the IFRS convergent Ind AS having become a reality, the researcher sought the comments on the outcome of the implementation of the IFRS convergent Ind AS regime from the respondents. Their replies to the query appear in the following Table.

Table-2 Comments on the outcome of the implementation of the IFRS convergent Ind AS

Comments	Number of respondents
As for the impact of expected changes from the Ind AS notified but not yet enforced, most companies have identified/disclosed the future changes without quantifying the impact of change.	27
As for disclosures, improvement is warranted in areas relating to fair value measurement, sensitivity of financial risks analysis, methods and techniques used to recognise/measure impairment loss under expected credit loss method, financial risk management and hedge accounting.	26
Impact of AS transition on tangible assets has been negligible by and large	25
Ind AS implementation has affected corporate governance and control processes significantly	25
Impact of AS transition on intangible assets has been significantly negative in terms of their carrying value by and large	24
Not all companies have furnished line by line reconciliations of Equity and Total Comprehensive to honour the underlying rationale of Ind AS 101	24
The carve-outs defined in Ind AS may affect the acceptability of Ind AS financial statements at the global level.	20

As for the impact of expected changes from the Ind AS notified but not yet enforced, most companies have identified/ disclosed the future changes without quantifying the impact of change, according to 27 respondents. As for disclosures, improvement is warranted in areas relating to fair value measurement, sensitivity of financial risks analysis, methods and techniques used to recognise/measure impairment loss under expected credit loss method, financial risk management and hedge accounting according to 26 respondents. Impact of AS transition on tangible assets has been negligible by and large, according to 25 respondents. Ind AS implementation has affected corporate governance and control processes significantly, according to 25 respondents. Impact of AS transition on intangible assets has been significantly negative in terms of their carrying value by and large, according to 24 respondents. Not all companies have furnished line by line reconciliations of Equity and Total Comprehensive to honour the underlying rationale of Ind AS 101, according to 24 respondents. The carve-outs defined in Ind AS may affect the acceptability of Ind AS financial statements at the global level according to 20 respondents

1.11 SUMMARY OF FINDINGS

In the following paragraphs, a summarised version of the findings arrived at in respect of the two categories of respondents is furnished.

1.11.1 COMPANIES

- Financial statements under Ind AS have become a bit more complex to understand, according to 26 respondents. The options available for alternative accounting treatments under Ind AS impact the comparability of financial statements, according to 26 respondents. The Ind AS regime conveys the economic substance of the business transactions more effectively, fairly and transparently, according to 25 respondents. The carve-outs defined in Ind AS may affect the acceptability of Ind AS financial statements at the global level, according to 24 respondents. Tangible benefits will accrue to the companies in two years from now, according to 23 respondents. Ind AS implementation has affected their corporate governance and control processes significantly, according to 22 respondents.

1.11.2 PRACTISING FINANCE PROFESSIONALS

- As for the impact of expected changes from the Ind AS notified but not yet enforced, most companies have identified/disclosed the future changes without quantifying the impact of change, according to 27 respondents. As for disclosures, improvement is warranted in areas relating to fair value measurement, sensitivity of financial risks analysis, methods and techniques used to recognise/measure impairment loss under expected credit loss method, financial risk management and hedge accounting according to 26 respondents. Impact of AS transition on tangible assets has been negligible by and large, according to 25 respondents. Ind AS implementation has affected corporate governance and control processes significantly, according to 25 respondents. Impact of AS transition on intangible assets has been significantly negative in terms of their carrying value by and large, according to 24 respondents. Not all companies have furnished line by line reconciliations of Equity and Total Comprehensive to honour the underlying rationale of Ind AS 101, according to 24 respondents. The carve-outs defined in Ind AS may affect the acceptability of Ind AS financial statements at the global level according to 20 respondents.

1.12 CONCLUSIONS

Conclusions relate to the hypotheses. They are answers to the research questions.

1.12.1 HYPOTHESIS TESTING

HYPOTHESIS

As explained, the following is the hypothesis proposed to be tested:

"The carve-outs defined in Ind AS may affect the acceptability of Ind AS financial statements at the global level"

Hence H_0 and H_1 are as follows:

H_0: The carve-outs defined in Ind AS may not affect the acceptability of Ind AS financial statements at the global level.

H_1: The carve-outs defined in Ind AS may affect the acceptability of Ind AS financial statements at the global level.

Based on the primary data collected from the respondents, vide Tables: 1and 2, a chi-square test was applied to ascertain the association, if any, between the two variables. The following Table reveals the computation made using MS-Excel:

Category	Observed Values		
	Yes	No	Total
Companies	24	6	30
PE investors	20	10	30
Total	44	16	60
	Expected Values		
Category	Agree	Disagree	Total
Consultants	22	8	30
PE investors	22	8	30
Total	44	16	60
	Agree	Disagree	
o-e	2.0000	-2.0000	
	-2.0000	2.0000	
(o-e) ^ 2	4.0000	4.0000	
	4.0000	4.0000	
((o-e) ^ 2)/e	0.1818	0.5000	
	0.1818	0.5000	
CV	0.3636	1.0000	1.3636
TV			3.8415
p			0.8505

The calculated value of χ^2 is *1.3636*, lower than the table value of *3.8415* for an alpha of 0.05 at one degree of freedom. p=*0.85* is the inverse of the one-tailed probability of the chi-squared distribution.

Hence the null hypothesis is not rejected, and the alternate hypothesis is rejected.

1.13 RESEARCHER'S RECOMMENDATIONS

1 It is but natural for companies to allege that financial statements under Ind AS have become a bit more complex to understand. But this is a small cost the companies have to incur in order to reap superior benefits at the domestic as well as international markets. There are professional services available aplenty in a country like India and such services can be made use of for the purpose. The cost-benefit ratio will eventually favour the companies.

2 It is held in informed circles that the options available for alternative accounting treatments under Ind AS impact the comparability of financial statements. This allegation cannot be dismissed straightaway. It is time the issue was taken up with the ICAI , the Ministry of Corporate Affairs (MCA) and the National Advisory Committee on Accounting Standards (NACAS)

3 The fear of the companies and some practising finance professionals that the carve-outs defined in Ind AS may affect the acceptability of Ind AS financial statements at the global level should also be taken up with NACAS members.

4 As for the impact of expected changes from the Ind AS notified but not yet enforced, the companies should necessarily quantify the impact of change. Otherwise, they would not have complied with the Ind AS provision in letter and spirit. Their financial statements will lose credibility too.

5 Disclosures in areas relating to fair value measurement, sensitivity of financial risks analysis, methods and techniques used to recognise/measure impairment loss under expected credit loss method, financial risk management and hedge accounting need to be complete and unambiguous. Otherwise, stakeholders like investors apart from the regulators will take their financials with a pinch of salt.

6 All companies have to furnish line by line reconciliations of Equity and Total Comprehensive to honour the underlying rationale of Ind AS 101. By approaching this responsibility perfunctorily, they will lay themselves open to permanent surveillance!

REFERENCES

1 Deloitte Touche Tohmatsu Limited and US Council on Competitiveness. (2016). Global Manufacturing Competitiveness Index. Deloitte Touche Tohmatsu Limited.

2 Foundation, I. B. (2018). Manufacturing Sector in India. India Brand Equity Foundation.

3 ICAI. (2018). Indian Accounting Standards (IFRS converged): Successful Implementation - Impact Analysis and Industry Experience. New Delhi: The Institute of Chartered Accountants of India.

4 Parvathy, P. (2017, June). Home:researchgate.net. Retrieved from researchgate.net website: https://www.researchgate.net/publication/324206659_IFRS_convergence_opportunities_and_challenges_in_India

5 Siddharth, T. (2017, April 10). Opinion: BloombergQuint. Retrieved from BloombergQuint Web site: https://www.bloombergquint.com/opinion/india-incs-experience-with-the-new-accounting-standard-ind-as#gs.am4XF1E

6 Sumit, S. (2018, April 17). Opinion: BloombergQuint. Retrieved from BloombergQuint Web site: https://www.bloombergquint.com/opinion/ind-as-115-how-sector-revenue-changes-under-the-new-rules#gs.ma690Iw