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The path to Ind AS conversion

May 2015

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MCA Notification on Ind AS adoption

On 16 February 2015, the Ministry of Corporate Affairs (MCA) notified the Companies (Indian Accounting Standards) Rules, 2015 (the 'Rules') (pending publication in the Gazette of India).

Applicability

Mandatory adoption

The following class of companies need to comply with the Ind AS in preparation of the financial statements:

For the accounting period beginning on or after 1 April 2016 (Phase 1)	For the accounting period beginning on or after 1 April 2017 (Phase 2)
• The following companies will have to adopt Ind AS for financial statements from the above mentioned date: – Companies whose equity or debt securities are listed or are in the process of listing on any stock exchange in India or outside India (listed companies) and having net worth of Rs.500 crores or more – Unlisted companies having a net worth of Rs.500 crores or more – Holding, subsidiary, joint venture or associate companies of the listed and unlisted companies covered above	• The following companies will have to adopt Ind AS for financial statements from the above mentioned date: – Listed companies having net worth of less than Rs.500 crore – Unlisted companies having net worth of Rs.250 crore or more but less than Rs.500 crore – Holding, subsidiary, joint venture or associate companies of the listed and unlisted companies covered above
• Comparative for these financial statements will be periods ending 31 March 2016 or thereafter.	• Comparative for these financial statements will be periods ending 31 March 2017 or thereafter.

Once a company starts following the Ind AS mandatorily on the basis of the criteria specified above, it will be required to follow the Ind AS for all the subsequent financial statements even if any of the criteria specified do not subsequently apply to it.

Companies to which Ind AS are applicable should prepare their first set of financial statements in accordance with the Ind AS effective at the end of its first Ind AS reporting period i.e., companies preparing financial statements applying the Ind AS for the accounting period beginning on 1 April 2016 should apply the Ind AS effective for the financial year ending as on 31 March 2017.

Voluntary adoption

Companies may voluntarily adopt Ind AS for financial statements for accounting periods beginning on or after 1 April 2015, with the comparatives for the periods ending on 31 March 2015 or thereafter. Once a company opts to follow Ind AS, it will be required to follow the Ind AS for all the subsequent financial statements (the option is irrevocable). Once the option to voluntary follow Ind AS is adopted, companies will not be required to prepare another set of financial statements in accordance with Accounting Standards specified in Annexure to Companies (Accounting Standards) Rules, 2006.

Non-applicability

The roadmap will not be applicable to:

- Companies whose securities are listed or in the process of listing on SME exchanges as referred to in Chapter XB or on the Institutional Trading Platform without initial public offering in accordance with the provisions of Chapter XC of the Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2009.
- Companies not covered by the roadmap in the “Mandatory adoption” categories above.

Note: SME Exchange to have the same meaning as assigned to it in Chapter XB of the Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2009.

These companies should continue to apply existing Accounting Standards prescribed in the Annexure to the Companies (Accounting Standards) Rules, 2006, unless they opt for voluntary adoption.

Net Worth

Definition

The definition of "net worth" is as per section 2(57) of the Companies Act, 2013. As per that section, net worth means the paid-up share capital + reserves created out of the profits (excludes reserves created out of revaluation of assets, write-back of depreciation and amalgamation) + securities premium account – accumulated losses – deferred expenditure – miscellaneous expenditure not written off as per the audited balance sheet.

Dates for consideration of net worth

- Net worth to be calculated in accordance with the standalone financial statements of the company as on 31 March 2014 or the first audited financial statements for an accounting period which ends after that date.
- For companies that are not in existence on 31 March 2014 or an existing company falling under any of thresholds specified under 'Mandatory adoption' for the first time after 31 March 2014, the net worth should be calculated on the basis of the first audited financial statements ending after that date in respect of which it meets the thresholds. Such companies meeting the specified thresholds for the first time at the end of an accounting year shall apply Ind AS from the immediate next accounting year.

Example:

Companies covered under Mandatory adoption (Phase 1) for all companies – listed as well as unlisted – with net worth of Rs.500 crores or more:

	Net worth of Rs.500 crores or more met for the first time based on audited standalone financial statements as at:			
	31 March 2014	**31 March 2015**	**31 March 2016**	**31 March 2017**
Transition date	1 April 2015			1 April 2016
Comparative period	1 April 2015 to 31 March 2016			1 April 2016 to 31 March 2017
Reporting Period	1 April 2016 to 31 March 2017			1 April 2017 to 31 March 2018

Companies covered under Mandatory adoption (Phase 2) for listed companies with net worth of less than Rs.500 crores and unlisted companies with net worth of Rs.250 crores or more but less than Rs.500 crores:

	Net worth of less than Rs.500 crores for listed companies and net worth of Rs.250 crores or more but less than Rs.500 crores for unlisted companies met for the first time based on audited standalone financial statements as at:				
	31 March 2014	31 March 2015	31 March 2016	31 March 2017	31 March 2018
Transition date	1 April 2016				1 April 2017
Comparative period	1 April 2016 to 31 March 2017				1 April 2017 to 31 March 2018
Reporting Period	1 April 2017 to 31 March 2018				1 April 2018 to 31 March 2019

Companies who voluntarily adopt:

	Company not covered under Phase 1 or Phase 2 of the roadmap, voluntarily adopting Ind AS:			
	From 1 April 2015	From 1 April 2016	From 1 April 2017	From April 1 2018
Transition date	1 April 2014	1 April 2015	1 April 2016	1 April 2017
Comparative period	1 April 2014 to 31 March 2015	1 April 2015 to 31 March 2016	1 April 2016 to 31 March 2017	1 April 2017 to 31 March 2018
Reporting Period	1 April 2015 to 31 March 2016	1 April 2016 to 31 March 2017	1 April 2017 to 31 March 2018	1 April 2018 to 31 March 2019

Applicability to standalone/consolidated financial statements

Once the Ind AS are required to be complied with, they will apply to both standalone financial statements and consolidated financial statements.

An overseas subsidiary, associate, joint venture, and other similar entity of an Indian company may prepare its standalone financial statements in accordance with the requirements of the specific jurisdiction. However, the Indian parent will have to mandatorily prepare its consolidated financial statements in accordance with the Ind AS if it meets the criteria specified above.

An Indian company which is a subsidiary, associate, joint venture, and other similar entity of a foreign company should prepare its financial statements in accordance with Ind AS if it meets the criteria specified above.

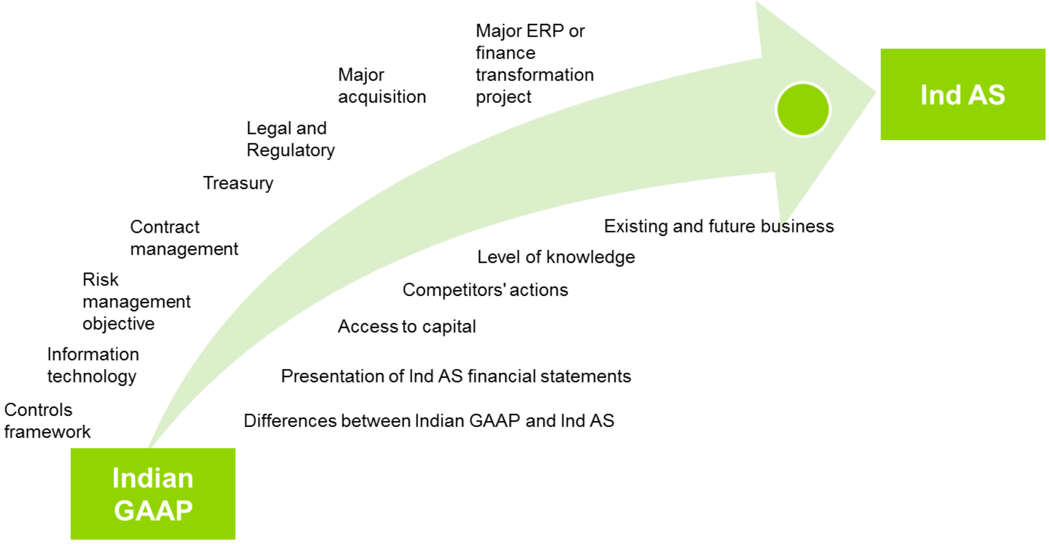
Companies to which Ind AS are applicable should prepare their first set of consolidated financial statements in accordance with the Ind AS effective at the end of its first Ind AS reporting period unless otherwise specified e.g., companies preparing consolidated financial statements for the accounting period beginning on or after 1 April 2016 will be required to apply the Ind AS effective for financial year ending on 31 March 2017.

Roadmap for banks, NBFCs, and Insurance companies

Insurance companies, banking companies, and non-banking finance companies will not be required to apply Ind AS for preparation of their financial statements either voluntarily or mandatorily.

Summary

Your Ind AS conversion is a strategic issue. You would need to develop your own roadmap by considering the key points along the items shown in the diagram below. The board of directors and management need to explain to the stakeholders on changes and impact arising from the Ind AS conversion.



Lessons learnt

You can learn the following lessons based on Deloitte’s experience globally in Ind AS/ IFRS conversion carried out over the past few years.

- Most investors believe Ind AS will improve the quality of standalone and consolidated financial statements.
- Large companies that rely more heavily on equity financing perceive the benefits of Ind AS to be greater than other companies.
- Larger companies typically convert earlier and devote considerable resources to educating and training their boards, staff, and investors.
- There is widespread agreement that Ind AS will make financial statements easier to compare across countries and competitors.
- Treat Ind AS not as a purely technical exercise, but a strategic one which requires organisational commitment.
- Effort to convert is often underestimated.
- Lead time from announcement to reporting date is short.
- Late start to converting often results in escalation of costs.
- Striving to achieve “stable” state for Ind AS reporting is important. Change is continuous.
- Companies need to take a holistic approach towards Ind AS conversion resulting in an effective conversion effort.
- Impacts of Ind AS conversions are often underestimated.
- The conversion process extends beyond accounting to process, people, controls, and technology.

1. Your Roadmap to Ind AS Conversion

From our perspective, there are 3 distinct stages to Ind AS implementation: assess your individual situation and requirements, complete the conversion activities, and sustain ongoing Ind AS reporting.

Assess

Determine vision for Ind AS adoption

- Analyse impact of Ind AS on standalone and consolidated reporting and accounting policies
- Determine tax implications of Ind AS adoption
- Analyse impact on functional and business processes and controls
- Evaluate the impact on financial systems
- Assess magnitude of change on organisation

Convert

Perform Comprehensive Ind AS Conversion

- Convert to Ind AS at the consolidated and/or standalone reporting level
- Develop a judgment framework for documenting and resolving issues
- Perform tax conversion
- Design Ind AS accounting, reporting, consolidation, and reconciliation processes and controls
- Design future state IT systems to incorporate Ind AS reporting
- Develop change management strategy and revised operating model

Sustain

Enable continued Ind AS reporting and perform knowledge transfer

- Configure, test, and deliver production environment and monitor system enhancements
- Execute change management activities and implement revised operating model
- Deploy the future state accounting, reporting, consolidation, and reconciliation processes and controls
- Continue monitoring and application of the changing standards environment
- Facilitate knowledge transfer for ongoing Ind AS reporting

A successful conversion effort that can stand up to the scrutiny of regulators and analysts will require a lengthy exercise and commitment.

If there is one thing you can take from reading this document, it is: **Develop your Ind AS implementation roadmap soon**.

To kick off this roadmap, we suggest that you ask your team a few preliminary questions. The answers to these questions should help you gauge the potential effect of Ind AS on your company. For example:

- Have we identified main differences between Ind AS and Indian GAAP?
- How would an Ind AS conversion affect our business? Would we need to review existing business contracts?
- How many of our business units already understand Ind AS and its related impacts – the skill sets from which can be leveraged?
- How will our financial statements look on a pro forma basis, once converted to Ind AS?
- How might our access to capital be affected by an Ind AS conversion?
- Do we have a major ERP or finance transformation project which is currently ongoing or envisaged?
- Are we involved in or considering a major acquisition?
- What is the level of Ind AS knowledge within a company, both domestically and globally?
- Have we assessed the cost and benefits of adopting Ind AS?
- Do we need to revise the controls framework in order to continuously meet the risk management objective?

Your Ind AS implementation roadmap will be significantly more detailed than merely addressing these few questions. Given the far-reaching scope of Ind AS, your roadmap should include assessing the potential effect on each department in your organisation, including:

- Finance
- Human Resources
- Tax
- Legal
- Information Technology
- Investor Relations

Other stakeholders may also be involved, including the board, audit committee, shareholders, your external and internal auditors and your regulators.

A carefully designed roadmap may empower your company to convert smoothly and effectively. By taking a measured and informed approach, you increase the likelihood of identifying values in the exercise that otherwise may be reactive and solely compliance driven. The value may show itself in the form of:

- Reduced costs of implementation
- Standardisation and centralisation of statutory reporting activities and related controls
- Greater consistency of accounting policy application
- Possibly core finance transformation

2. Overcoming challenges in the Ind AS journey

Potential Ind AS impacts: Key questions for consideration

Ind AS may impact many aspects of a company's business; there are several questions that companies should consider, such as:

Information technology

- Can the financial systems of the company and its subsidiaries accommodate Ind AS accounting and reporting requirements? Do they capture the correct data attributes necessary under Ind AS?
- Can the systems handle multi-ledger reporting? During the transition years, both Indian GAAP and Ind AS financial statements will be required.

Policy and process

- How should company best develop and implement a new set of accounting policies that requires significantly more judgment than Indian GAAP and facilitates consistent application?
- Can a company leverage its finance operating model to gain efficiency and effectiveness in financial reporting?
- How will projections, forecasts and budgets and the people that rely on them be impacted?
- What are the impacts to the legal contracts, revenue arrangements, contingent consideration arrangements, bonus plans, debt covenants, and other financing arrangements that have metrics based on reported numbers?

Governance and controls

- What is an appropriate governance model for monitoring Ind AS application?
- How will the internal control structure be impacted?
- Will additional work be required for internal financial controls reporting?

Organisation and people
• How will compensation arrangements based on Indian GAAP financial results be impacted and how should the company best educate people about the change to Ind AS? • How should the company train its employees and educate investors, business partners and analysts about Ind AS and its impacts? • What are the impacts on other functional areas (e.g., treasury, HR, investor communications, legal)?

Tax
• What will be the impact of differences between Ind AS and Income Computation and Disclosure Standards (notified by the Central Board of Direct Taxes) on deferred taxes? • Will any of the tax planning structures be impacted? • What will be the impact on the effective tax rate? • When a foreign subsidiary adopts Ind AS, will the value of the net assets fall below capitalisation requirements for that country? • How are the dividend requirements affected at the subsidiary level?

Ind AS conversions – Start Preparing

The earlier you plan for the Ind AS conversion, the more prepared you would be to address the challenges and reap benefits such as strengthening controls and formulating your policies and procedures. Companies may consider the following challenges or points of focus in their roadmap to conversion.

Challenges or Points to Focus	Leading practices
• Companies will have to convert within a short-lead time • Late start often results in escalation of costs	• Do not wait for regulatory mandate to start preparing • Train early and build awareness
• Effort necessary is often underestimated • On the transition date, objective should be to adopt Ind AS without any disruptions and therefore achieve “business as usual”	• Adopt an integrated approach — Consider collateral effects • Communicate with auditors/other stakeholders frequently • Consider effects on tax structures and debt covenants • Have a full-time dedicated PMO • Adopt a multidisciplinary strategic approach • Align with other finance transformation projects
• Focus should not be to minimise accounting differences	• Consider accounting substance versus the easier short-term route
• Post-adoption, companies can leverage benefits of Ind AS implementation	• Consider using Ind AS now to: – Improve controls over reporting, – More efficiently use resources, – Better manage cash, and – Possibility to use Ind AS financial statements in other markets due to minimal carve outs.
• Cultural bias could often impact consistent application in a global group involving foreign components	• Standardise policies at the group level • Set a strong tone at the top
• Issues can be missed if the implementation focuses solely on resolving identified GAAP differences • Be aware of a potential bias to “find” existing “Indian GAAP” answers within the Ind AS framework	• Focus on the Ind AS standards as a whole including the basis for conclusions contained in IFRS for how the conclusions were drawn • Consider implementation guidance and similar material • Achieve an understanding of the standards as a whole
• Scoping and developing a roadmap is an important step in the process but much of the effort and complexity results from the “Convert” and “Sustain” activities	• Move from theory to practical application of Ind AS standards to company-specific transactions as soon as possible • Approach transition from multiple angles • Identify significant transactions from prior years which required significant accounting analysis and re-analyse the entire transaction under Ind AS

Challenges or Points to Focus	Leading practices
• Maximise use of Ind AS 101 exemptions and exceptions	• The fair value as deemed cost exemption should not be underestimated. However the exemption to use carrying values on the date of transition to Ind AS for Property, Plant and Equipment is a big relief • Careful study of all exemptions required to understand limitations and applicability
• Financial statement presentation and disclosure issues should not be underestimated	• Develop mock first annual and first interim financial statements early in process • Include in your plans a strategy for re-mapping accounts to specific financial statement line items once the Ind AS compliant financial statement format is finalised • Internal management reporting changes shouldn't be overlooked
• Communications across the organisation needs to be very effective • Personnel outside finance should be integrated in the conversion process	• Develop specific training for non-finance personnel • Establish a formal communication plan to keep key people outside finance (legal, tax, IT, investor relations) updated regarding key deadlines and deliverables

3. Impact of complex standards

Ind AS poses technical accounting challenges to companies, particularly for standards like Revenue from Contracts with Customers (Ind AS 115), Financial Instruments (Ind AS 109), Business Combinations (Ind AS 103), Consolidated Financial Statements (Ind AS 110), Joint Arrangements (Ind AS 111), etc. which are more complex than existing standards under Indian GAAP.

The following section highlights some of the common accounting issues that are particularly important:

Key Areas	Challenges	What can companies do?
Revenue from Contracts with Customers (Ind AS 115) ("new revenue recognition standard")	• Timing of revenue and profit recognition may be significantly affected by the new revenue recognition standard • Management will need to exercise significant judgment particularly in:- – Identification of performance obligations – Allocation of revenue to each performance obligation – Whether revenue should be recognised at a point in time or over a period of time – Impact of variable revenues requires judgment and estimation • Important for companies to consider how the new standard specifically applies to them so that they can prepare for any changes in revenue recognition patterns.	• Increased judgment in determining revenue recognition policies; an overall approach to revenue recognition will need to be developed, focusing on a judgment framework • Ensure consistency of judgments throughout organisation • To comply with the new standard, companies will have to gather and track information that they may not have previously monitored • The systems and processes associated with such information may need to be modified to support the capture of additional data elements • For internal financial controls reporting purposes, management may want to assess whether it should implement additional controls • Companies may also need to begin aggregating essential data from new and existing contracts since many of these contracts will most likely be subject to Ind AS 115 • Company-wide training and communication • Document basis for judgments/estimates (Adequacy of audit trail)

Key Areas	Challenges	What can companies do?
Financial Instruments (Ind AS 109) – Beware of the devil in the details	• All derivatives must be recognised in the balance sheet at fair value • Financial assets will be measured either at amortised cost or at fair value • Specific requirements for recognising and measuring impairment of financial assets • Specific guidance on the classification of financing arrangements as either shareholders' equity or debt on the balance sheet • Elimination of cost-method investments subject to certain exemptions • Increased disclosures of companies' financial risks and how these are being measured and managed • Need to discount expected cash flows when measuring impairment for group of loans • Need to apply hedge accounting rules, including maintaining documentation to meet hedging requirements • Able to apply netting only if certain conditions are met • Need to apply multi-step model for de-recognition of financial assets, focusing on the risk and rewards of ownership	• Not all financial instruments can have easily measurable fair values and therefore valuation may not be a straight-forward exercise – build in-house valuation expertise for simple valuations and take help from experts for complex instruments • Impairment provisions will require far more thorough analysis, including the use of historic default ratios • Build internal financial reporting controls and risk management processes and systems for recording fair values • Impact on systems, processes and controls will need to be assessed simultaneously • Ensure consistency of judgments throughout organisation • To comply with the new standard, companies will have to gather and track information that they may not have previously monitored • The systems and processes associated with such information may need to be modified to support the capture of additional data elements. • Company-wide training and communication • Document basis for judgments/estimates (Adequacy of audit trail)

Key Areas	Challenges	What can companies do?
Business Combinations (Ind AS 103)	• Fair value measurement of assets acquired and liabilities assumed is complex • Accounting of acquired tax contingencies/uncertainties may impact income tax calculation	• Processes and data capture for business combinations may be more detailed leading to possible information system changes • Ensure consistency of judgments throughout organisation (e.g., fair value measurement of assets acquired and liabilities assumed) • For internal financial controls reporting purposes, management may want to assess whether it should implement additional controls • Document basis for judgments/estimates (adequacy of audit trail) • Training at appropriate levels
Consolidated Financial Statements (Ind AS 110) and Joint Arrangements (Ind AS 111)	• More judgment in determining the entities to be consolidated and the date when control / joint control was obtained • More judgment in determining whether the entities are joint operations or joint ventures • May trigger acquisition accounting because of a decision to consolidate which may pose challenges in determining the fair value of assets and liabilities on the acquisition date • Processes and data capture for disclosures may be more detailed leading to possible information system changes • Efforts needed to align accounting policies across subsidiaries • The need to conform to the accounting policies and reporting dates may lead to changes in financial information systems and data capture processes for controlled entities	• To comply with the new standard, companies will have to gather and track information that they may not have previously monitored • The systems and processes associated with such information may need to be modified to support the capture of additional data elements • Facilitate consistency of judgments throughout organisation • Documenting the basis for judgments/estimates (adequacy of audit trail) • For internal financial controls reporting purposes, management may want to assess whether it should implement additional controls • Organisation-wide training and communication

Key Areas	Challenges	What can companies do?
Impairment of Assets (Ind AS 36)	• Increased judgment around the level at which assets are tested for impairment • Processes and controls around the reversal of impairment charges will need to be developed • Differences in the timing and amount of impairment charges may have an impact on income taxes • Data capture for an asset's recoverable amount may be more detailed leading to possible information system changes	• To comply with the new standard, companies will have to gather and track information that they may not have previously monitored • The systems and processes associated with such information may need to be modified to support the capture of additional data elements • Documenting the basis for judgments/estimates (adequacy of audit trail)
Employment Benefits (Ind AS 19)	• Accounting for actuarial gains and losses requires increased judgment • Asset celling test is complex • Don't forget the timing and amount of pension costs impact on income-taxes • Data capture and processes for pension plans disclosures may be more detailed	• To comply with the new standard, companies will have to gather and track information that they may not have previously monitored • The systems and processes associated with such information may need to be modified to support the capture of additional data elements • For internal financial controls reporting purposes, management may want to assess whether it should implement additional controls
Inventory (Ind AS 2)	• Calculation and reversals of impairments required may be complex • Ensuring consistency of judgments throughout organisation is vital– for computing net realisable value	• The systems and processes associated with such information may need to be modified to support the capture of additional data elements • Document basis for judgments/estimates (Adequacy of audit trail
Leases (Ind AS 17)	• Determining whether an arrangement contains a lease is complex and requires significant judgment thereby impacting the classification of lease	• Processes and data capture for leases may be more detailed leading to possible information system changes • Evaluate contracts and assess whether any changes are required

Key Areas	Challenges	What can companies do?
Property, plant and equipment (Ind AS 16)	• Optimum selection of choices available for cost or revaluation method • Componentisation and calculation of residual values is time consuming and complex • Componentisation and revaluation may pose specific challenges for calculating book tax differences • Increased judgment (e.g., depreciable lives for individual components)	• To comply with the new standard, companies will have to gather and track information that they may not have previously monitored • The systems and processes associated with such information may need to be modified to support the capture of additional data elements • Facilitate consistency of judgments throughout organisation (e.g., componentisation, residual values) • Documenting the basis for judgments/estimates (adequacy of audit trail) • Consider cost segregation studies to maximise tax benefits associated with component approach • For internal financial controls reporting purposes, management may want to assess whether it should implement additional controls

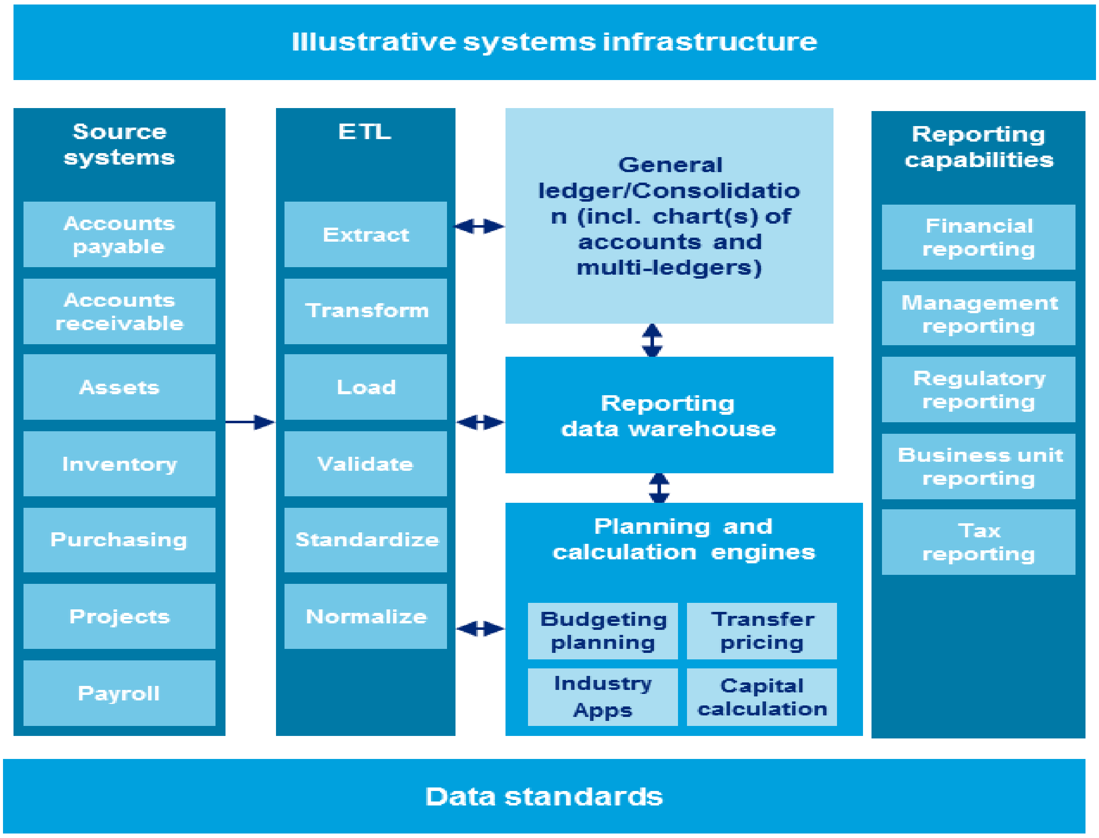
4. Impact on information technology

When addressing the technical accounting challenges, companies may find the Ind AS related issues such as changes to information technology a challenge. In the roadmap to conversion, companies should consider areas of overlap with an Ind AS conversion throughout the implementation process and evaluate the interdependencies in the assessment phase. We have laid down below some of the common areas of focus and the suggested activities which companies should consider as part of their assessment on changes required to information technology.

Common areas of focus	Suggested activities as part of assessment
Chart of accounts (COA) structure	• Understand what additional COA may be required under Ind AS • Understand if there is certain COA detail that might ultimately facilitate or simplify disclosure requirements under Ind AS • Map the Ind AS sub ledger impacts to system functionality • Facilitate COA rationalisation effort so that it is consistent with the dual reporting approach in the transition phase
New entities potentially requiring consolidation	• Assess existing legal entity structure and COA under Ind AS • Consider legal entity structure changes for entities that could potentially be consolidated under Ind AS
Dual reporting strategy	• Develop a dual reporting • Create journal entry methods/templates to accommodate new requirements
Ledger interfaces	• Understand that the differences in the accounting treatment between Indian GAAP and Ind AS will likely drive changes to general ledger design • Facilitate the conformity of the legal entity structure and the account structure to accommodate Ind AS reporting
Timeline/roadmap for implementation	• Mapping/integration of systems and Ind AS roadmaps

Information systems - Overview

Each organisation has a systems infrastructure represented by a unique combination of components. The magnitude of work required for Ind AS conversion and related controls will depend upon factors such as legacy system compatibility, extent of systems integration, in-process or planned projects, and systems and data standardisation.



The potential impact of the four key components on technology is highlighted below.

Upstream — Source systems and transformation layer	General ledger and consolidation	Financial data warehouse and processing engines	Downstream — output, reporting and decision support
– Differences in the accounting treatment between Indian GAAP and Ind AS will create a need for new input data – Current data and transactions may not have all needed attributes or qualities – Sub-ledgers within the ERP system may have additional functionality to support Ind AS which is currently not being utilised and could be implemented – Transformation layer may need to be adjusted – Over time the potential for acquisitions of companies using Ind AS will increase; altering ETL tools (“Extract, transform, load”) to provide required data elements could make integrations more efficient	– Differences in the accounting treatment between Indian GAAP and Ind AS will likely drive changes to general ledger design – Companies may ultimately assess a need to re-develop their general ledger platforms to enable compliance with multiple financial reporting requirements (statutory and tax) – Multi-ledger accounting functionality within newer releases of ERP may be considered for long-term solutions – Changes to Ind AS will likely necessitate redesigned accounting, reporting, consolidation, and reconciliation processes, which may impact configuration	– Ind AS has more extensive disclosure requirements, typically requiring regular reporting and usage of financial data that may not be standardised in current data models – Increased need for documented assumptions; sensitivity analyses may expand the scope of information managed by financial systems – Reporting warehouse feeds to calculation engines may need to be adjusted in a standardised way to support reporting processes	– The differences that arise in the accounting treatment between current accounting standards and Ind AS will create a need for changes in reporting – Assumption changes from period to period may require detailed support for derivation and rationale for changes, requiring additional reports – External reporting templates will likely require revisions to reflect Ind AS requirements – Changes to data structures may impact Key Performance Indicators (KPI) production and balanced scorecards – New information delivery tools may be required to meet all requirements

The key assessment activities which companies will need to adopt for addressing the potential impacts is highlighted below

Upstream — Source systems and transformation layer	General ledger and consolidation	Financial data warehouse and processing engines	Downstream — output, reporting and decision support
– Understand the existing system landscape for all impacted business units and subsidiaries – Identify missing data elements due to differences in accounting treatment – Assess required enhancements to legacy systems – Identify changes to 'In Flight' projects	– Assess high level changes to chart of accounts based upon differences between Ind AS and Indian GAAP – Analyse reconciliation process between sub-ledgers and general ledger; assess accounting, reporting, closing/consolidation, and reconciliation processes – Assess journal entry methods and templates – Assess requirements on source systems and accounting hub to move beyond recurring adjustments	– Identify changes in information requirements due to Ind AS and assess impacts on existing data model – Assess readiness of data governance function and metadata repositories to be updated to reflect new data definitions – Confirm impact of any data definition changes on third parties – Incorporate appropriate systems and manual controls	– Evaluate external reporting templates to identify changes required to support disclosures – Identify information sets that would be needed to meet Ind AS reporting and disclosure requirements – Assess business intelligence environment's readiness for identified Ind AS changes

5. Impact on collateral activities

Companies may find Ind AS related issues such as changes to financial performance management, management reporting and budgeting a challenge. In the roadmap, companies should consider the potential impacts on these areas in the implementation process

Key Areas	Potential impacts	What can companies do?
Aligning financial performance management	• Many management incentive payments could be based on "responsibility" reports that track metrics by business unit or geography – Results may turn out differently when prepared according to Ind AS, which in turn may affect incentive and bonus outcomes – Incentive plans may need to be recalibrated • Compensation plans (commissions, bonus pools, etc.) may require realignment • Changes to the technical accounting process may require a detailed review of existing compensations metrics with potential updates	• Companies may want to identify Indian GAAP to Ind AS differences and understand impacts on metrics, plans, and the overall compensation structure • Consider conducting stakeholder impact analysis • Consider revising incentive plan metrics based on Ind AS reported results • Consider developing a communication plan and implementation roadmap for updates
Aligning management reporting	• An Indian GAAP to Ind AS reconciliation process is needed for accurate analysis and comparison of management reports, metrics and projected earnings prior to transition • We believe new management reporting KPIs, metrics and reports may need to be defined and the changes communicated	• Companies can identify current accounts and related management reports impacted by Ind AS • Companies should consider defining the future state of management reporting strategy • Companies should understand gaps in current process to identify additional management reporting needs (i.e., new KPIs, metrics, analyses, reports, etc.) • Coordinate with budgeting and forecasting processes to make alignment of budget v/s actual reporting • Identify potential implications on how changes in reporting systems transfer over to tax systems

Key Areas	Potential impacts	What can companies do?
Aligning budgeting and financing processes	• Planning accounts may need to be updated and new business rules may need to be created for existing applications • Treatment for certain accounting areas may require new operational drivers for planning purposes • Substantial updates may be required for the planning technologies, and multiple scenarios may be needed to compare historical plans (Indian GAAP) and future plans (Ind AS) • We believe that because the technical accounting process will change, tax systems and process could potentially be impacted as well	• Companies should identify current budgeting and forecasting processes impacted by Ind AS conversion • May consider defining an overall approach and level of detail for the future budgeting and forecasting processes (i.e., level that adjustment are made, changes to corporate and segment planning, etc.) • May want to revise budgets and forecasts based on projected Ind AS financial statement impact

6. Elements to a successful conversion

In order to remain focused for a successful conversion, you may want to take note of the following suggestions:

Identify existing projects you can leverage on

- If you are already going through or recently completed an enterprise resource planning (ERP), compliance or a finance transformation project, it may be a good time to consider Ind AS adoption.
- Recent versions of major ERP systems conformed data or systems are designed or modified to accommodate Ind AS, which can be mapped in and results in significant cost savings.
- Ind AS offers the opportunity to implement standardised frameworks and processes to enhance the overall control environment

Conduct a trial run

If you have many reporting companies or companies located in different countries:

- Start a trial run with a single country or reporting company
- Use existing reporting requirements to your advantage
- Learn from this initial conversion exercise
- Apply the lessons learned to your group-wide rollout

Consider shared services centres

Ind AS provides a compelling reason to establish shared services centres so that the geographically-dispersed finance offices could be:

- reduced for a centralised finance function
- strategically located to take advantage of tax incentives, payroll savings, and facilitating cost reductions

Re-visit your policies

Ind AS conversion drives the need to re-visit:

- Revenue recognition
- Impairment
- Consolidated Financial Statements and Joint Arrangements
- Share-based payments
- Cost capitalisation
- Other accounting policies

It provides a refresh exercise for accounting policy implementation, with the aim for more accurate and timely financial reporting.

7. Time for action

The challenge of Ind AS conversion projects will usually be very significant, as the differences between Indian GAAP and Ind AS are many. With many stakeholders involved, and given the combination of marketing, financial reporting, human resources, IT, process, controls, tax and risk management issues, change needs to be managed.

You have a choice: either sit back and wait for it to happen (with all the resultant uncertainty and risk), or mobilise your company to ensure that you maximise the benefits and minimise the obstacle.

We however feel that, it's time for leadership. By starting early, you will likely spread out your costs, get the jump on your competition, and rein in scarce talent before it vanishes. You can improve your processes and systems. You can integrate with other initiatives, such as an ERP upgrade or a merger or acquisition. Most importantly, you can do it at a pace that suits your company and its circumstances.

There are major demands on financial and human resources in companies. An Ind AS conversion project cannot be a distraction from the primary activities of your business. It must be integrated, coordinated, and aligned. It should start soon with some preliminary questions and a carefully drawn roadmap. Whether the journey from here to there is rocky or smooth may be entirely up to you.