IMPACT OF CONVERGENCE TO IND AS ON FINANCIAL STATEMENTS

– A CASE STUDY OF DABUR INDIA LTD.

Dr. Rajiv Kumar Goel

Associate Professor
Department of Commerce
Delhi College of Arts & Commerce
University of Delhi

ABSTRACT - The adoption of Indian AS by the Ministry of Corporate Affairs in a phased manner is intended to bring uniformity in accounting practices and to bring more transparency in corporate reporting. The convergence of Ind As, at par with International Financial Reporting Standards, has led to a significant improvement in the financial reporting practices. The convergence of Ind AS involved a lot of structural changes in the various elements of the profit and loss statement and Balance sheet involving the addition or elimination of various variables. The aim of the study is to study the major structural changes in the financial statements of the companies. This paper tries to identify the nature and extent of changes in the financial statements of listed company - Dabur India Ltd. Present study will help the academicians and practitioners to understand the impact of converged Ind AS on the financial statement of the companies in FMCG sector.

I. INTRODUCTION

International Accounting Standards Committee **(**IASC) was established in 1973 (with professional bodies of 75 countries) and has been issuing International Accounting standards (IAS). In 2001, International Accounting Standards Board **(**IASB) was established to issue International Financial Reporting Standards (IFRS). Since 2001 IASB has been issuing IFRS which many countries have adopted. IFRS are 'principle based' set of standards and establish broad rules rather than focusing on accounting treatment of specific transactions.

Government of India in consultation with ICAI decided to converge and not to adopt the IFRS as Indian economic conditions were different. Indian Accounting Standards (Ind AS) are the International Financial Reporting Standards (IFRS) converged standards.

In July 2014, the Finance Minister of India, Shri Arun Jaitely, in his Budget Speech, announced to converge to Ind AS by the Indian companies from the financial year 2015-16 voluntarily and from the financial year 2016-17 on a mandatory basis in a phased manner.

This convergence to Ind AS by the Indian companies in preparation of financial statements is intended to bring a significant improvement in the financial reporting practices. The convergence to Ind AS involved a lot of structural changes in the various elements of the profit and loss statement and Balance sheet. Certain items and variables are added and also eliminated from the present format of the financial statements focussing on improved disclosures and reporting. The aim of the paper is to study these major structural changes in the financial statements of the companies. The paper tries to identify the nature and extent of changes in the financial statements of Dabur India Ltd. The study will help the academicians and practitioners to understand the impact of converged Ind AS on the financial statement of the companies particularly FMCG.

II. LITERATURE REVIEW

(Shrivastava & Bedia, 2017) found the significant impact of Ind AS on select key accounting ratios namely current, profitability and solvency ratios.

(Gogri & Jani, 2018) studied the impact of Ind AS on corporate governance wherein authors suggested the positive impact of Ind AS on better corporate governance of the firms.

(Thomas & Mathew, 2019) tried to study the impact of various ratios due to the implementation of Ind AS. The authors revealed a significant change in the debt-equity ratio with the introduction of the new Ind AS.

(Sharma & Gupta, 2020) identified the challenges faced in the convergence of new accounting standards and the measures taken to address such challenges.

(Das & Mohapatra, 2020) founded a mixed impact of Ind As on the financial statements of the companies. The transition from the existing Accounting standards to Ind AS does not have a significant impact on the debt and equity structure of the companies while there existed a dimension impact across all the companies in the case of the current ratio. The results highlighted an increasing liquidity position with the convergence of Indian Accounting Standards.

(Sharadha & Manickavasagam, 2020) and (Raval, 2017) provided an overview of Ind AS and its convergence with the IFRS.

(S. & Rechanna, 2020) studied the perception of the shareholders towards the necessity of IndAS and towards an increase in comparability, quality, transparency, and understandability of financial statements. The data for the study was collected from 200 respondents consisting of chartered accountants, academicians, investors, shareholders, and companies. The study concluded that the majority of the respondents agreed for the implementation of Ind As in order to ensure comparability, understandability, transparency, and quality of financial reporting.

III. RESEARCH METHODOLOGY

The study is analytical in nature considering the secondary data comprising of the profit & loss statement and balance sheet of one of the well-known FMCG company i.e., Dabur India Ltd. The financial statements of year ending March, 2019 are being compared under both the accounting regimes. The entire data for the study is being retrieved from the annual report of Dabur India Ltd. and investing.com. The major objective of a paper is to provide an analytical view of the basis of a difference between the Ind AS and erstwhile AS.

IV. RESULTS & DISCUSSION

Profit and Loss Statement of Dabur India ltd as per Ind AS and AS as on 31st March, 2019

Statement of Profit and Loss for the y/e…	**Ind AS March 2019**	**Consolidated Profit & Loss account**	**AS March 2019**
Revenue from operations (Gross)	8533.05	**Income**	
Less: Excise duty	18.06	Sales Turnover	8,533.05
Revenue from operations (Net)	8514.99	Excise Duty	18.06
Other operating Revenue		Net Sales	8,514.99
Other income	296.17	Other Income	222.50
Total Revenue	8811.16	Stock Adjustments	-12.64
Expenses:		**Total Income**	**8,724.85**
Cost of materials consumed	3475.35	**Expenditure**	
Purchases of stock-in-trade	802.98	Raw Materials	4,310.53
Changes in inventories of finished goods, work-in-progress and stock-in- trade	12.64	Power & Fuel Cost	105.26
Employee benefits expenses	937.91	Employee Cost	937.91
Finance costs	59.58	Selling and Admin Expenses	608.33
Depreciation, amortisation and impairment	176.9	Miscellaneous Expenses	800.76
Other expenses	1546.55	Total Expenses	6,762.79
Total Expenses	7029.97		**Mar '19**

Profit before exceptional, share of joint venture, extraordinary items and tax	1799.25
Share of profit of joint venture	0.96
Profit before exceptional items and tax	1800.23
Exceptional items (expenses)/ income	75.34
Exceptional items (expenses)/ income	
Profit before tax	1724.87
Consists of:	
- Discontinuing operations	
- Continuing operations	
Tax expense:	
Current tax	
Less: MAT credit (entitlement) / utilisation	
Less: Prior period tax adjustments	
Net current tax	406.99
Deferred tax charge	-128.37
Profit after tax and before Minority interest	**1446.25**
Consists of:	
- Discontinuing operations	
- Continuing operations	
Share of profit/loss of joint venture	
Less: Minority interest	
Profit for the year	**1446.25**
Earnings per equity share (Nominal value per share Re. 1 (Re. 1))	
Basic	8.17
Diluted	8.14
Other Comprehensive Income	
A (i) Items that will not be classified to profit or loss	1.89
Remeasurement of defined benefit plans	
(ii) Income tax relating to profit that will not be reclassified to profit or loss	-0.22
B (i) Items that will be reclassified to profit or loss	0.01
a) Exchange differences in translating	

Operating Profit	**1,739.56**
PBDIT	1,962.06
Interest	59.58
PBDT	1,902.48
Depreciation	176.90
Profit Before Tax	1,725.58
PBT (Post Extra-ord Items)	1,725.58
Tax	278.62
Reported Net Profit	**1,441.37**
Minority Interest	0.00
Share Of P/L Of Associates	-0.96
Net P/L After Minority Interest & Share Of Associates	1,521.59
Total Value Addition	2,452.26
Equity Dividend	1,324.71
Corporate Dividend Tax	272.30
Per share data (annualised)	
Shares in issue (lakhs)	17,662.91
Earnings Per Share (Rs)	**8.16**
Book Value (Rs)	31.88
Book Value (Rs)	31.88

financial statement of foreign operations	
b) The effective portion of profit or loss on hedging instruments in a cash flow hedge	
(ii) Income tax relating to items that will be reclassified to profit or loss	1.21
Total other comprehensive income	**2.89**
Total comprehensive Income of the year	**1449.14**
Net profit attributable to	
Owners of holing company	1442.33
non-controlling interest	3.92
Other Comprehensive Income (net of income tax)	
Other comprehensive Income attributable to	
Owners of the company	1.97
non-controlling interest	0.92
Total comprehensive Income of the year	
Profit attributable to:	
Owners of the company	1444.3
non-controlling interest	4.84

The study of the consolidated financial statement of Dabur India ltd for the financial year 2019 highlights a significant difference in the format, definition, and computation as per Ind AS and AS.

- The format of presenting the financial information is different in the new Ind AS format which also covers the presentation of the 'other comprehensive income' part, presented below the profit and loss statement of a company. It includes revenue, gains, losses, and expenses that are yet to be realized or not recognized in the company's profit and loss statement. Unrealized gain and loss help the investors to prepare for the future and take decisions accordingly. Other comprehensive income also covers (as per Ind AS 16) unrealized gain or loss on investment held for sale, bonds, etc. Ind AS 16 prescribes the accounting treatment for property, plant, and equipment. The revaluation gain or loss or fair value changes in the asset or liability of a company also reported in 'other comprehensive income.'
- Minority interest which is disclosed as a part of deduction in profit and loss statement has been shown as a part of other comprehensive income in profit and loss statement with the name 'other controllable interest.'
- The table also highlights a difference in the computation of other income which shows a difference of 73.67 crores. The reason for this could be the difference in computation and disclosure of interest income, net gain/loss on the current investment, rent received, and miscellaneous receipt. The Ind AS also requires the inclusion of fair value gain on investment which is not covered explicitly in the statement prepare as per AS.
- The reason for the difference in cost material consumed, purchase of stock in trade is due to the inclusion of selling and distribution cost as per Ind AS 2. As per Ind AS, the same formula is applicable for all the inventories of similar nature while AS 2 requires inventory valuation using FIFO or WACC for the inventory which cannot be separated into specific projects. The recognition of the carrying amount of inventories as an expense as per Ind AS 2 could be another reason for such a difference.
- The differences in net tax as per Ind AS and AS exist due to differences in computation of deferred tax. Ind AS 22 deals with the disclosure of current or deferred tax income in the profit and loss statement of a company while AS 12 requires disclosure of deferred tax asset or liability in the balance sheet of a company. Recognition of deferred tax asset as per Ind AS depends upon the extent to which there is reasonable certainty of its realization. However, the probability of taxable profit in a future period is the basic premise for the computation of deductible temporary differences.
- Ind AS requires computation and disclosure of basic and diluted EPS while only basic EPS is reported as per the AS. The basic and diluted EPS is 8.17 and 8.14 as per Ind AS 33 while it's 8.16 as per AS 20. Also, as per Ind AS, there must be the disclosure

Balance Sheet as Per Ind AS and AS Balance Sheet as at	Ind AS 2019	Consolidated Balance Sheet	AS Mar '19

of EPS without extraordinary items which is contrary to the AS 20 requirements that explain the disclosure of EPS with and without extraordinary items.

- Ind AS 1 prohibits the disclosure and classification of the item as an extraordinary item. Thus, it is removed from the profit and loss statement.

		Sources Of Funds	
		Total Share Capital	176.63
Property, plant and equipment	1547.97	Equity Share Capital	176.63
Capital work-in-progress	63.76	Reserves	5,455.05
Investment Properties	52.1	**Net worth**	**5,631.68**
Goodwill	336.07	Secured Loans	79.30
Other Intangible assets	32.92	Unsecured Loans	444.98
Investment accounted for using equity method		**Total Debt**	**524.28**
Financial assets		Minority Interest	31.38
(i) Investments	2633.35	**Total Liabilities**	**6,187.34**
(ii) Loans	17.56	**Application Of Funds**	
(iii) Other financial assets	77.66	Gross Block	3,068.10
Deferred tax assets (Net)	0.89	Less: Accumulated Depreciation	1,099.04
Other non-current assets	88.13	**Net Block**	**1,969.06**
Total non-current assets	4850.13	Capital Work in Progress	63.76
Current assets		**Investments**	**3,358.76**
Inventories	1300.53	Inventories	1,300.53
Financial assets		Sundry Debtors	833.56
(i) Investments	725.41	Cash and Bank Balance	328.16
(ii) Trade receivables	833.56	Total Current Assets	2,462.25
(iii) Cash and cash equivalents	107.69	Loans and Advances	582.81
(iv) Bank balances other than (iii) above	220.47	Total CA, Loans & Advances	3,045.06
(v) Loans	11.04	Current Liabilities	2,059.54
(vi) Other financial assets	26.47	Provisions	189.76
Current tax assets	1.32	Total CL & Provisions	2,249.30
Other current assets	359.5	**Net Current Assets**	**795.76**
Assets classified as held for sale	0.24	**Total Assets**	**6,187.34**
Total current assets (Net)	3586.23	Contingent Liabilities	343.88
Total assets	8436.64	Book Value (Rs)	31.88
EQUITY AND LIABILITIES		Book Value (Rs)	31.88
Equity			
Equity share capital	176.63		
Other equity	5455.05		
Reserves and Surplus			

Other reserves	
Equity attributable to owners	5631.68
Non-controlling interests	31.38
Total equity	5663.08
LIABILITIES	
Non-current liabilities	
Financial liabilities	
(i) Borrowings	26.05
(ii) Other Financial liabilities	4.56
Employee benefit obligations	
Long Term provision	59.52
Deferred tax liabilities (Net)	23.14
Total non-current liabilities	113.27
Current liabilities	
Financial liabilities	
(i) Borrowings	498.23
(ii) Trade payables	1400.82
(iii) Other financial liabilities	27.62
Provisions	130.24
Employee benefit obligations	
Current tax liabilities (Net)	50.65
Other current liabilities	198.14
Total current liabilities	2660.31
Total liabilities	2773.58
Total equity and liabilities	8436.64

The study of a consolidated balance sheet for the year ending 2019 as per Ind AS and AS highlights some important differences which are listed below –

- The format of presenting financial position is different as per Ind AS and AS. As it is clearly seen, Ind AS requires the presentation and is having a classification criterion for current and non-current assets/liabilities whereas no such bifurcation appears as per the AS.
- Accounting for fixed assets and depreciation accounting has been shown separately as per AS 6 and AS 10. However, there is a single and separate accounting standard i.e. Ind AS 16 for the accounting of property, plant, and equipment. The gross block amount has been shown in AS, however, there exists a separate Indian Accounting Standard which deals with the accounting and disclosure for Property, plant, and equipment (Ind AS 16), Investment property (Ind AS 40), Intangible assets (Ind AS38) and Agriculture (Ind AS 41). The Gross block of assets is the total value of assets which the company owns.
- Ind AS 40 also provides accounting for investment property. It's a new entry that was missing in the earlier stated AS.
- Ind AS 38 provides separate disclosure for Goodwill. Similarly, there is an introduction of a separate Indian accounting standard for the disclosure and treatment of biological assets. These treatments were missing in the previously applicable accounting standards.
- Ind AS 12 recognizes current or deferred tax as an income or expense in profit and loss statement and out of profit and loss statement transaction as current or non-current assets/liability in the balance sheet. However, AS 22 deals with the deferred tax asset/liability only in the balance sheet of a company.
- The share capital has been renamed as Equity share capital as per the new Indian Accounting Standard. Similarly, 'Reserves and Surplus' has now replaced with other equity,
- Minority interest has been shown separately from liabilities and equity in the balance sheet of Dabur India Ltd. As per AS. However, non-controlling interest has been shown separately under the Equity as per Ind AS 110.

- Differences in the amount of provision are due to the difference in recognition as per Ind AS and AS. As per Ind AS 37, provisions are recognized only when past events have created some constructive or legal obligation. However, AS 29 doesn't account for the constructive obligation. Disclosure is required for a contingent asset if its economic benefits are probable. However, it was earlier prohibited as per AS 29.
- The difference in the presentation of secured and unsecured loan amount and its different treatment in Ind AS 23 in comparison to earlier AS 16 has been highlighted in the above table.
- Ind AS 105 specifies the accounting for assets held for sale (as shown in the table) which is outside the purview of AS 24 - discontinued operations.

V. CONCLUSION

The adoption of converged Ind AS has significantly improved the reporting practices by Indian corporates. This has brought uniformity and more transparency in accounting information to the stakeholders. The adoption of Ind AS has reduced the dual set of accounting statement of the multinational companies. The paper highlighted the major changes in the financial statement of Dabur India Ltd. in terms of presentation and disclosure before and after the adoption of new accounting standard requirements. The study will help the academicians and practitioners to understand the impact of converged Ind AS on the financial statement of the companies particularly FMCG for the purpose of valuation and investment purposes. This study opens up the areas for further research on the companies in other industries like energy, financials, IT, etc.

VI. References

1. Das, K. K., & Mohapatra, A. K. (2020). Impact of Indian Accounting Standards (Ind-AS) on financial statements: an assessment. *Espacios* , *41*(31), 183-199. Retrieved from https://www.researchgate.net/publication/344346323

2. Gogri , S., & Jani, M. H. (2018). A Study on Impact of IND AS on Corporate Governance. *Indian Journal of Applied Research, 8*(5).

3. Raval, K. P. (2017). Indian Accounting Standards (Ind.-As): An Overview. *Kirtan Raval [Subject: Commerce] International Journal of Research in Humanities & Soc. Sciences , 5*(3), 49-53.

4. S., S., & Rechanna. (2020). Implementation of 'Ind AS' in India: A study on its impact on qualitative aspects of financial statements. *AEGAEUM JOURNAL, 8*(7), 1201-1216. Retrieved from http://aegaeum.com/

5. Sharadha, N., & Manickavasagam, V. (2020). IND AS: India's Accounting Standards Converged with the IFRS - - (IND AS Adoption and Applicability for Indian Companies). *International Journal of Trend In Scientific Research and Development, 2*(2), 628-632.

6. Sharma, M. B., & Gupta, P. (2020). A Study on Challenges in implementation of Ind AS in India. *International Journal of Research in Engineering, IT and Social Sciences*, 291-301.

7. Shrivastava, K., & Bedia, D. (2017). The Impact of Transition to Ind as on Key Accounting Areas: An Assessment. *The IUP Journal of Accounting Research & Audit Practices, XVI*(4), 35-43. Retrieved from https://ssrn.com/abstract=3336432

8. Thomas, T., & Mathew, T. (2019). A STUDY ON IMPACT OF IMPLEMENTATION OF IND AS. *International Journal of Applied Research, 9*(5), 25-27. doi:10.36106/IJAR