Adoption of Ind AS & Impact on Corporate Performance: A Case study of L & T ltd

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ABSTRACT

In order to increase transparency, reliability and relevance of financial statements, companies are required to adopt Ind As in phased manner. Transition to Ind AS from previous GAAPs have resulted in to change in Net worth and net profit of company at point of transition due to several differences between Ind AS and AS. Present paper is an attempt to analyze the impact of Transition from AS to Ind AS on the operating performance and financial position of the sample company Larsen and Toubro ltd [L&T ltd]. The analysis is carried out on financial statements provided by the sample company based on Ind AS for the year 2016-17 as well as the comparative data provided for the year 2015-16.

The study includes the analysis of the impact of various components of statement of Profit and Loss and Balance sheet viz revenue, operating expenses, finance cost, taxes , noncurrent assets, current assets, noncurrent liabilities, current liabilities on Net Profit and Net worth of the sample company.

Component wise analysis exhibits that there is overall increase in Revenue, Operating expenses, Finance cost whereas decrease is observed in case of tax expense. The component wise analysis of Balance sheet items as on 1st April 2015 and 31st March 2016 depicts that there is increase in Noncurrent assets, current assets and current liabilities whereas decrease is observed in Noncurrent liabilities on adoption of Ind AS. Finally, it is noticed that there is decline in Net profit on transition to Ind AS whereas increase is observed in case of Net worth on 1st April 2015 and 31st March 2016.

Key words- Transition to Ind AS, Operating performance, Net profit, Net worth.

1.0 Introduction

Company being legal entity with distinguished feature of separation of ownership and management thus responsibility of management increases towards its stakeholders. Financial statements being one of the important vehicle to reveal financial matters of any entity thus special care is required while preparing it. Nowadays due to increased competition, globalization and other similar factors companies need to prepare financial statements which are acceptable worldwide. International Financial reporting standards [IFRS] are developed by the International Accounting Standards Board (IASB), the independent standard-setting body which makes financial statements more transparent, relevant, reliable and thus worldwide acceptable.

India has also converged with IFRS in order to fulfill present need. Ind AS (new set of standards) are the result of convergence to IFRS. The Ministry of Corporate Affairs (MCA) issued the Indian Accounting Standards (Ind AS) and recommended its application in a phased manner. Following is road map for companies - Companies [listed or unlisted] with a net worth of Rs. 500 crore or more have to mandatorily follow Ind AS from 1 April 2016. Corporate having a net worth of less than Rs. 500 crore but are listed, or in the process of getting listed, and other unlisted companies with a net worth of Rs. 250 crore or more will have to follow the Ind as from 1 April 2017. Ind AS will apply to both consolidated as well as standalone financial statements of a company. Presently, insurance companies, banking companies and nonbanking finance companies (NBFCs) are not required to apply Ind AS. This study would be of great help to the academicians and professional dealing in the area of accounting and finance.

2.0 Rationale of study:

In order to increase transparency, reliability and relevance of financial statements, companies are required to adopt Ind As in phased manner. Transition to Ind AS from previous GAAPs have resulted in to change in Net worth and net profit of company at point of transition due to several differences between Ind AS and AS. Present paper is an attempt to analyze such change in case of Larsen and Toubro ltd [L&T ltd].L&T ltd is a company adopted Ind as for first time from 2016-2017 and have also provided comparatives for the previous year 2015-16.

3.0 Review of literature

1. Vincent konadu tawiah and Muhaheranwa benjamin conducted a study on Conservatism analysis on Indian Generally Accepted Accounting Principles (GAAP) and International Financial Reporting Standards (IFRS). This study has measured the accounting information quality between AS and Ind.AS (IFRS) by using Gray's Index of Conservatism (GIC) on 5 years consolidated financial statement. F-test and T-test were used to test the hypothesis.

It was found that IFRS provides current and quality information on liquidity ratios than AS reporting. However there was a mix results on the quality of accounting information on leverage. (TAWIAH & BENJAMIN, 2015)

2. Dr. Manoj Kumara. N. V , Sowmya Erappa. K and Abhilasha. N studied on ind-as: evolution or revolution (Major beneficiaries of IND-AS).The study aims to analysis the impact of financial statement of selected companies and to know the practical challenges faced by the companies in implementation of Ind-AS. The study reveals that changes in regulatory laws such as companies Act, SEBI Act, IRDA Act was the biggest difficulty and lack of knowledge about it was also one of the challenge in adopting Ind-AS and entry for global market, comparability of financial statement, single accounting standards are the opportunities benefited. (V, K, & N, 2016)

3. Lynne Rose Justine,Manjitha Mathew, Disha Dechamma conducted a study on a "Review on the impact of ind as on the indian companies with respect to measurement and disclosure". The objective of this paper is to study the significance of IND AS on Indian business environment and its impact on Indian companies with respect to measurement and disclosure. Case study on the financial statement of Infosys Ltd was selected for the purpose. From this study, It is concluded that the adaption of IFRS as a universal financial reporting language is gaining momentum across the globe. Adopting IND AS by Indian corporate is going to be very challenging at the same time it also is very beneficial to the Indian companies. (Justine, Manjitha Mathew, & Dechamma, 2016)

4.0 Research Methodology

4.1 Statement of Problem

Adoption of Ind AS & Impact on Corporate Performance: A Case study of L & T ltd

4.2 Objectives of study:

1. To study and analyze impact of adoption of Ind AS on measurement and recognition of Revenue, Operating Expenses, Financial charges and Tax Expenses.
2. To study and examine impact of adoption of Ind AS on Net profit of L& T ltd
3. To interpret and analyze Impact of adoption of Ind AS on Assets and Liabilities as on 1/4/2015 of L& T ltd and on Assets and Liabilities as on 31/3/2016 of L& T ltd
4. To observe and analyze Impact of adoption of Ind AS on Net worth as on 1/4/2015 and 31/3/2016 of L& T ltd

4.3 Selection of Sample

For the purpose of study, Larsen & Toubro ltd, an infrastructure sector company has been selected to analyze and understand impact of Ind AS implementation. The company has implemented Ind AS from the year 2016-17 and has also provided the comparative data based on Ind AS for the previous year 2015-16.

5 Data analysis and interpretation:

5.1 As exhibited by Table 1, the overall increase in revenue is recorded at 5.32% on account of transition to Ind AS. Following are other observations:

1. Revenue from operations increase as company changed the accounting treatment of the project undertaken through Unincorporated Joint Ventures (UJV). Such arrangements have been classified as joint operations pursuant to Ind AS 111 and accordingly Company's share in income and expenses of UJVs has been consolidated in standalone financials on a line by line basis whereas under I-GAAP the Company's share in the net profit or loss was accounted as a single line item in the Statement of Profit and Loss.

The another reason is Change in fair value of derivative instrument taken to hedge off-Balance Sheet item is accounted in the hedging reserve previously under I-GAAP the premium on these derivative instruments was recognized on accrual basis in the Statement of Profit and Loss. Positive change of 5.62% is observed on adoption of Ind AS.

Table 1

Impact of adoption of Ind AS on measurement and recognition of Revenue

Particulars	Indian GAAP	Ind As	Ind AS Adjustment (Rs in crores)	Change in %
Revenue from operations	60415.00	63812.65	3397.65	5.62%
Other income	2395.82	2341.04	(54.78)	(2.29%)
Total Revenue	62810.82	66153.69	3342.87	5.32%

Source-Annual report of Larsen & Toubro Ltd. for year 2016-17

2. Other Income has changed on account of consolidation of other income of unincorporated joint ventures income on a line by line basis as per Ind AS 111 as specified above rather than showing single item in Profit and Loss as per I- GAAP. Apart from this, all Investments except investments in group companies have been fair valued in accordance with Ind AS 109. Investments in debt securities are fair valued through Other Comprehensive Income (OCI) and reclassified to profit or loss on their sale. Other investments are fair valued through profit or loss earlier under I-GAAP the current investments were carried at cost net of diminution in their value as at the Balance Sheet date. The long term investments were carried at cost net of permanent diminution, if any. Decline of 2.29% is observed on adoption of Ind AS on other income.

5.2 As revealed in Table no. 2, Net Increase is noticed in operating expenses at 5.89% on transition to Ind AS. Following are other observations:

1. All operating expenses are changed on account of company having some of the projects through unincorporated joint ventures (UJV). Such arrangements have been classified as joint operations pursuant to Ind AS 111 and accordingly Company's share in income and expenses of UJVs has been consolidated in standalone financials on a line by line basis whereas under I-GAAP the Company's share in the net profit or loss was accounted as a single line item in the Statement of Profit and Loss. However some of the expenses are also changed due to other factors too which are as specified
   a. Change in expense of construction material consumed is on account change in fair value of derivative instrument taken to hedge off-Balance Sheet item is accounted in the hedging reserve rather than recognizing premium on derivative instruments on accrual basis in statement of profit and loss account as per previous I GAAP.
   b. Increase in employee benefit expense is due to Provision is made under Ind AS towards constructive obligations of the Company related to payment of performance linked rewards to the employees and tax on ESOP benefits, wherever applicable rather than recognizing on actual payments as per I GAAP, Past service cost arising out of modifications in the post-retirement benefits is recognised in Profit or Loss pursuant to Ind AS 19 whereas under I-GAAP the past service cost was amortised over a period and Actuarial gains and losses pertaining to defined benefit obligations and re-measurement pertaining to return on plan assets are recognised in Other Comprehensive Income in accordance with Ind AS 19 and are not reclassified to profit or loss.
   c. Increase in Sales, administration and other expenses is also on account of provision made against trade receivables based on "expected credit loss" model as per Ind AS 109 rather than making it when receivables turned doubtful based on the assessment on case to case basis as per I GAAP.

Table 2

Impact of adoption of Ind AS on measurement and recognition of operating expense

Particulars	I GAAP Rs in crores	Ind As Rs in crores	Ind AS Adjustment Rs in crores	Change In %
Cost of raw materials components consumed	7396.35	7397.55	1.20	0.016%
Construction materials consumed	17805.37	18804.70	999.33	**5.61%**
Purchase of stock-in-trade	1129.18	1129.45	0.27	**0.024%**
Stores, spares and tools consumed	1448.90	1349.23	(99.67)	**(6.88%)**
Sub-contracting charges	14066.80	15567.87	1501.07	**10.67%**
Changes in inventories of finished goods, work-in-progress and stock-in-trade	114.98	76.57	(38.41)	**(33.41%)**
Other manufacturing, construction and operating	4667.51	5208.33	540.82	**11.59%**

Expenses				
Total of above	47264.48	50169.09	2904.61	**6.15%**
Employee benefits expense	4480.20	4480.20	494.60	**11.04%**
Sales, administration and other expenses	2494.91	2845.77	350.86	**14.06%**
Depreciation, amortization, impairment and Obsolescence	998.88	997.40	(1.48)	**(0.15%)**
Total	**55238.47**	**58492.46**	**3253.99**	**5.89%**

Source-Annual report of Larsen & Toubro Ltd. for year 2016-17

5.3 As observed in Table 3, Finance cost is increased by 1.92% on transition to Ind AS. Increase in finance cost is on account of company having some of the projects through unincorporated joint ventures (UJV). Such arrangements have been classified as joint operations pursuant to Ind AS 111 and accordingly Company's share income and expenses of UJVs has been consolidated in standalone financials on a line by line basis whereas under I-GAAP the Company's share in the net profit or loss was accounted as a single line item in the Statement of Profit and Loss and other reason is under Ind AS 23 borrowing cost is calculated following effective rate of interest (EIR) method as described under Ind AS 109 earlier under I-GAAP borrowing cost was computed by applying the coupon rate to the principle amount for the period with consequential impact in the asset items where borrowing cost is capitalized/inventorised. Borrowings are recognised at fair value at the inception and subsequently at amortised cost with interest recognised based on EIR method

Table 3

Impact of adoption of Ind AS on measurement and recognition of finance cost

Particulars	**I GAAP Rs in crores**	**Ind As Rs in crores**	**Ind AS Adjustment Rs in crores**	**Change in %**
Finance costs	1449.04	1476.82	27.78	1.92%

Source-Annual report of Larsen & Toubro Ltd. for year 2016-17

5.4 As exhibited by Table 4, Overall decline is observed in tax expenses by 8.87% on adoption of Ind AS. Decrease in tax expense is on account of company having some of the projects through unincorporated joint ventures (UJV). Such arrangements have been classified as joint operations pursuant to Ind AS 111 and accordingly Company's share in income and expenses of UJVs has been consolidated in standalone financials on a line by line basis whereas under I-GAAP the Company's share in the net profit or loss was accounted as a single line item in the Statement of Profit and Loss and Change in Deferred tax under Ind AS has been recognized for temporary differences between tax base and the book base of the relevant assets and liabilities. Under I-GAAP the deferred tax was accounted based on timing differences impacting the Statement of Profit and Loss for the period.

Table 4

Impact of adoption of Ind AS on measurement and recognition of Tax expenses

Particulars	**I GAAP Rs in crores**	**Ind As Rs in crores**	**Ind AS Adjustment Rs in crores**	**Change in %**
Current tax	1551.19	1530.01	(21.18)	(1.37%)
Deferred tax	(173.54)	(273.97)	(100.43)	(57.87%)
Total	1378.36	1256.04	(122.32)	(8.87%)

Source-Annual report of Larsen & Toubro Ltd. for year 2016-17

5.5 As revealed by Table 5, (on next page) a decline is noticed in Net profit by 5.87% on transition to Ind AS. Change in Net Profit is on account of following reasons

a. Provision for expected credit loss has been increased on transition to Ind AS due to provision being made on expected credit loss as per Ind AS 109 rather than making provision when receivable turned doubtful by assessment on case to case basis which was followed under I-GAAP. It has declined Net profit for the period.

b. Provision for employee benefits based on constructive obligations related to payment of performance linked rewards to employee and Tax on ESOP benefits wherever applicable has reduced Net profit as per provision under Ind AS whereas under I-GAAP as per As 15 Employee Benefits the cost was recognized on actual basis.

c. Impact on fair valuation of investments has reduced Net profit as all investments long term and short term except investment in group companies have been fair valued as per Ind AS 109 whereas under I-GAAP, As per As 13 Accounting for Investments, the current investments were carried at cost ,net of diminution in value as at the Balance Sheet date and long term investments were carried at cost net of permanent diminution in value if any. Fair value of investment has been declined on 31/3/2016 as compared to value on 1/4/2015.

d.Increase in borrowing cost due to application of effective interest rate method[EIR method] has also declined Net worth which is followed as per Ind AS 109 ,Borrowings are recognized at fair value at the inception and subsequently at amortized cost with interest recognized based on EIR method. Under I-GAAP,As per As 16-Borrowing cost, borrowing cost was computed by applying coupon rate to the principal amount for the period with consequential impact in the asset items where borrowing cost is capitalized/inventorised. It has declined Net profit for the period.

Table 5

Impact of adoption of Ind AS on Net profit as on 31/3/2016 of L& T ltd

Particulars	**Rs in crores**
Net Profit after tax as per I-GAAP	5311.46
Impact of provision for expected credit loss	(302.06)
Provision for employee benefits based on constructive obligations	(25.85)
Impact of fair valuation of investments	(71.46)
Increase in borrowing cost pursuant to application of effective interest rate method	(24.57)
Reclassification of net actuarial loss on employee defined benefit obligations to OCI	12.90
Others	(23.78)
Deferred and current taxes	122.94
Net Profit after tax as per Ind AS	4999.58
Difference in Net profit	311.88
Change in Net profit in %	(5.87)
Other comprehensive income [net of tax]	82.86
Total comprehensive income as per Ind AS	5082.44

Source-Annual report of Larsen & Toubro Ltd. for year 2016-17

e. Actuarial gains and losses pertaining to defined benefit obligations and re-measurement pertaining to return on plan assets are recognized in Other Comprehensive Income in accordance with Ind AS 19 and are not reclassified to profit or loss. Further, there are certain other items (as presented in OCI) that are accounted in Other Comprehensive Income and subsequently reclassified to Profit or Loss in accordance with Ind AS requirements. It has positively affected Net Profit of the period.

f. Other reasons which has affected Net Profit includes Financial guarantee contracts which has been recognized as per fair values at the inception along with accrued guarantee charges as per Ind AS 109 which was earlier disclosed as contingent liability and commitments . Change in fair value of derivative instrument taken to hedge off Balance Sheet item is accounted in the hedging reserve whereas earlier under I-GAAP the premium on these derivative instruments was recognized on accrual basis in the Statement of Profit and Loss. Past service cost arising out of modifications in the post-retirement benefits is recognized in Profit or Loss pursuant to Ind AS 19 however earlier under I-GAAP the past service cost was amortized over a period. Equity component of other financial instruments (FCCB) under Ind AS 32, Foreign Currency Convertible Bonds (FCCB) issued by the Company is split into equity and liability component and presented accordingly. The measurement of liability component is done at fair value at the inception and subsequently at amortized cost where as Under I-GAAP FCCB was accounted at cost and presented as borrowing has also affected Net profit.

g. Deferred tax under Ind AS has been recognized for temporary differences between tax base and the book base of the relevant assets and liabilities. However earlier under I-GAAP As per As 22 Accounting for taxes on Income, the deferred tax was accounted based on timing differences impacting the Statement of Profit and Loss for the period.

h. Other comprehensive income arises on account of Fair valuation of investments in debt securities for which treatment is done as per Ind AS 109 through OCI and reclassified to profit or loss on their sale however other investments are fair valued through profit or loss. Deferred Taxes Recognized for temporary difference between tax base and book base of relevant assets and liabilities which was previously accounted based on timing differences, change in fair value of derivative instruments which is accounted in the hedging reserve rather than through statement of profit and loss. Actuarial gains and losses pertaining to defined benefit obligations and re-measurement pertaining to return on plan assets are recognized in Other Comprehensive Income in accordance with Ind AS 19 and are not reclassified to profit or loss

Table 6

Impact of adoption of Ind AS on Assets and Liabilities as on 1/4/2015 of L& T ltd

Particulars	I GAAP Rs in crores	Ind As Rs in crores	Ind AS Adjustment Rs in crores	Change in %
Noncurrent assets	30049.1	30350.02	**300.92**	1.001%
Current assets	56375.43	58995.76	**2620.33**	4.65%
Noncurrent liabilities	9019.89	8879.72	**(140.17)**	(1.55)%
Current liabilities	40320.06	41913.53	**1593.47**	3.95%
Total of Noncurrent assets and current assets[A]	86424.53	89345.78	**2921.25**	3.38%
Total of Noncurrent liabilities & Current liabilities[B]	49339.95	50793.25	**1453.3**	2.95%
Net worth[A-B]	37084.58	38552.53	**1467.95**	3.96%

Source-Annual report of Larsen & Toubro Ltd. for year 2016-17

5.6 From the above table it is observed

a. On adoption of Ind AS value of Noncurrent assets is increased in case of capital work in progress, Investment property and other noncurrent assets however decline is observed in case of Property, plant and equipment, other intangible assets and other financial assets. Deferred tax liability [negative deferred tax asset] is declined. Overall positive impact is observed in case of Noncurrent Assets by 1.001%.

b. On adoption of Ind AS value of current assets is increased in all items such as investments, cash and bank balance etc except inventories and trade receivables which are declined on transition to Ind AS. Overall increase is observed in value of current assets on account of adoption of Ind AS by 4.65%.

c. Noncurrent liabilities are declined on transition to Ind AS in which major decline is observed on account of decline in borrowings however increase is observed in case of other financial liabilities, Long term provisions and other noncurrent liabilities. Overall decline of 1.55% is observed on transition to Ind AS in case of noncurrent liabilities.

d. Increase is observed on account of adoption of Ind AS on Borrowings, Trade payables, other financial liabilities and other current liabilities whereas decline is observed in case of short term provisions. Overall increase is observed in case of current liabilities on transition to Ind AS by 3.95%.

e. Overall net worth has been increased by 3.96% on adoption of Ind AS on 1/4/2015.

5.7 As depicted in table No. 7 following is observed:

a. On adoption of Ind AS increase is observed in value of Noncurrent Assets which includes Property plant and equipment, capital work in progress, Investment property, other intangible assets, other financial and other noncurrent assets however decrease is observed in case of investment and loans. Deferred tax asset is result inspite of deferred tax liability on transition to Ind As. Overall increase of 0.35% is observed in case of Noncurrent assets on adoption of Ind As.

Table 7

Impact of adoption of Ind AS on Assets and Liabilities as on 31/3/2016 of L& T ltd

Particulars	I GAAP Rs in crores	Ind As Rs in crores	Ind AS Adjustment Rs in crores	Change in %
Noncurrent assets	32416.93	32529.81	**112.88**	0.35%
Current assets	64153.92	67091.14	**2937.22**	4.58%
Noncurrent liabilities	8917.93	8762.25	**(155.68)**	(1.75%)
Current liabilities	46934.59	48723.39	**1788.8**	3.81%
Total of Noncurrent assets and current assets[A]	96570.85	99620.95	**3050.1**	3.16%
Total of Noncurrent liabilities & Current liabilities[B]	55852.52	57485.64	**1633.12**	2.92%
Net worth[A-B]	40718.33	42135.31	**1416.98**	3.48%

Source-Annual report of Larsen & Toubro Ltd. for year 2016-17

b. Almost value of all current assets such as Inventories, financial assets and other current assets increased on transition to Ind As except trade receivables which is declined to an extent on adoption of Ind As. Overall increase of 4.58% is observed in case of current assets on adoption of Ind As.

c. Noncurrent liabilities declined major in case of borrowings whereas slight increase is observed in case of long term provisions, other financial liabilities and other noncurrent liabilities. Overall decline of 1.75% is observed on transition to Ind AS in case of noncurrent liabilities.

d. Increase is observed in case of current liabilities like borrowings, trade payables, other financial liabilities and other current liabilities whereas decline is observed in case of short term provisions on transition to Ind AS. Overall increase of 3.81% is observed in case of current liabilities on transition to Ind AS.

5.7.1 Overall net worth has been increased by 3.48% on adoption of Ind AS on 31/3/2016.Change in value of Noncurrent Assets, Current Assets, Noncurrent liabilities and current liabilities are on account of following reasons:

a. Major impact is seen on Noncurrent assets, current assets and current liabilities on account of executing some of the projects through unincorporated joint ventures (UJV). Such arrangements have been classified as joint operations pursuant to Ind AS 111 and accordingly Company's share in assets and liabilities of UJVs has been consolidated in standalone financials on a line by line basis. Under I-GAAP the investment in UJVs was being presented as a single line item in the Balance sheet.

b. Pursuant to Ind AS requirements, investment property is presented separately. Under I-GAAP the same was presented as part of tangible assets. Tangible assets have been now divided into two categories under Ind AS viz. Property, plant and equipment and Investment property.

c. Capital work in progress, other noncurrent assets, inventories, other current assets and Borrowings are changed on account of change in borrowing cost. Under Ind AS 23 borrowing cost is calculated following effective rate of interest (EIR) method as described under Ind AS 109 however Under I-GAAP borrowing cost was computed by applying the coupon rate to the principle amount for the period with consequential impact in the asset items where borrowing cost is capitalized/ inventorised. Borrowings are recognized at fair value at the inception and subsequently at amortised cost with interest recognized based on EIR method.

d. Borrowing is also change on account of Pursuant to Ind AS 32 , Foreign Currency Convertible Bonds (FCCB) issued by the Company is split into equity and liability component and presented accordingly. The measurement of liability component is done at fair value at the inception and subsequently at amortised cost. Under I-GAAP FCCB was accounted at cost and presented as borrowing.

e. Change in value of investments is on account of fair value. All Investments except investments in group companies have been fair valued in accordance with Ind AS 109. Investments in debt securities are fair valued through OCI and reclassified to profit or loss on their sale. Other investments are fair valued through profit or loss. Under I-GAAP the current investments were carried at cost net of diminution in their value as at the Balance Sheet date. The long term investments were carried at cost net of permanent diminution, if any.

f. Financial assets and financial liabilities are changed due to fair valuation. Under Ind AS financial assets and liabilities are measured at fair value at the inception and subsequently at amortised cost or at fair value based on their classification. Under I-GAAP the financial assets and liabilities were measured at cost. Financial guarantee contracts have been recognized at fair value at the inception in accordance with Ind AS 109 along with accrued guarantee charges. Under I-GAAP financial guarantee given was disclosed as contingent liability and commitments

g. Other financial assets are changed on account of ESOP charge is accounted using fair value method. The portion of ESOP charge recoverable from the group companies is accordingly measured and recognized at fair value. Under I-GAAP ESOP charge was calculated based on intrinsic value method. Other financial liabilities are changed due to provision is made under Ind AS towards constructive obligations of the Company related to payment of performance linked rewards to the employees and tax on ESOP benefits, wherever applicable. Under I-GAAP the cost was recognized on actual payments.

h. Change in value of other financial assets, other current assets, other financial liabilities and other current liabilities is also occurred due to Change in fair value of derivative instrument taken to hedge off-Balance Sheet item is accounted in the hedging reserve. Under I-GAAP the premium on these derivative instrument was recognized on accrual basis in the Statement of Profit and Loss

i. Change in value of deferred tax assets/liabilities is because deferred tax under Ind AS has been recognized for temporary differences between tax base and the book base of the relevant assets and liabilities. Under I-GAAP the deferred tax was accounted based on timing differences

j. Trade receivable and other current assets are changed as the provision is made against trade receivables based on “expected credit loss” model as per Ind AS 109. Under I-GAAP the provision was made when the receivable turned doubtful based on the assessment on case to case basis.

k. Provisions value changed as under Ind AS the final dividend including related tax is recognized in the period in which the obligation to pay is established on its approval, post reporting of financial statements. Under I-GAAP a provision was required to be made in the financial statements for the proposed final dividend in the period to which the liability related. Other reason of change is Past service cost arising out of modifications in the post-retirement benefits is recognized in Profit or Loss pursuant to Ind AS 19. Under I-GAAP the past service cost was amortised over a period.

Table 8

Impact of adoption of Ind AS on Net worth as on 1/4/2015 and 31/3/2016 of L& T ltd

Particulars	**I Net worth on 1/4/2015 [Rs in crores]**	**II Net worth on 31/3/2016[Rs in crores]**
Net worth as per I-GAAP	37084.58	40718.33
Provision for expected credit loss	(483.50)	(785.56)
Provision for employee benefits based on constructive obligations	(353.22)	(379.07)
Gain on fair valuation of investments	247.83	172.49
Increase in borrowing cost pursuant to application of effective interest rate method	(29.34)	(53.91)
Reversal of Dividend & DDT	1644.87	1840.83
Equity component of other financial instruments (FCCB)	153.20	153.20
Others	21.09	109.51
Deferred and current taxes	267.02	359.49
Net worth as per Ind AS	38552.53	42135.31
Impact on Net worth[Difference]	1467.95	1416.98
Change in %	3.96	3.48

Source-Annual report of Larsen & Toubro Ltd. for year 2016-17

5.8 As exhibited by Table 8, Net worth has been increased in both cases i.e. on 1/4/2015 and 31/3/2016 by 3.96% and 3.48% respectively. Change in Net worth is on account of following reasons

a. Provision for expected credit loss has been increased in case of opening as well as closing net worth on transition to Ind AS due to provision being made on expected credit loss as per Ind As 109 rather than making provision when receivable turned doubtful by assessment on case to case basis which was followed under I-GAAP. It has reduced Net worth to an extent.

b. Provision for employee benefits based on constructive obligations related to payment of performance linked rewards to employee and Tax on ESOP benefits wherever applicable has reduced Net worth as per provision under Ind AS whereas under I-GAAP,As per As 15 Employee Benefit, the cost was recognized on actual basis.

c. Gain on fair valuation of investments has positive impact on Net worth as all investments long term and short term except investment in group companies have been fair valued as per Ind AS 109 whereas under I-GAAP, As per As 13 Accounting for investments, the current investments were carried at cost, net of diminution in value as at the Balance Sheet date and long term investments were carried at cost net of permanent diminution in value if any.

d. Increase in borrowing cost due to application of effective interest rate method[EIR method] has also declined Net worth which is followed as per Ind AS 109 ,Borrowings are recognized at fair value at the inception and subsequently at amortized cost with interest recognized based on EIR method. Under I-GAAP, As per As 16 Borrowing cost, borrowing cost was computed by applying coupon rate to the principal amount for the period with consequential impact in the asset items where borrowing cost is capitalized /inventorised.

e. Reversal of Dividend & DDT has positive impact on Net worth, As under Ind AS the final dividend including related tax is recognized in the period in which the obligation to pay is established after approval (post reporting in financial statements) where as under I-GAAP provision was required to be made for proposed dividend and its related tax in the related period of liability.

f. Equity component of other financial instruments (FCCB) has positive impact on Net worth as Under Ind AS 32 , Foreign Currency Convertible Bonds (FCCB) issued by the Company is split into equity and liability component and presented accordingly. The measurement of liability component is done at fair value at the inception and subsequently at amortized cost where as Under I-GAAP FCCB was accounted at cost and presented as borrowing thus on recognizing equity component it has increased Net worth.

g. Other reasons which has affected Net worth includes Financial guarantee contracts which has been recognized as per fair values at the inception along with accrued guarantee charges as per Ind AS 109 which was earlier disclosed as contingent liability and commitments . Change in fair value of derivative instrument taken to hedge off Balance Sheet item is accounted in the hedging reserve whereas earlier under I-GAAP the premium on this derivative instrument was recognized on accrual basis in the Statement of Profit and Loss. Past service cost arising out of modifications in the post-retirement benefits is recognized in Profit or Loss pursuant to Ind AS 19 however earlier under I-GAAP the past service cost was amortized over a period.

h. Deferred tax under Ind AS has been recognized for temporary differences between tax base and the book base of the relevant assets and liabilities Whereas earlier under I-GAAP, As per As 22 Accounting for taxes on Income the deferred tax was accounted based on timing differences impacting the Statement of Profit and Loss for the period.

6.0 Findings and Conclusion

a. Revenue from operations increased on transition to Ind AS whereas other income declined on transition to Ind AS. Overall revenue enhanced on transition to Ind AS. Total operating expenses increased and Finance cost too increased on Transition to Ind AS. Tax expenses declined on adoption of Ind AS. On account of above incorporated changes Net profit of a company declined on transition to Ind AS.

b. Noncurrent assets, current assets and current liabilities increased and Noncurrent liabilities declined on transition to Ind AS in case of balance sheet restated on 1/4/2015 as well as 31/3/2016 in compliance to Ind AS.Net worth increased on 1/4/2015 and 31/3/2016 on adoption of Ind AS and incorporating above effects.

c. Major change in valuation of several items as discussed above is on account of some of the projects through unincorporated joint ventures (UJV) in which Revenue, Expenses, Assets and Liabilities has been consolidated in standalone financials on a line by line basis. Other Reasons are fair valuation of Investments, Borrowings, Financial assets and financial liabilities. Change in recognition criteria of Deferred Tax assets/liabilities on adoption of Ind AS. Apart from above changes, In Pursuant to Ind AS 32, Foreign Currency Convertible Bonds (FCCB) issued by the Company is split into equity and liability component and presented accordingly. The measurement of liability component is done at fair value at the inception and subsequently at amortised cost. Provisions are changed due to recognition difference under Ind AS and I GAAP.

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