

## Indian Accounting Standards (Ind AS)

### 1. Introduction to Ind AS

In the present era of globalisation and liberalisation, the world has become an economic village. The globalisation of the business world, the attendant structures and the regulations, which support it, as well as the development of e-commerce make it imperative to have a single globally accepted financial reporting system. A number of multi-national companies are establishing their businesses in various countries with emerging economies and vice versa. The entities in emerging economies are increasingly accessing the global markets to fulfill their capital needs by getting their securities listed on the stock exchanges outside their country. Capital markets are, thus, becoming integrated consistent with this world-wide trend. More and more Indian companies are being listed on overseas stock exchanges. The use of different accounting frameworks in different countries, which require inconsistent treatment and presentation of the same underlying economic transactions, creates confusion for users of financial statements. This confusion leads to inefficiency in capital markets across the world. Therefore, increasing complexity of business transactions and globalisation of capital markets call for a single set of high quality accounting standards.

High standards of financial reporting underpin the trust investors place in financial and non-financial information. Thus, the case for a single set of globally accepted accounting standards has prompted many countries to pursue convergence of national accounting standards with IFRS.

International Financial Reporting Standards (IFRS) are considered a "principles-based" set of standards. In fact, they establish broad rules rather than dictating specific treatments. Every major nation is moving toward adopting them to some extent. Large number of authorities requires public companies to use IFRS for stock-exchange listing purposes, and in addition, banks, insurance companies and stock exchanges may use them for their statutorily required reports. So over the next few years, thousands of companies will adopt the international financial reporting standards while preparing their financial statements.

### 2. Benefits of Convergence with IFRS

There are many beneficiaries of convergence with IFRS such as the economy, investors, industry etc.

**The Economy:** When the markets expand globally the need for convergence increases since the convergence benefits the economy by increasing growth of its international business. It facilitates maintenance of orderly and efficient capital markets and also helps to increase the

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capital formation and thereby economic growth. It encourages international investing and thereby leads to more foreign capital flows to the country.

**Investors:** A strong case for convergence can be made from the viewpoint of the investors who wish to invest outside their own country. Investors want the information that is more relevant, reliable, timely and comparable across the jurisdictions. Financial statements prepared using a common set of accounting standards help investors better understand investment opportunities as opposed to financial statements prepared using a different set of national accounting standards. Investors' confidence is strong when accounting standards used are globally accepted. Convergence with IFRS contributes to investors' understanding and confidence in high quality financial statements.

**The Industry:** A major force in the movement towards convergence has been the interest of the industry. The industry is able to raise capital from foreign markets at lower cost if it can create confidence in the minds of foreign investors that their financial statements comply with globally accepted accounting standards. With the diversity in accounting standards from country to country, enterprises which operate in different countries face a multitude of accounting requirements prevailing in the countries. The burden of financial reporting is lessened with convergence of accounting standards because it simplifies the process of preparing the individual and group financial statements and thereby reduces the costs of preparing the financial statements using different sets of accounting standards.

## 3. History of IFRS-converged Indian Accounting Standards (Ind AS)

### 3.1 First Step towards IFRS

The Institute of Chartered Accountants of India (ICAI) being the accounting standards-setting body in India, way back in 2006, initiated the process of moving towards the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) with a view to enhance acceptability and transparency of the financial information communicated by the Indian corporates through their financial statements. This move towards IFRS was subsequently accepted by the Government of India.

The Government of India in consultation with the ICAI decided to converge and not to adopt IFRS issued by the IASB. The decision of convergence rather than adoption was taken after the detailed analysis of IFRS requirements and extensive discussion with various stakeholders. Accordingly, while formulating IFRS-converged Indian Accounting Standards (Ind AS), efforts have been made to keep these Standards, as far as possible, in line with the corresponding IAS/IFRS and departures have been made where considered absolutely essential. These changes have been made considering various factors, such as, various terminology related changes have been made to make it consistent with the terminology used in law, e.g., 'statement of profit and loss' in place of 'statement of comprehensive income' and 'balance sheet' in place of 'statement of financial position'. Certain changes have been made considering the economic

environment of the country, which is different as compared to the economic environment presumed to be in existence by IFRS.

### 3.2 Government of India - Commitment to IFRS Converged Ind AS

Consistent, comparable and understandable financial reporting is essential to develop a robust economy. With a view to achieve international benchmarks of financial reporting, the Institute of Chartered Accountants of India (ICAI), as a proactive role in accounting, set out to introduce Indian Accounting Standards (Ind AS) converged with the International Financial Reporting Standards (IFRS). This endeavour of the ICAI is supported by the Government of India.

Initially Ind AS were expected to be implemented from the year 2011. However, keeping in view the fact that certain issues including tax issues were still to be addressed, the Ministry of Corporate Affairs decided to postpone the date of implementation of Ind AS.

In July 2014, the Finance Minister of India at that time, Shri Arun Jaitely ji, in his Budget Speech, announced an urgency to converge the existing accounting standards with the International Financial Reporting Standards (IFRS) through adoption of the new Indian Accounting Standards (Ind AS) by the Indian companies from the financial year 2015-16 voluntarily and from the financial year 2016-17 on a mandatory basis.

Pursuant to the above announcement, various steps have been taken to facilitate the implementation of IFRS-converged Indian Accounting Standards (Ind AS). Moving in this direction, the Ministry of Corporate Affairs (MCA) has issued the Companies (Indian Accounting Standards) Rules, 2015 vide Notification dated February 16, 2015 covering the revised roadmap of implementation of Ind AS for companies other than Banking companies, Insurance Companies and NBFCs and Indian Accounting Standards (Ind AS). As per the Notification, Indian Accounting Standards (Ind AS) converged with International Financial Reporting Standards (IFRS) shall be implemented on voluntary basis from 1st April, 2015 and mandatorily from 1st April, 2016.

*Initially, India decided to adopt Ind AS 115 corresponding to IFRS 15 two years ahead of the world. However, after the same were notified by the MCA, many representations were being received from various organisations, industry associations etc. for deferring the applicability of Ind AS 115. Considering the difficulties being faced by various industries, it was decided to defer the applicability of Ind AS 115 and to bring Ind AS 11 and Ind AS 18 in its place. Further, there were certain amendments that were made in IFRS/IAS issued by the IASB. The Institute of Chartered Accountants of India (ICAI) to keep up the pace with the global developments, revised the notified Ind AS in line with the amendments made in IFRS/IAS issued by the IASB. MCA had notified the amendments to the Ind AS vide notification dated March 30, 2016, as Companies (Indian Accounting Standards) Amendment Rules, 2016.*

#### 4. What are Indian Accounting Standards (Ind AS)?

Indian Accounting Standards (Ind-AS) are the International Financial Reporting Standards (IFRS) converged standards issued by the Central Government of India under the supervision and control of Accounting Standards Board (ASB) of ICAI and in consultation with National Advisory Committee on Accounting Standards (NACAS).

ASB is a committee under Institute of Chartered Accountants of India (ICAI) which consists of representatives from government department, academicians, other professional bodies viz. icsi, icaic, representatives from ASSOCHAM, CII, FICCI, etc. National Advisory Committee on Accounting Standards (NACAS) recommend these standards to the Ministry of Corporate Affairs (MCA). MCA has to spell out the accounting standards applicable for companies in India.

The Ind AS are named and numbered in the same way as the corresponding International Financial Reporting Standards (IFRS).

#### 5. What are Carve outs/ins in Ind AS?

The Government of India in consultation with the ICAI decided to converge and not to adopt IFRS issued by the IASB. The decision of convergence rather than adoption was taken after the detailed analysis of IFRS requirements and extensive discussion with various stakeholders.

Accordingly, while formulating IFRS-converged Indian Accounting Standards (Ind AS), efforts have been made to keep these Standards, as far as possible, in line with the corresponding IAS/IFRS and departures have been made where considered absolutely essential. These changes have been made considering various factors, such as

- Various terminology related changes have been made to make it consistent with the terminology used in law, e.g., 'statement of profit and loss' in place of 'statement of comprehensive income' and 'balance sheet' in place of 'statement of financial position'.
- Removal of options in accounting principles and practices in Ind AS vis-a-vis IFRS, have been made to maintain consistency and comparability of the financial statements to be prepared by following Ind AS. However, these changes will **not result into carve outs**.
- Certain changes have been made considering the economic environment of the country, which is different as compared to the economic environment presumed to be in existence by IFRS. These differences are due to differences in application of accounting principles and practices and economic conditions prevailing in India. These differences which are in deviation to the accounting principles and practices stated in IFRS, are commonly known as 'Carve-outs'.

**Note:** In Ind AS 103 "Business Combination", an additional guidance on "Accounting of Business Combinations of Entities under Common Control" is given which is over and above what is given in IFRS. This is termed as 'Carve-in'.

## 6. Roadmap for Implementation of Indian Accounting Standards (Ind AS): A Snapshot

### 6.1 For Companies other than banks, NBFCs and Insurance Companies

Phase I	1 <sup>st</sup> April 2015 or thereafter: Voluntary Basis for all companies (with Comparatives)	
	1 <sup>st</sup> April 2016: Mandatory Basis	
	(a)	Companies listed/in process of listing on Stock Exchanges in India or Outside India having net worth $\geq$ INR 5 Billion
	(b)	Unlisted Companies having net worth $\geq$ INR 5 Billion
	(c)	Parent, Subsidiary, Associate and J.V. of above
Phase II	1 <sup>st</sup> April 2017: Mandatory Basis	
	(a)	All companies which are listed/or in process of listing inside or outside India on Stock Exchanges not covered in Phase I (other than companies listed on SME Exchanges)
	(b)	Unlisted companies having net worth INR 5 Billion > INR 2.5 Billion
	(c)	Parent, Subsidiary, Associate and J.V. of Above

- Companies listed on SME exchange not required to apply Ind AS.
- Once Ind AS are applicable, an entity shall be required to follow the Ind AS for all the subsequent financial statements.
- Companies not covered by the above roadmap shall continue to apply existing Accounting Standards notified in Companies (Accounting Standards) Rules, 2006.

### 6.2 For Scheduled Commercial Banks (Excluding RRBs), Insurers/Insurance Companies and Non-Banking Financial Companies (NBFC's)

Non-Banking Financial Companies (NBFC's)	
Phase I:	From 1st April, 2018 (with comparatives)
	<ul style="list-style-type: none"> <li>• NBFCs (whether listed or unlisted) having net worth 500 crore or more</li> <li>• Holding, Subsidiary, JV and Associate companies of above NBFC other than those already covered under corporate roadmap shall also apply from said date</li> </ul>

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Phase II:	From 1st April, 2019 (with comparatives)
	<ul style="list-style-type: none"> <li>NBFCs whose equity and/or debt securities are listed or are in the process of listing on any stock exchange in India or outside India and having net worth less than 500 crore</li> </ul>
	<ul style="list-style-type: none"> <li>NBFCs that are unlisted having net worth 250 crore or more but less 500 crore</li> </ul>
	<ul style="list-style-type: none"> <li>Holding, Subsidiary, JV and Associate companies of above other than those already covered under corporate roadmap shall also apply from said date</li> </ul>
➤	Applicable for both Consolidated and individual Financial Statements
➤	NBFC having net worth below 250 crore shall not apply Ind AS.
➤	Adoption of Ind AS is allowed only when required as per the roadmap.
➤	Voluntary adoption of Ind AS is not allowed.
<b>Scheduled Commercial banks (excluding RRB's) and Insurers/Insurance companies</b>	
➤	From 1st April, 2018 (with comparatives):
	<ul style="list-style-type: none"> <li>Holding, subsidiary, JV and Associates companies of scheduled commercial banks (excluding RRB's) shall also apply from the said date irrespective of it being covered under corporate roadmap.</li> </ul>
	<ul style="list-style-type: none"> <li>Applicable for both Consolidated and individual Financial Statements</li> </ul>
➤	Urban Cooperative banks (UCBs) and Regional Rural banks (RRBs) are not required to apply Ind AS.

## 7. List of Ind AS *vis-a-vis* IFRS and AS

Ind AS	IFRS	Title of Ind AS/IFRS	AS/GN	AS/GN Title
101	1	First Time Adoption of Indian Accounting Standards	-	-
102	2	Share Based Payment	GN 18	Guidance Note on Accounting for Employee Share-based Payments
103	3	Business Combinations	AS 14	Accounting for Amalgamations
104	4	Insurance Contracts	-	-
105	5	Non-current Assets Held for Sale and Discontinued Operations	AS 24	Discontinuing Operations
106	6	Exploration for and Evaluation of Mineral Resources	GN 15	Guidance Note on Accounting for Oil and Gas Producing Activities
107	7	Financial Instruments: Disclosures	AS 32	Financial Instruments: Disclosures
108	8	Operating Segments	AS 17	Segment Reporting

109	9	Financial Instruments	AS 30	Financial Instruments: Recognition and Measurement
110	10	Consolidated Financial Statements	AS 21	Consolidated Financial Statements
111	11	Joint Arrangements	AS 27	Financial Reporting of Interests in Joint Ventures
112	12	Disclosure of Interests in Other Entities	-	-
113	13	Fair Value Measurement	-	-
114	14	Regulatory Deferral Accounts	GN	Accounting for Rate Regulated Activities
1	1	Presentation of Financial Statements	AS 1	Disclosure of Accounting Policies
2	2	Inventories	AS 2	Valuation of Inventories
7	7	Statement of Cash Flows	AS 3	Cash Flow Statements
8	8	Accounting Policies, Changes in Accounting Estimates and Errors	AS 5	Net Profit or Loss for the Period, Prior period Items and Changes in Accounting Policies
10	10	Events after the Reporting Period	AS 4	Contingencies and Events Occurring After the Balance Sheet
11	11	Construction Contracts	AS 7	Construction Contracts
12	12	Income Taxes	AS 22	Accounting for Taxes on Income
16	16	Property, Plant and Equipment	AS 10	Property, Plant and Equipment
17	17	Leases	AS 19	Leases
18	18	Revenue	AS 9	Revenue Recognition
19	19	Employee Benefits	AS 15	Employee Benefits
20	20	Accounting for Government Grants and Disclosure of Government Assistance	AS 12	Accounting for Government Grants
21	21	The Effects of Changes in Foreign Exchange Rates	AS 11	The Effects of Changes in Foreign Exchange Rates
23	23	Borrowing Costs	AS 16	Borrowing Costs
24	24	Related Party Disclosures	AS 18	Related Party Disclosures
27	27	Separate Financial Statements	-	-
28	28	Investment in Associates and Joint Ventures	AS 23	Accounting for Investment in Associates in Consolidated Financial Statements
29	29	Financial Reporting in Hyperinflationary Economies	-	-
32	32	Financial Instruments: Presentation	AS 31	Financial Instruments: Presentation

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33	33	Earnings per Share	AS 20	Earnings per Share
34	34	Interim Financial Reporting	AS 25	Interim Financial Reporting
36	36	Impairment of Assets	AS 28	Impairment of Assets
37	37	Provisions, Contingent Liabilities and Contingent Assets	AS 29	Provisions, Contingent Liabilities and Contingent Assets
38	38	Intangible Assets	AS 26	Intangible Assets
40	40	Investment Property	AS 13	Accounting for Investments
41	41	Agriculture	-	-

## 8. Summary of Indian Accounting Standards (Ind AS)

### 8.1 Ind AS 1 : Presentation of Financial Statements

#### 8.1.1 Objective

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This Standard prescribes the basis for presentation of general purpose financial statements to ensure comparability both with the entity's financial statements of previous periods and with the financial statements of other entities. It sets out

- Overall requirements for the presentation of financial statements,
- Guidelines for their structure and
- Minimum requirements for their content.

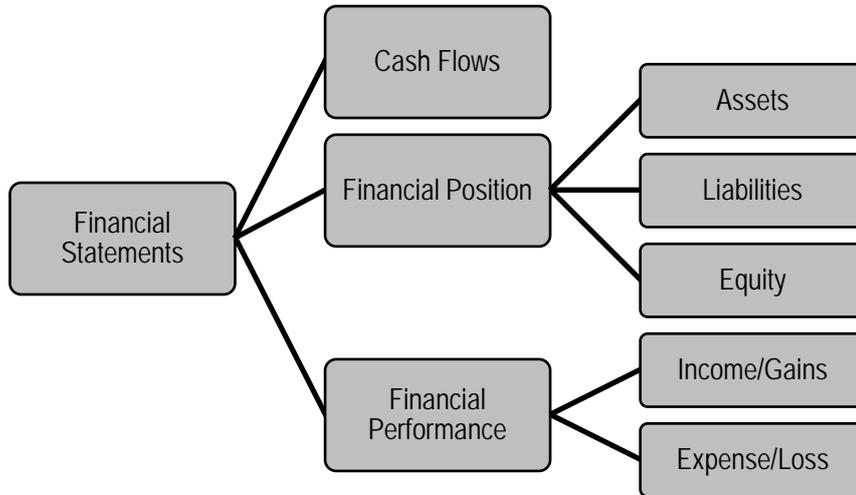
#### 8.1.2 Financial Statements

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##### Purpose of financial statements

Financial statements are a structured representation of the:

- financial position and
- financial performance of an entity.



A complete set of financial statements comprises:

- A balance sheet as at the end of the period
- Statement of changes in equity for the period
- A statement of profit and loss for the period
- A statement of cash flows for the period
- Notes, comprising significant accounting policies and other explanatory information
- Comparative information in respect of the preceeding period
- A balance sheet as at the beginning of the preceeding period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements

The Standard requires an entity to present, in a statement of changes in equity, all owner changes in equity. All non-owner changes in equity (ie comprehensive income) are required to be presented in single statement of profit and loss, with profit or loss and other comprehensive income presented in two sections. The sections shall be presented together, with the profit or loss section presented first followed directly by the other comprehensive income section.

The Standard requires that an entity whose financial statements comply with Ind AS must make an explicit and unreserved statement of such compliance in the notes. An entity must not describe financial statements as complying with Ind AS unless they comply with all the

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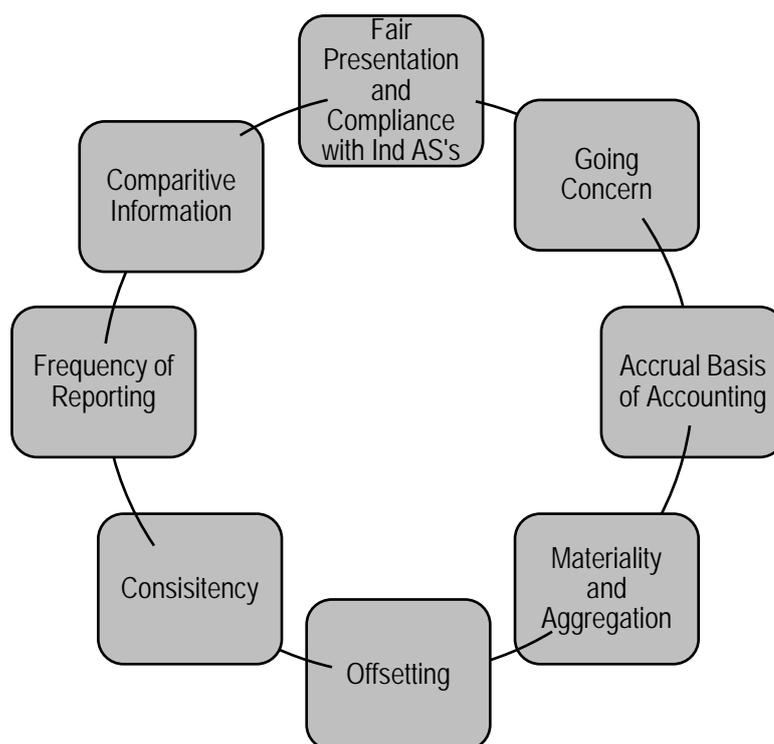
requirements of Ind AS. The application of Ind AS, with additional disclosure when necessary, is presumed to result in financial statements that achieve a presentation of true and fair view.

### 8.1.3 Presentation of True and Fair View

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Presentation of true and fair view requires the faithful representation of

- The effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the Framework.
- The application of Ind AS, with additional disclosure when necessary, is presumed to result in financial statements that present a true and fair view.



**Structure and Content:** The Standard requires that an entity shall clearly identify the financial statements and distinguish them from other information in the same published document. **The Standard requires some line items to be presented in the balance sheet. An entity shall present additional line items, headings and sub-totals in the balance sheet when such presentation is relevant to an understanding of the entity's financial position.** It also prescribes the information to be presented in statement of profit and loss, other comprehensive income section and statement of changes in equity. However, this Standard does not apply to the structure and content of condensed interim financial statements prepared in accordance with Ind AS 34 'Interim Financial Reporting'. However, this Standard does not apply to the structure and content of condensed interim financial statements prepared in accordance with

Ind AS 34 *'Interim Financial Reporting'*.

**Other Comprehensive Income:** Other comprehensive income comprises items of income and expenses (including reclassification adjustments) that are not recognised in profit or loss as required or permitted by other Ind AS.

The Standard requires an entity to disclose reclassification adjustments and income tax relating to each component of other comprehensive income. Reclassification adjustments are the amounts reclassified to profit or loss in the current period that were previously recognised in other comprehensive income.

*The other comprehensive income section shall present line items for amounts for the period of:*

- (a) items of other comprehensive income (excluding amounts in paragraph (b)), classified by nature and grouped into those that, in accordance with other Ind AS:
 
  - (i) will not be reclassified subsequently to profit or loss; and*
  - (ii) will be reclassified subsequently to profit or loss when specific conditions are met.**
- (b) the share of the other comprehensive income of associates and joint ventures accounted for using the equity method, separated into the share of items that in accordance with other Ind AS:
 
  - (i) will not be reclassified subsequently to profit or loss; and*
  - (ii) will be reclassified subsequently to profit or loss when specific conditions are met.**

**Current/non-current distinction:** The Standard requires that an entity shall present current and non-current assets, and current and non-current liabilities, as separate classifications in its balance sheet except when a presentation based on liquidity provides information that is reliable and more relevant. When that exception applies, an entity shall present all assets and liabilities in order of liquidity.

The Standard also requires that whichever method of presentation is adopted, an entity shall disclose the amount expected to be recovered or settled after more than twelve months for each asset and liability line item that combines amounts expected to be recovered or settled:

- (a) no more than twelve months after the reporting period, and
- (b) more than twelve months after the reporting period.

#### 8.1.4 Other Issues

The Standard also deals with certain issues like

##### (a) Going Concern

- When preparing financial statements, management shall make an assessment of an entity's ability to continue as a going concern.

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- An entity shall prepare financial statements on a going concern basis unless management either intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so.
- When management is aware, in making its assessment, of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern, the entity shall disclose those uncertainties.
- When an entity does not prepare financial statements on a going concern basis, it shall disclose that fact, together with the basis on which it prepared the financial statements and the reason why the entity is not regarded as a going concern.

### (b) Accrual Basis of Accounting

- An entity shall prepare its financial statements, except for cash flow information, using the accrual basis of accounting.
- When the accrual basis of accounting is used, an entity recognises items as assets, liabilities, equity, income and expenses (the elements of financial statements) when they satisfy the definitions and recognition criteria for those elements in the Framework.

### (c) Materiality and Aggregation

- An entity shall present separately each material class of similar items.
- An entity shall present separately items of a dissimilar nature or function unless they are immaterial except when required by law.
- *An entity shall not reduce the understanding ability of financial statements by obscuring material information or by aggregating material items that have different natures or functions.*
- *An entity shall consider whether to provide additional disclosures when compliance with the specific requirements in Ind AS is insufficient to enable users of financial statements to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.*

### (d) Offsetting

- An entity shall not offset assets and liabilities or income and expenses, unless required or permitted by an Ind AS.
- An entity reports separately both assets and liabilities, and income and expenses. Offsetting in the statements of profit and loss or balance sheet, except when offsetting reflects the substance of the transaction or other event, detracts from the ability of users both to understand the transactions, other events and conditions that have occurred and to assess the entity's future cash flows. Measuring assets net of valuation allowances—for example, obsolescence allowances on inventories and doubtful debts allowances on receivables—is not offsetting.

**(e) Frequency of Reporting**

An entity shall present a complete set of financial statements (including comparative information) at least annually. When an entity changes the end of its reporting period and presents financial statements for a period longer or shorter than one year, an entity shall disclose, in addition to the period covered by the financial statements:

1. the reason for using a longer or shorter period, and
2. the fact that amounts presented in the financial statements are not entirely comparable.

**(f) Comparative Information**

Except when Ind AS permit or require otherwise, an entity shall present comparative information in respect of the preceding period for all amounts reported in the current period's financial statements. An entity shall include comparative information for narrative and descriptive information if it is relevant to understanding the current period's financial statements.

An entity shall present, as a minimum:

- 2 Balance Sheets
- 2 Statement of Profit and Loss
- 2 Statement of Cash Flows
- 2 Statement of Changes in Equity and
- Related Notes

In some cases, narrative information provided in the financial statements for the preceding period(s) continues to be relevant for the current period.

**(g) Change in Accounting Policy, Retrospective Restatement or Reclassification**

An entity shall present a Third Balance Sheet as at the beginning of the preceding period in addition to the minimum comparative financial statements if:

- (a) It applies an accounting policy retrospectively, makes a retrospective restatement of items in its financial statements or reclassifies items in its financial statements; and
- (b) The retrospective application, retrospective restatement or the reclassification has a material effect on the information in the balance sheet at the beginning of the preceding period.

In the above circumstances, an entity shall present 3 Balance sheets as at:

- (a) The end of the current period;
- (b) The end of the preceding period;
- (c) The beginning of the preceding period.

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When an entity is required to present an additional Balance sheet, it need not present the related notes to the opening Balance Sheet as at the beginning of the preceding period.

If an entity changes the presentation or classification of items in its financial statements, it shall reclassify comparative amounts unless reclassification is impracticable.

When an entity reclassifies comparative amounts, it shall disclose (including as at the beginning of the preceding period):

- (a) the nature of the reclassification;
- (b) the amount of each item or class of items that is reclassified; and
- (c) the reason for the reclassification.

When it is impracticable to reclassify comparative amounts, an entity shall disclose:

- (a) the reason for not reclassifying the amounts, and
- (b) the nature of the adjustments that would have been made if the amounts had been reclassified.

### (h) Consistency of Presentation

An entity shall retain the presentation and classification of items in the financial statements from one period to the next.

## 8.1.5 Disclosures

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The Standard, among other things, requires that:

- (a) An entity shall disclose, alongwith its significant accounting policies or other notes, the judgements, apart from those involving estimations, that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.
- (b) An entity shall disclose information about the assumptions it makes about the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year.
- (c) An entity shall disclose information that enables users of its financial statements to evaluate the entity's objectives, policies and processes for managing capital. An entity shall also provide additional disclosures on puttable financial instruments classified as equity instruments.

### 8.1.6 Major Changes in Ind AS 1 *vis-à-vis* IAS\* 1

**8.1.6.1 Resulting in Carve outs:** This carve-out is due to difference in application of accounting principles and practices and economic conditions prevailing in India.

**IAS 1 requires** that in case of a loan liability, if any condition of the loan agreement which was classified as non-current is breached on the reporting date, such loan liability should be classified as current. Where the breach is rectified after the balance sheet date IAS requires loans to be classified as current.

**Carve Out:** Ind AS 1 clarifies that where there is a breach of a material provision of a long-term loan arrangement on or before the end of the reporting period with the effect that the liability becomes payable on demand on the reporting date, the entity does not classify the liability as current, if the lender agreed, after the reporting period and before the approval of the financial statements for issue, not to demand payment as a consequence of the breach.

**Reason:** Under Indian banking system, a long-term loan agreement generally contains a large number of conditions. Some of these conditions are substantive, such as, recalling the loan in case interest is not paid, and some conditions are procedural and not substantive, such as, submission of insurance details where the entity has taken the insurance but not submitted the details to the lender at the end of the reporting period. Generally, customer-banker relationships are developed whereby in case of any procedural breach, a loan is generally not recalled. Also, in many cases, a breach is rectified after the balance sheet date and before the approval of financial statements. Carve out has been made as it is felt that if the breach is rectified after the balance sheet date and before the approval of the financial statements, it would be appropriate that the users are informed about the true nature of liabilities being non-current liabilities and not current liabilities.

#### 8.1.6.2 Not Resulting in Carve outs

1. **Statement of Profit or Loss:** With regard to preparation of statement of profit and loss, IAS 1 provides an option either to follow the single statement approach or to follow the two statement approach. An entity may present a single statement of profit or loss and other comprehensive income, with profit or loss and other comprehensive income presented in two sections or an entity may present the profit or loss section in a separate statement of profit or loss which shall immediately precede the statement presenting comprehensive income beginning with profit or loss.

Ind AS 1 allows only the single statement approach with profit or loss and other comprehensive income presented in two sections.

2. **Different Terminology:** IAS 1 gives the option to individual entities to follow different terminology for the titles of financial statements. Ind AS 1 is changed to remove alternatives by giving one terminology to be used by all entities.

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\* The term 'IFRS' includes not only the International Financial Reporting Standards (IFRSs) issued by the IASB, it also includes the International Accounting Standards (IASs), IFRICs and SICs.

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3. **Periodicity:** IAS 1 permits the periodicity, for example, of 52 weeks for preparation of financial statements. Ind AS 1 does not permit it.
4. **Analysis / Classification of Expenses:** IAS 1 requires an entity to present an analysis of expenses recognised in profit or loss using a classification based on either their nature or their function within the equity. Ind AS 1 requires only nature-wise classification of expenses.
5. **Materiality:** Paragraphs 29 of IAS 1 requires that items of dissimilar nature or function shall be presented separately unless these are immaterial and paragraph 31 provides that specific disclosure required by IFRS need not be provided if the information is not material. In Ind AS 1, such paragraphs have been modified to include words 'except when required by law'.
6. **Disclosures regarding Reconciliation:** Paragraph 106(d)(iv) of Ind AS 1 dealing with disclosures regarding reconciliation between the carrying amount at the beginning and the end of the period for each component of equity, has been amended to include disclosure regarding recognition of bargain purchase gain arising on business combination in line with treatment prescribed in this regard in Ind AS 103.

### 8.1.7 Major Changes in Ind AS 1 vis-a-vis Notified AS 1

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Ind AS 1 deals with presentation of financial statements, whereas existing AS 1 (issued 1979) deals only with the disclosure of accounting policies. The scope of Ind AS 1 is thus much wider and line by line comparison of the differences with the existing standard is not possible. However, the major requirements as laid down in Ind AS 1 are as follows:

- (i) **Explicit Statement of Compliance:** An enterprise shall make an explicit statement in the financial statements of compliance with all the Indian Accounting Standards. Further, Ind AS 1 allows deviation from a requirement of an accounting standard in case the management concludes that compliance with Ind AS will be misleading and if the regulatory framework requires or does not prohibit such a departure.
- (ii) **Current and Non-current Classification:** Ind AS 1 requires presentation and provides criteria for classification of Current / Non- Current assets / liabilities.
- (iii) **Extraordinary Items:** Ind AS 1 prohibits presentation of any item as 'Extraordinary Item' in the statement of profit and loss or in the notes.
- (iv) **Disclosure of Judgements and Assumptions made:** Ind AS 1 requires disclosure of judgments made by management while framing of accounting policies. Also, it requires disclosure of key assumptions about the future and other sources of measurement of uncertainty that have significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within next financial year.
- (v) **Classification of Expenses:** Ind AS 1 requires classification of expenses to be presented based on nature of expenses.
- (vi) **Comparative Balance Sheets:** Ind AS 1 requires presentation of balance sheet as at the beginning of the earliest period when an entity applies an accounting policy retrospectively

or makes a retrospective restatement of items in the financial statements, or when it reclassifies items in its financial statements.

- (vii) **Disclosure of Reclassified Items:** In respect of reclassification of items, Ind AS 1 requires disclosure of nature, amount and reason for reclassification in the notes to financial statements.
- (viii) **Statement of Changes in Equity:** Ind AS 1 requires the financial statements to include a Statement of Changes in Equity to be shown as a separate statement, which, inter alia, includes reconciliation between opening and closing balance for each component of equity.
- (ix) **Statement of Other Comprehensive Income:** Ind AS 1 requires that an entity shall present a single statement of profit and loss, with profit or loss and other comprehensive income presented in two sections. The sections shall be presented together, with the profit or loss section presented first followed directly by the other comprehensive income section.
- (x) **Inclusion of Comparative Information:** As per Ind AS 1, an entity shall include certain comparative information for understanding the current period's financial statements.
- (xi) **Classification of Long-term Loan Arrangement:** Ind AS 1 clarifies that long term loan arrangement need not be classified as current on account of breach of a material provision, for which the lender has agreed to waive before the approval of financial statements for issue. (Paragraph 74)

## 8.2 Ind AS 2: Valuation of Inventory

Inventories constitute a major portion of current assets of an entity. A primary issue in accounting for inventories is the amount of cost to be recognised as an asset and carried forward until the related revenues are recognised.

This Standard deals with the

- determination of cost and
- its subsequent recognition as an expense.
- Including any write-down to net realisable value.
- It also provides guidance on the cost formulas that are used to assign costs to inventories.

### 8.2.1 Scope

Ind AS 2 applies to all inventories, except **work in progress arising under construction contracts, including directly related service contracts (Ind AS 11, 'Construction Contracts');** financial instruments (Ind AS 32, '*Financial Instruments: Presentation*' and Ind AS 109, '*Financial Instruments*'); and biological assets (i.e., living animals or plants) related to agricultural activity and agricultural produce at the point of harvest (**Ind AS 41, 'Agriculture'**).

### 8.2.2 Definition of Inventory

Inventories are Assets:

- (a) held for sale in the ordinary course of business (Finished Goods);

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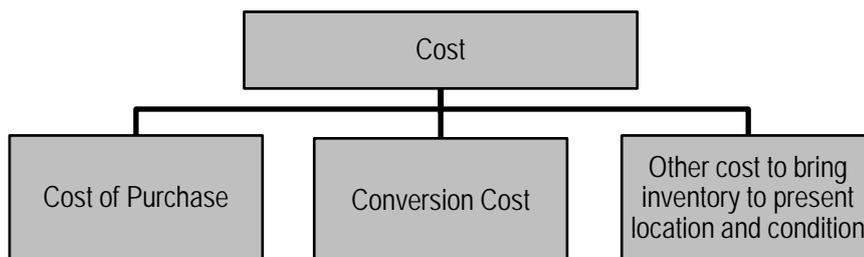
- (b) in the process of production for such sale (WIP); or
- (c) In the form of materials or supplies to be consumed in the production process or in the rendering of services (Raw Material).

### 8.2.3 Principles for Valuation of Inventory

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**Measurement of Inventories:** Inventories shall be measured at the lower of cost and net realisable value.

**Cost:** Cost of inventories comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.



**Cost of Purchase:** The costs of purchase of inventories comprise the

- purchase price,
- import duties and other taxes (other than those subsequently recoverable by the entity from the taxing authorities),
- transport, handling and other costs directly attributable to the acquisition of finished goods, materials and services.
- trade discounts, rebates and other similar items are deducted in determining the costs of purchase.

**Conversion Cost:** The costs of conversion of inventories include

- costs directly related to the units of production, such as direct labour
- systematic allocation of fixed and variable production overheads that are incurred in converting materials into finished goods.

**Other Cost:** Other costs are included in the cost of inventories only to the extent that they are incurred in bringing the inventories to their present location and condition. For example, it may be appropriate to include non-production overheads or the costs of designing products for specific customers in the cost of inventories.

#### Excluded in Cost

- (a) abnormal amounts of wasted materials, labour or other production costs; (Normal wastage will be considered)
- (b) storage costs, unless those costs are necessary in the production process before a further stage; (For example: In case of wine, it has to be stored as a part of the production process)

- (c) administrative overheads that do not contribute to bringing inventories to their present location and condition; and
- (d) selling costs.

**8.2.4 Cost of Inventories of a Service Provider**

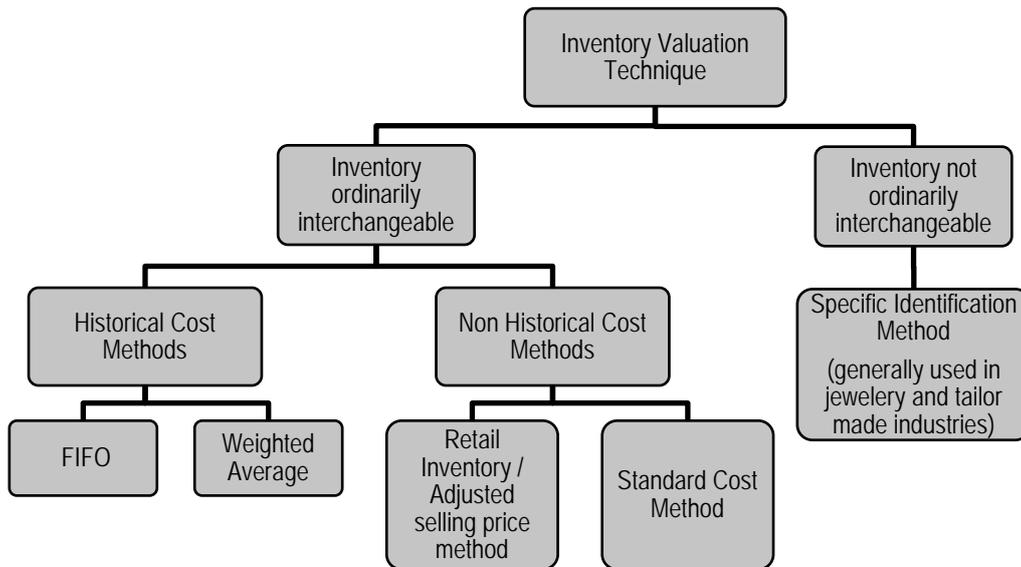
*To the extent that service providers have inventories, they measure them at the costs of their production. These costs consist primarily of the labour and other costs of personnel directly engaged in providing the service, including supervisory personnel, and attributable overheads. Labour and other costs relating to sales and general administrative personnel are not included but are recognised as expenses in the period in which they are incurred. The cost of inventories of a service provider does not include profit margins or non-attributable overheads that are often factored into prices charged by service providers.*

**8.2.5 Cost of Agricultural Produce Harvested from Biological Assets**

*In accordance with Ind AS 41, Agriculture, inventories comprising agricultural produce that an entity has harvested from its biological assets are measured on initial recognition at their fair value less costs to sell at the point of harvest. This is the cost of the inventories at that date for application of this Standard.*

**8.2.6 Inventory Valuation Techniques - Cost Formulae**

The cost of inventories shall be assigned by using the first-in first-out (FIFO) or weighted average cost formula. An entity shall use the same cost formula for all inventories having a similar nature and use to the entity.



**8.2.7 Net Realisable Value**

Net realisable value is the estimated selling price in the ordinary course of business less the

## 2.20 Financial Reporting

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estimated costs of completion and the estimated costs necessary to make the sale. Estimates of net realisable value are based on the most reliable evidence available at the time the estimates are made, of the amount the inventories are expected to realise.

NRV would be different for finished goods and WIP. It is fully applicable to WIP, but for finished goods it would be:

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

**Recognition as an expense:** When inventories are sold, the carrying amount of those inventories shall be recognised as an expense in the period in which the related revenue is recognised.

The amount of any write-down of inventories to net realisable value and all losses of inventories shall be recognised as an expense in the period the write-down or loss occurs.

The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, shall be recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

Some inventories may be allocated to other asset accounts, for example, inventory used as a component of self-constructed property, plant or equipment. Inventories allocated to another asset in this way are recognised as an expense during the useful life of that asset.

### 8.2.8 Major Change in Ind AS 2 *vis-à-vis* IAS\* 2 Not Resulting in Carve Out

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**Classification of Expenses:** Paragraph 38 of IAS 2 dealing with recognition of inventories as an expense based on function-wise classification, has been deleted keeping in view the fact that option provided in IAS 1 to present an analysis of expenses recognised in profit or loss using a classification based on their function within the entity has been removed and Ind AS 1 requires only nature-wise classification of expenses.

### 8.2.9 Major Changes in Ind AS 2 *vis-à-vis* Notified AS 2

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- (i) **Subsequent Recognition:** Ind AS 2 deals with the subsequent recognition of cost/carrying amount of inventories as an expense, whereas the existing AS 2 does not provide the same.
- (ii) **Inventory of Service Provider:** Ind AS 2 provides explanation with regard to inventories of service providers whereas the existing AS 2 does not contain such an explanation.
- (iii) **Machinery Spares:** *The existing AS 2 explains that inventories do not include spare parts, servicing equipment and standby equipment which meet the definition of property, plant and equipment as per AS 10, Property, Plant and Equipment. Such items are accounted for in accordance with Accounting Standard (AS) 10, Property,*

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\* The term 'IFRS' includes not only the International Financial Reporting Standards (IFRSs) issued by the IASB, it also includes the International Accounting Standards (IASs), IFRICs and SICs.

**Plant and Equipment.** Ind AS 2 does not contain specific explanation in respect of such spares as this aspect is covered under Ind AS 16.

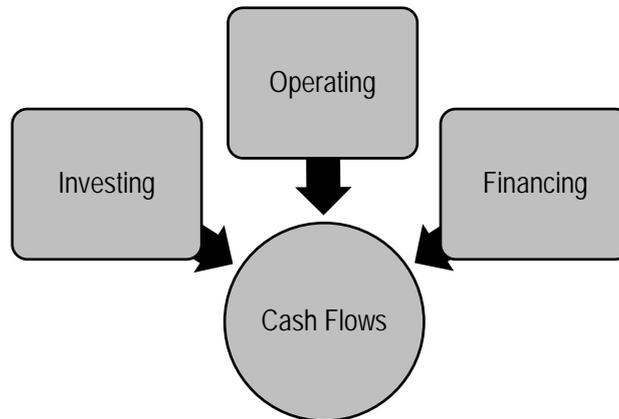
- (iv) **Inventory held by Commodity Broker-traders:** Ind AS 2 does not apply to measurement of inventories held by commodity broker-traders, who measure their inventories at fair value less costs to sell. However, this aspect is not there in the existing AS 2.
- (v) **Definition of Fair Value and Distinction Between NRV and Fair Value:** Ind AS 2 defines fair value and provides an explanation in respect of distinction between 'net realisable value' and 'fair value'. The existing AS 2 does not contain the definition of fair value and such explanation.
- (vi) **Subsequent Assessment of NRV:** Ind AS 2 provides detailed guidance in case of subsequent assessment of net realisable value. It also deals with the reversal of the write-down of inventories to net realisable value to the extent of the amount of original write-down, and the recognition and disclosure thereof in the financial statements. The existing AS 2 does not deal with such reversal.
- (vii) **Inventories Acquired on Deferred Settlement Terms:** An entity may purchase inventories on deferred settlement terms. When the arrangement effectively contains a financing element, that element, for example a difference between the purchase price for normal credit terms and the amount paid, is recognised as interest expense over the period of the financing.
- (viii) **Exclusion from its Scope but Guidance given:** Ind AS 2 excludes from its scope only the measurement of inventories held by producers of agricultural and forest products, agricultural produce after harvest, and minerals and mineral products though it provides guidance on measurement of such inventories. However, the existing AS 2 excludes from its scope such types of inventories.
- (ix) **Cost Formulae:** The existing AS 2 specifically provides that the formula used in determining the cost of an item of inventory should reflect the fairest possible approximation to the cost incurred in bringing the items of inventory to their present location and condition whereas Ind AS 2 does not specifically state so and requires the use of consistent cost formulas for all inventories having a similar nature and use to the entity.
- (x) **Disclosures:** Ind AS 2 requires more disclosures as compared to the existing AS 2.

### 8.3 Ind AS 7: Cash Flow Statement

Ind AS 7, Statement of Cash Flows, prescribes principles and guidance on preparation and presentation of cash flows of an entity from operating activities, investing activities and financing activities for a reporting period.

#### 8.3.1 Objective

The objective of this Standard is to require the provide information about the historical changes in cash and cash equivalents of an entity by means of a statement of cash flows which classifies cash flows during the period from operating, investing and financing activities.



Cash comprises Cash on hand and Demand deposits.

Cash flows are Inflows and Outflows of cash and cash equivalents.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes. Cash and cash equivalents include demand deposits, certain short-term investments and in some cases, bank overdrafts.

- For an investment to qualify as a cash equivalent it must be readily convertible to a known amount of cash and be subject to an insignificant risk of changes in value. Therefore, an investment normally qualifies as a cash equivalent only when it has a short maturity of, say, three months or less from the date of acquisition.
- Equity investments are excluded from cash equivalents unless they are, in substance, cash equivalents, for example in the case of preference shares acquired within a short period of their maturity and with a specified redemption date.
- Bank borrowings are generally considered to be financing activities. However, where bank overdrafts which are repayable on demand form an integral part of an entity's cash management, bank overdrafts are included as a component of cash and cash equivalents. A characteristic of such banking arrangements is that the bank balance often fluctuates from being positive to overdrawn.

Information about the cash flows of an entity is useful in providing users of financial statements with a basis to assess the ability of the entity to generate cash and cash equivalents and the needs of the entity to utilise those cash flows. The economic decisions that are taken by users require an evaluation of the ability of an entity to generate cash and cash equivalents and the timing and certainty of their generation.

### 8.3.2 Presentation of Cash Flow Statement

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The statement of cash flows is required to report cash flows classified by operating, investing

and financing activities along with the components of cash and cash equivalents at the beginning and end of the reporting period, except in limited circumstances where cash flows are offset and reported on net basis.

- (a) **Operating Activities:** Operating activities are the principal revenue-producing activities of the entity and other activities that are not investing or financing activities. Cash flows from operating activities are primarily derived from the principal revenue-producing activities of the entity. Therefore, they generally result from the transactions and other events that enter into the determination of profit or loss.

The amount of cash flows arising from operating activities is a key indicator of the extent to which the operations of the entity have generated sufficient cash flows to repay loans, maintain the operating capability of the entity, pay dividends and make new investments without recourse to external sources of financing.

An entity shall report cash flows from operating activities using either the 'direct method' or the 'indirect method'. Under direct method, major classes of gross cash receipts and payments are presented. However, under indirect method, profit or loss is adjusted for the effects of transactions of a non-cash nature; deferrals or accruals of past or future operating cash receipts or payments; and items of income or expenses associated with investing or financing cash flows.

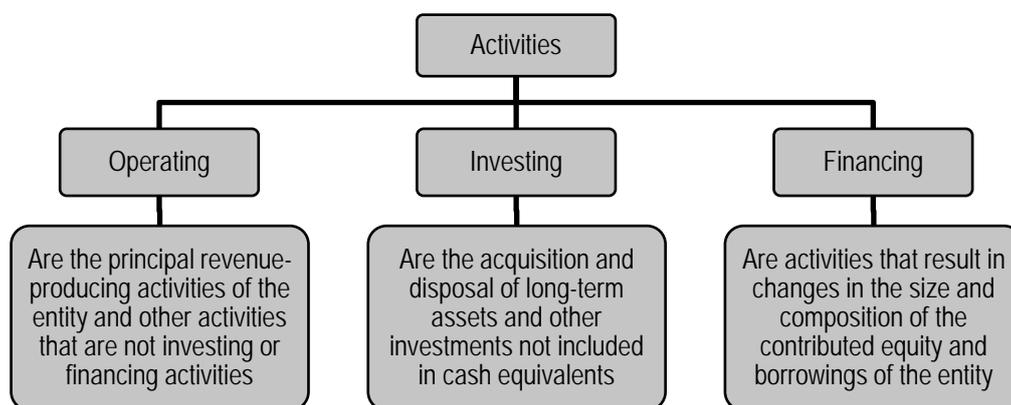
Cash flows arising from taxes on income shall be separately disclosed and classified as cash flow from operating activities unless they can be specifically identified with financing or investing activities.

- (b) **Investing Activities:** Investing activities are the acquisition and disposal of long-term assets and other investments not included in cash equivalents. The separate disclosure of cash flows arising from investing activities is important because the cash flows represent the extent to which expenditures have been made for resources intended to generate future income and cash flows.

The aggregate cash flows arising from obtaining or losing control of subsidiaries or other businesses shall be presented separately and classified as investing activities.

- (c) **Financing Activities:** Financing activities are activities that result in changes in the size and composition of the contributed equity and borrowings of the entity. The separate disclosure of cash flows arising from financing activities is important because it is useful in predicting claims on future cash flows by providers of capital to the entity.

An entity shall report separately major classes of gross cash receipts and gross cash payments arising from investing and financing activities



**Examples of cash flows from operating activities are:**

- (a) cash receipts from the sale of goods and the rendering of services;
- (b) cash receipts from royalties, fees, commissions and other revenue;
- (c) cash payments to suppliers for goods and services;
- (d) cash payments to and on behalf of employees;
- (e) cash receipts and cash payments of an insurance entity for premiums and claims, annuities and other policy benefits;
- (f) cash payments or refunds of income taxes unless they can be specifically identified with financing and investing activities; and
- (g) cash receipts and payments from contracts held for dealing or trading purposes.

**Examples of cash flows arising from investing activities are:**

- (a) cash payments to acquire property, plant and equipment, intangibles and other long-term assets. These payments include those relating to capitalised development costs and self-constructed property, plant and equipment;
- (b) cash receipts from sales of property, plant and equipment, intangibles and other long-term assets;
- (c) cash payments to acquire equity or debt instruments of other entities and interests in joint ventures (other than payments for those instruments considered to be cash equivalents or those held for dealing or trading purposes);
- (d) cash receipts from sales of equity or debt instruments of other entities and interests in joint ventures (other than receipts for those instruments considered to be cash equivalents and those held for dealing or trading purposes);
- (e) cash advances and loans made to other parties (other than advances and loans made by a financial institution);

- (f) cash receipts from the repayment of advances and loans made to other parties (other than advances and loans of a financial institution);
- (g) cash payments for futures contracts, forward contracts, option contracts and swap contracts except when the contracts are held for dealing or trading purposes, or the payments are classified as financing activities; and
- (h) cash receipts from futures contracts, forward contracts, option contracts and swap contracts except when the contracts are held for dealing or trading purposes, or the receipts are classified as financing activities.

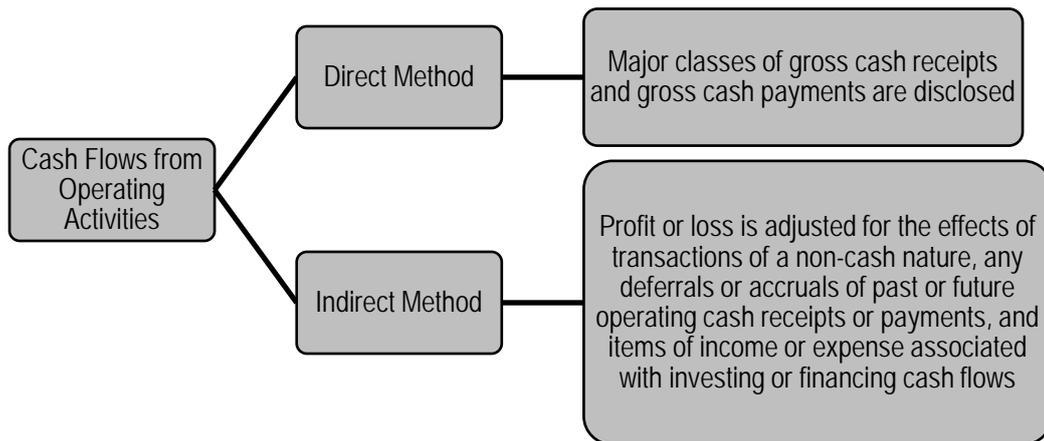
**Examples of cash flows arising from financing activities are:**

- (a) cash proceeds from issuing shares or other equity instruments;
- (b) cash payments to owners to acquire or redeem the entity's shares;
- (c) cash proceeds from issuing debentures, loans, notes, bonds, mortgages and other short-term or long-term borrowings;
- (d) cash repayments of amounts borrowed; and
- (e) cash payments by a lessee for the reduction of the outstanding liability relating to a finance lease.

**8.3.3 Reporting Cash Flows from Operating Activities**

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An entity shall report cash flows from operating activities using either:



**8.3.4 Non-cash Transactions**

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Investing and financing transactions that do not require the use of cash or cash equivalents shall be excluded from a statement of cash flows. Such transactions shall be disclosed elsewhere in the financial statements in a way that provides all the relevant information about these investing and financing activities.

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Many investing and financing activities do not have a direct impact on current cash flows although they do affect the capital and asset structure of an entity. The exclusion of non-cash transactions from the statement of cash flows is consistent with the objective of a statement of cash flows as these items do not involve cash flows in the current period.

**Examples of non-cash transactions are:**

- (a) the acquisition of assets either by assuming directly related liabilities or by means of a finance lease;
- (b) the acquisition of an entity by means of an equity issue; and
- (c) the conversion of debt to equity.

### 8.3.5 Foreign Currency Cash Flows

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Cash flows arising from transactions in a foreign currency shall be recorded in an entity's functional currency by applying to the foreign currency amount the exchange rate between the functional currency and the foreign currency at the date of the cash flow. The cash flows of a foreign subsidiary shall be translated at the exchange rates between the functional currency and the foreign currency at the dates of the cash flows.

Unrealised gains and losses arising from changes in foreign currency exchange rates are not cash flows. However, the effect of exchange rate changes on cash and cash equivalents held or due in a foreign currency is reported in the statement of cash flows in order to reconcile cash and cash equivalents at the beginning and the end of the period.

### 8.3.6 Cash and Cash Equivalents

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An entity shall disclose the components of cash and cash equivalents and shall present a reconciliation of the amounts in its statement of cash flows with equivalent items reported in the balance sheet.

An entity shall disclose, together with a commentary by management, the amount of significant cash and cash equivalents held by the entity that are restricted for specific purposes.

### 8.3.7 Major Changes in Ind AS 7 vis-à-vis IAS\* 7 Not Resulting in Carve Outs

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1. **Interest:** In case of other than financial entities, IAS 7 gives an option to classify the interest paid and interest and dividends received as item of operating cash flows. Ind AS 7 does not provide such an option and requires these items to be classified as items of financing activity and investing activity, respectively.
2. **Dividend:** IAS 7 gives an option to classify the dividend paid as an item of operating activity. However, Ind AS 7 requires it to be classified as a part of financing activity only.

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\* The term 'IFRS' includes not only the International Financial Reporting Standards (IFRSs) issued by the IASB, it also includes the International Accounting Standards (IASs), IFRICs and SICs.

**8.3.8 Major Changes in Ind AS 7 vis-à-vis Notified AS 3**

- (i) **Bank Overdraft Repayable on Demand:** Ind AS 7 specifically includes bank overdrafts which are repayable on demand as a part of cash and cash equivalents, whereas the existing AS 3 is silent on this aspect.
- (ii) **Treatment of Cash Payments in Specific Cases:** Ind AS 7 provides the treatment of cash payments to manufacture or acquire assets held for rental to others and subsequently held for sale in the ordinary course of business as cash flows from operating activities. Further, treatment of cash receipts from rent and subsequent sale of such assets as cash flow from operating activity is also provided. The existing AS 3 does not contain such requirements.
- (iii) **New Examples of Cash Flows arising from Financing Activities:** Ind AS 7 includes the following new examples of cash flows arising from financing activities:
  - (a) cash payments to owners to acquire or redeem the entity's shares
  - (b) cash proceeds from mortgages
  - (c) cash payments by a lessee for the reduction of the outstanding liability relating to a finance lease.
- (iv) **Adjustment of the Profit or Loss for the Effects of Undistributed Profits of Associates and Non-controlling Interests:** As compared to the existing AS 3, Ind AS 7 specifically requires adjustment of the profit or loss for the effects of 'undistributed profits of associates and non-controlling interests' while determining the net cash flow from operating activities using the indirect method.
- (v) **Cash Flows associated with Extraordinary Activities:** The existing AS 3 requires cash flows associated with extraordinary activities to be separately classified as arising from operating, investing and financing activities, whereas Ind AS 7 does not contain this requirement.
- (vi) **Disclosure of the Amount of Cash and Cash Equivalents in Specific Situations:** As compared to the existing AS 3, Ind AS 7 requires an entity (except an investment entity) to disclose the amount of cash and cash equivalents and other assets and liabilities in the subsidiaries or other businesses over which control is obtained or lost. Ind AS 7 also requires to report the aggregate amount of the cash paid or received as consideration for obtaining or losing control of subsidiaries or other businesses in the statement of cash flows, net of cash and cash equivalents acquired or disposed of as a part of such transactions, events or changes in circumstances. The existing AS 3 does not contain such requirements.
- (vii) **Cash Flows arising from Changes in Ownership Interests in a Subsidiary:** Ind AS 7 requires to classify cash flows arising from changes in ownership interests in a subsidiary that do not result in a loss of control as cash flows from financing activities. The existing AS 3 does not contain such a requirement.
- (viii) **Investment in Subsidiaries, Associates and Joint Ventures (Investees):** Ind AS 7 mentions the use of equity or cost method while accounting for an investment in an

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associate, joint venture or a subsidiary. It also specifically deals with the reporting of interest in an associate or a joint venture using equity method. The existing AS 3 does not contain such requirements.

(ix) **Use of Different Terminology and Translation of Cash Flows of a Foreign Subsidiary:** Ind AS 7 uses the term 'functional currency' instead of 'reporting currency' (as used in the existing AS 3). Ind AS 7 also deals with translation of cash flows of a foreign subsidiary whereas in the existing AS 3, it is not dealt with.

(x) **Disclosures:** Ind AS 7 requires more disclosures as compared to the existing AS 3.

### 8.4 Ind AS 8: Accounting Policies, Changes in Accounting Estimates and Errors

#### 8.4.1 Objective

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The objective of this Standard is to prescribe:

- The criteria for selecting and changing accounting policies,
- The accounting treatment of changes in accounting policies, changes in accounting estimates and corrections of errors and
- Disclosure of changes in accounting policies, changes in accounting estimates and corrections of errors.



The Standard is intended to enhance the relevance and reliability of an entity's financial statements, and the comparability of those financial statements over time and with the financial statements of other entities.

**Note:** Disclosure requirements for accounting policies, except those for changes in accounting policies, are set out in Ind AS 1 Presentation of Financial Statements.

**Note:** The tax effects of corrections of prior period errors and of retrospective adjustments made to apply changes in accounting policies are accounted for and disclosed in accordance with Ind AS 12 'Income Taxes'.

#### **8.4.2 Accounting Policies**

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Accounting policies are the specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements.

This Standard provides guidance in selection and application of the accounting policies. A two-step approach is advocated.

**Step 1** requires that when an Ind AS specifically applies to a transaction, other event or condition, the accounting policy or policies applied to that item shall be determined by applying the Ind AS.

**Step 2** provides that in the absence of an Ind AS that specifically applies to a transaction, other event or condition, management shall use its judgment in developing and applying an accounting policy. This judgment should result in information that is:

- relevant to the economic decision-making needs of users; and
- reliable, so that the financial statements:
  - represent faithfully the financial position, financial performance and cash flows of the entity;
  - reflect the economic substance of transactions, other events and conditions, and not merely the legal form;
  - are neutral, i.e. free from bias;
  - are prudent; and
  - are complete in all material respects.

Users of financial statements need to be able to compare the financial statements of an entity over time to identify trends in its financial position, financial performance and cash flows. Therefore, the same accounting policies are applied within each period and from one period to the next unless a change in accounting policy meets one of the criteria mentioned above.

An entity shall select and apply the accounting policies consistently for similar transactions, other events and conditions, unless an Ind AS specifically requires or permits categorisation of items for which different policies may be appropriate. If an Ind AS requires or permits such categorisation, an appropriate accounting policy shall be selected and applied consistently to each category.

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### 8.4.3 Changes in Accounting Policies

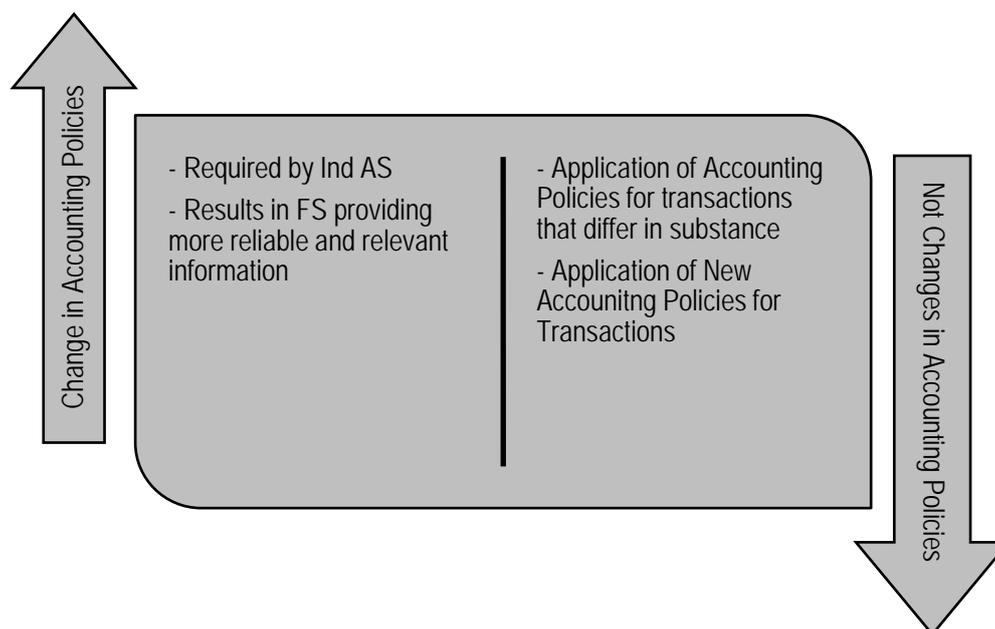
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An entity shall change an accounting policy only if the change:

- (a) is required by an Ind AS; or
- (b) results in the financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the entity's financial position, financial performance or cash flows.

The following are not changes in accounting policies:

- (a) the application of an accounting policy for transactions, other events or conditions that differ in substance from those previously occurring; and
- (b) the application of a new accounting policy for transactions, other events or conditions that did not occur previously or were immaterial.



When it is impracticable for an entity to apply a new accounting policy retrospectively, because it cannot determine the cumulative effect of applying the policy to all prior periods, the entity will apply the new policy prospectively from the start of the earliest period practicable. It therefore disregards the portion of the cumulative adjustment to assets, liabilities and equity arising before that date. Changing an accounting policy is permitted even if it is impracticable to apply the policy prospectively for any prior period.

### 8.4.4 Accounting Estimates

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As a result of the uncertainties inherent in business activities, many items in financial statements cannot be measured with precision but can only be estimated. Estimation involves judgements based on the latest available, reliable information.

For example, estimates may be required of:

- (a) bad debts;
- (b) inventory obsolescence;
- (c) the fair value of financial assets or financial liabilities;
- (d) the useful lives of, or expected pattern of consumption of the future economic benefits embodied in, depreciable assets; and
- (e) warranty obligations.

**Note:** The use of reasonable estimates is an essential part of the preparation of financial statements and does not undermine their reliability.

#### 8.4.5 Changes in Accounting Estimates

An estimate may need revision if changes occur in the circumstances on which the estimate was based or as a result of new information or more experience.

By its nature, the revision of an estimate does not relate to prior periods and is not the correction of an error.

A change in accounting estimate is an:

- Adjustment of the carrying amount of an asset or a liability, or
- The amount of the periodic consumption of an asset,

That results from the assessment of the present status of, and expected future benefits and obligations associated with, assets and liabilities.

Changes in accounting estimates result from new information or new developments and, accordingly, are not corrections of errors.

A change in the measurement basis applied is a change in an accounting policy, and is not a change in an accounting estimate. When it is difficult to distinguish a change in an accounting policy from a change in an accounting estimate, the change is treated as a change in an accounting estimate.

The effect of change in an accounting estimate shall be recognised prospectively by including it in profit or loss in:

- (a) the period of the change, if the change affects that period only; or
- (b) the period of the change and future periods, if the change affects both.

**Example:** A provision for Depreciation is initially recognised by reflecting this as a charge to Profit and Loss. A change in such an estimate that would occur in a subsequent period, would also be taken to Profit and Loss. The debit in P&L corresponds to the credit in Accumulated Provision for Depreciation.

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To the extent that a change in an accounting estimate gives rise to changes in assets and liabilities, or relates to an item of equity, it shall be recognised by adjusting the carrying amount of the related asset, liability or equity item in the period of the change.

**Example:** An estimate of a decommissioning liability or a liability for restoration of a site after removal of plant and machinery, the estimated amount of which would be initially recognised by increasing the carrying amount of related asset account and creating a liability account. Such estimates may undergo a change at a later date. Ind AS takes cognizance of these situations and provides that to the extent that where a change in accounting estimate affects assets and liabilities, or an item of equity, the change shall be recognised by adjusting the carrying amount of the related asset, liability or equity item in the period of the change.

### Illustration

Cost of a machine acquired on 01.04.2013 was ₹ 5,00,000. The machine is expected to realize ₹ 50,000 at the end of its working life of 10 years. Straight-line depreciation of ₹ 45,000 per year has been charged upto 2015-2016. From 2016-17, the company switched over to 15% p.a. reducing balance method of depreciation in respect of the machine. The new rate of depreciation is based on revised useful life of 15 years. State how would you deal with the above in the annual accounts of the Company for the year ended 31st March, 2017 in light of Ind AS 8.

### Solution

A change in the method of depreciation, as also a change in the useful life of an asset, are to be accounted for as a change in Accounting Estimates (Ind AS 16: Property, Plant and Equipment)

A change in an accounting estimate is to be given effect to on a prospective basis as per Ind AS 8 (Accounting Policies, Changes in Accounting Estimates and Errors)

In terms of Ind AS 8, the effect of change in an accounting estimate, shall be recognised prospectively by including it<sup>1</sup> in profit or loss in the following cases.

The period of the change, if the change affects that period only; or

The period of the change and future periods, if the change affects both.

A change in the method of depreciation, as also a change in the estimated useful life of a depreciable asset affects depreciation expense for the current period and in each future period during the asset's remaining revised useful life.

The effect of the change relating to the current period is included as expense in the current period. The effect, if any, on future periods is also to be similarly included in P&L as an item of expense in those future periods.

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<sup>1</sup> In this context, the word "It" means, the revision in the estimated amount

Thus, the following accounting treatment and disclosures will be appropriate:

**Step 1 : Computation of carrying amount of asset at the time of change** (in ₹)

Original Cost (A)	Annual depreciation for three years so far (B)	Carrying amount (A – B)
5,00,000	135,000 (being 45,000 x 3)	3,65,000

Book Value of the Asset at the end 2015-16: ₹ 3,65,000.

**Step 2 : Change in the method of depreciation and useful life occurred from 2016-17.**

There is also a consequential change in RV. The effect of these changes results in an increase in the estimated amount of depreciation. The revised estimated amount of depreciation for the year 2016-17 is ₹ 54,750 as shown below:

(in ₹)

Carrying amount at the time of change(A)	The effect of changes resulting in increased depreciation is (B)	Carrying amount A minus B
3,65,000	54,750	3,10,250
	(being 15% of 365,000)	

**Step 3:** The effect of change is an increased depreciation of ₹ 54,750. Therefore, the amount to be included in the Statement of Profit and Loss for the year ended 2016-17 is ₹ 54,750

**Step 4: Disclosures prescribed in Ind AS 8 are:**

An entity shall disclose the nature and amount of a change in an accounting estimate that has an effect in the current period or is expected to have an effect in future periods, except for the disclosure of the effect on future periods when it is impracticable to estimate that effect.

**Disclosures in the year of change would be.**

**1. Under Significant Accounting Policies:**

Effective current reporting period, the entity has adopted WDV method of depreciation in place of straight line method followed earlier, and has also changed the estimated useful life of the asset to 15 years, thus increasing the revised remaining useful life to 12 years (PY 7 years). These changes, and the resultant change in RV, are based on technical evaluation.

**2. As part of Notes to the Statement of Profit and Loss:**

Consequent to the change in depreciation method from WDV to SLM, the amount of depreciation allocable to the current accounting period has been re-computed at ₹ 54,750 and this sum has been included in the Statement of Profit and Loss (Previous year 45,000).

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### 8.4.6 Prior Period Errors

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Prior period errors are omissions from, and misstatements in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that:

- (a) was available when financial statements for those periods were approved for issue; and
- (b) could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

Such errors include the effects of:

- mathematical mistakes,
- mistakes in applying accounting policies,
- oversights or
- misinterpretations of facts, and
- fraud.

Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.

Except to the extent that it is impracticable to determine either the period-specific effects or the cumulative effect of the error, the Standard requires to correct material prior period errors retrospectively in the first set of financial statements approved for issue after their discovery by:

- (a) restating the comparative amounts for the prior period(s) presented in which the error occurred; or
- (b) if the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and equity for the earliest prior period presented.

Omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions that users make on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor.

### 8.4.7 Major Change in Indian Accounting Standard (Ind AS) 8 vis-à-vis IAS\* 8 Not Resulting in Carve Out

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**Guidance to the Standard:** Paragraph 9 of IAS 8 provides that IFRS are accompanied by guidance to assist entities in applying their requirements. Guidance that is an integral part of IFRS is mandatory. Guidance that is not an integral part of IFRS does not contain requirements for financial statements. In Ind AS 8, paragraph 9 has been modified by not including the text given in the context of the guidance forming non-integral part of the Ind AS as such guidance

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\* The term 'IFRS' includes not only the International Financial Reporting Standards (IFRSs) issued by the IASB, it also includes the International Accounting Standards (IASs), IFRICs and SICs.

has not been given in the Ind AS.

#### 8.4.8 Major Changes in Ind AS 8 vis-à-vis Notified AS 5

- (i) **Objective:** Objective of existing AS 5 is to prescribe the classification and disclosure of certain items in the statement of profit and loss for uniform preparation and presentation of financial statements. Objective of Ind AS 8 is to prescribe the criteria for selecting and changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates and corrections of errors. Ind AS 8 intends to enhance the relevance and reliability of an entity's financial statements and the comparability of those financial statements over time and with the financial statements of other entities.
- (ii) **Extraordinary Items:** Keeping in view that Ind AS 1, '*Presentation of Financial Statements*', prohibits the presentation of any items of income or expense as extraordinary items, Ind AS 8 does not deal with the same.
- (iii) **Definition of Accounting Policies:** Existing AS 5 restricts the definition of accounting policies to specific accounting principles and the methods of applying those principles while Ind AS 8 broadens the definition to include bases, conventions, rules and practices (in addition to principles) applied by an entity in the preparation and presentation of financial statements.
- (iv) **Change in Accounting Policies:** In addition to the situations allowed under Ind AS 8 for changing an accounting policy, existing AS 5 allows change in accounting policy if required by statute.
- (v) **Accounting for Changes in Accounting Policies:** Ind AS 8 specifically states that an entity shall select and apply its accounting policies consistently for similar transactions, other events and conditions, unless an Ind AS specifically requires or permits categorisation of items for which different policies may be appropriate. Neither existing AS 5 nor any other existing Standard specifically requires accounting policies to be consistent for similar transactions, other events and conditions.
- (vi) **Exceptions in Retrospective Accounting of Changes in Accounting Policies:** Ind AS 8 requires that changes in accounting policies should be accounted for with retrospective effect subject to limited exceptions viz., where it is impracticable to determine the period specific effects or the cumulative effect of applying a new accounting policy. On the other hand, existing AS 5 does not specify how change in accounting policy should be accounted for.
- (vii) **Prior Period Items:** Existing AS 5 defines prior period items as incomes or expenses which arise in the current period as a result of errors or omissions in the preparation of financial statements of one or more prior periods. Ind AS 8 uses the term 'errors' and relates it to errors or omissions arising from a failure to use or misuse of reliable information (in addition to mathematical mistakes, mistakes in application of accounting policies etc.) that was available when the financial statements of the prior periods were approved for issuance and could reasonably be expected to have been obtained and taken into account

## 2.36 Financial Reporting

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in the preparation and presentation of those financial statements. Ind AS 8 specifically states that errors include frauds, which is not covered in existing AS 5.

(viii) **Rectification of Material Prior Period Errors:** Ind AS 8 requires rectification of material prior period errors with retrospective effect subject to limited exceptions viz., where it is impracticable to determine the period specific effects or the cumulative effect of applying a new accounting policy. On the other hand, existing AS 5 requires the rectification of prior period items with prospective effect.

(ix) **Disclosure Requirements:** Disclosure requirements given in Ind AS 8 are more detailed as compared to the disclosure requirements given in the existing AS 5.

## 8.5 Ind AS 10: Events after the Reporting Period

### 8.5.1 Objective

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The objective of this Standard is to prescribe:

1. When an entity should adjust its financial statements for events after the reporting period; and
2. The disclosures that an entity should give about the date when the financial statements were approved for issue and about events after the reporting period.

#### Going Concern not appropriate

The Standard also requires that an entity should not prepare its financial statements on a going concern basis if events after the reporting period indicate that the going concern assumption is not appropriate.

### 8.5.2 Events after the Reporting Period

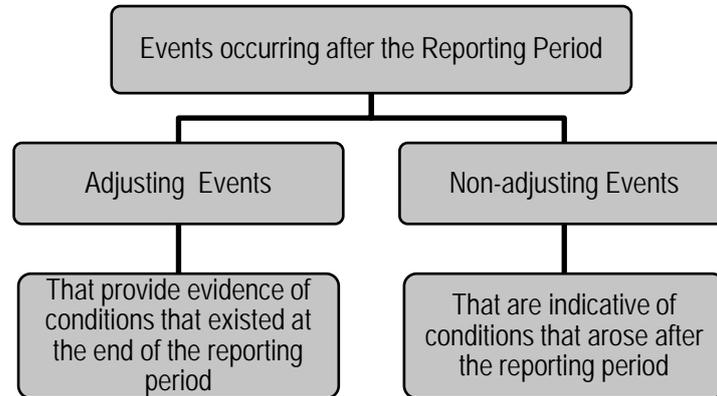
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Events after the reporting period are those events:

- favourable and unfavourable,
- that occur between the end of the reporting period and the date when the financial statements are approved by the Board of Directors in case of a company, and, by the corresponding approving authority in case of any other entity for issue.

#### Two types of events can be identified:

- (a) those that provide evidence **of conditions that existed** at the end of the reporting period (adjusting events after the reporting period); and
- (b) those that are **indicative of conditions that arose after** the reporting period (non-adjusting events after the reporting period).



### 8.5.3 Recognition and Measurement

**8.5.3.1 Adjusting Events after the Reporting Period:** An entity shall adjust the amounts recognised in its financial statements to reflect adjusting events after the reporting period.

It requires an entity:

- To adjust the amounts recognised in its financial statements; OR
- To recognise items that were not previously recognised.

**8.5.3.2 Non-adjusting Events after the Reporting Period:** An entity shall not adjust the amounts recognised in its financial statements to reflect non-adjusting events after the reporting period.

If an entity declares dividends to holders of equity after the reporting period, the entity shall **not** recognise those dividends as a liability at the end of the reporting period.

If dividends are declared after the reporting period but before the financial statements are approved for issue, the dividends are not recognised as a liability at the end of the reporting period obligation existing at that time. Such dividends are disclosed in the notes in accordance with Ind AS 1 'Presentation of Financial Statements'.

Thus proposed dividend will not appear in the financial statements. Such dividends are disclosed in the notes in accordance with Ind AS 1.

### 8.5.4 Major Change in Ind AS 10 vis-à-vis IAS\* 10 Resulting in Carve Out

**As per IFRS:** Rectification of any breach after the end of the reporting period is a non-adjusting event.

**Carve Out:** As a consequence to carve-out (resulted in carve out) stated in Ind AS 1 above, Ind AS 10 provides, in the definition of 'Events after the reporting period' that in case of breach of a

\* The term 'IFRS' includes not only the International Financial Reporting Standards (IFRSs) issued by the IASB, it also includes the International Accounting Standards (IASs), IFRICs and SICs.

## 2.38 Financial Reporting

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material provision of a long-term loan arrangement on or before the end of the reporting period with the effect that the liability becomes payable on demand on the reporting date, if the lender, before the approval of the financial statements for issue, agrees to waive the breach, it shall be considered as an adjusting event.

### 8.5.5 Major Changes in Ind AS 10 vis-à-vis Notified AS 4

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- (i) **Non Adjusting Events if Material:** In Ind AS 10, material non-adjusting events are required to be disclosed in the financial statements, whereas the existing AS 4 requires the same to be disclosed in the report of approving authority.
- (ii) **Accounting Treatment and Disclosure in case of Inappropriateness of Fundamental Accounting Assumption of Going Concern:** If, after the reporting date, it is determined that the fundamental accounting assumption of going concern is no longer appropriate, Ind AS 10 requires a fundamental change in the basis of accounting. Whereas existing AS 4 requires assets and liabilities to be adjusted for events occurring after the balance sheet date that indicate that the fundamental accounting assumption of going concern is not appropriate.

In this regard, Ind AS 10 refers to Ind AS 1, which requires an entity to make the following disclosures:

- disclose the fact that the financial statements are not prepared on a going concern basis together with the basis on which the financial statements are prepared
- state the reason why the entity is not regarded as a going concern.

Existing AS 4 does not require any such disclosure. However, existing AS 1 requires the disclosure of the fact in case going concern assumption is not followed.

- (iii) **In case of breach of a material provision of a long-term loan arrangement:** Consequent to changes made in Ind AS 1, it has been provided in the definition of 'Events after the reporting period' that in case of breach of a material provision of a long-term loan arrangement on or before the end of the reporting period with the effect that the liability becomes payable on demand on the reporting date, if the lender, before the approval of the financial statements for issue, agrees to waive the breach, it shall be considered as an adjusting event.
- (iv) **Distribution of non-cash assets to owners:** Ind AS 10 includes an Appendix *Distribution of Non-cash Assets to Owners* which deals, inter alia, with when to recognise dividends payable to its owners.

### 8.6 Ind AS 11: Construction Contracts

Ind AS 11 prescribes the accounting treatment of revenue and costs associated with construction contracts. Because of the nature of the activity undertaken in construction contracts, the date at which the contract activity is entered into and the date when the activity is completed usually fall into different accounting periods. Therefore, the primary issue in accounting for construction contracts is the allocation of contract revenue and contract costs to the accounting periods in which construction work is performed.

### 8.6.1 Scope

The Standard shall be applied in accounting for construction contracts in the financial statements of contractors. A construction contract is a contract specifically negotiated for the construction of an asset or a combination of assets that are closely interrelated or interdependent in terms of their design, technology and function or their ultimate purpose or use.

The requirements of this Standard are usually applied separately to each construction contract. However, in certain circumstances, it is necessary to apply the Standard to the separately identifiable components of a single contract or to a group of contracts together in order to reflect the substance of a contract or a group of contracts.

Contract revenue shall comprise:

- (a) the initial amount of revenue agreed in the contract; and
- (b) variations in contract work, claims and incentive payments:
  - (i) to the extent that it is probable that they will result in revenue; and
  - (ii) they are capable of being reliably measured. Contract revenue is measured at the fair value of the consideration received or receivable.

Contract costs shall comprise:

- (a) costs that relate directly to the specific contract;
- (b) costs that are attributable to contract activity in general and can be allocated to the contract; and
- (c) such other costs as are specifically chargeable to the customer under the terms of the contract.

### 8.6.2 Recognition of Contract Revenue and Expenses

When the outcome of a construction contract can be estimated reliably, contract revenue and contract costs associated with the construction contract shall be recognised as revenue and expenses respectively by reference to the stage of completion of the contract activity at the end of the reporting period.

When the outcome of a construction contract cannot be estimated reliably:

- (a) revenue shall be recognised only to the extent of contract costs incurred that it is probable will be recoverable; and
- (b) contract costs shall be recognised as an expense in the period in which they are incurred.

### 8.6.3 Recognition of Expected Losses

When it is probable that total contract costs will exceed total contract revenue, the expected loss shall be recognised as an expense immediately.

## 2.40 Financial Reporting

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An entity shall disclose the amount recognised as contract revenue in the period, the method used to determine the contract revenue recognised and stage of completion of contracts in progress.

For the contracts in progress at the end of the period, an entity shall disclose the aggregate costs incurred and recognised profits to date, the amounts of retentions and advances received.

Appendix A of Ind AS 11 gives guidance on accounting by operators for public-private service concession arrangements. It sets out principles for recognition and measurement of the obligations and related rights in service concession arrangements. The Appendix prescribes that an operator shall not recognise the public service infrastructure (within the scope of this appendix) as its Property, Plant and Equipment because the contractual service arrangement does not convey the right to control the use of the infrastructure. It only gives operator the access to operate the infrastructure to provide public service on behalf of the grantor.

The operator shall account for revenue and costs relating to construction or upgrade services in accordance with Ind AS 11 and those relating to operation services in accordance with Ind AS 18. The consideration received or receivable shall be recognised at its fair value. The consideration may be rights to a financial asset or an intangible asset.

The operator recognises a financial asset to the extent that it has an unconditional contractual right to receive cash or another financial asset from or at the direction of the grantor for the construction services. The operator shall recognise an intangible asset to the extent that it receives a right (a license) to charge users of the public service.

### 8.6.4 Major Changes in Ind AS 11 vis-à-vis Notified AS 7

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- (i) **Inclusion of Borrowing costs:** Existing AS 7 includes borrowing costs as per AS 16, Borrowing Costs, in the costs that may be attributable to contract activity in general and can be allocated to specific contracts, whereas Ind AS 11 does not specifically make reference to Ind AS 23.
- (ii) **Fair Value:** Existing AS 7 does not recognise fair value concept as contract revenue is measured at consideration received/receivable, whereas Ind AS 11 requires that contract revenue shall be measured at fair value of consideration received/receivable.
- (iii) **Accounting for Service Concession Arrangements:** Existing AS 7 does not deal with accounting for Service Concession Arrangements, i.e., the arrangement where private sector entity (an operator) constructs or upgrades the infrastructure to be used to provide the public service and operates and maintains that infrastructure for a specified period of time, whereas Appendix A of Ind AS 11 deals with accounting aspects involved in such arrangements and Appendix B of Ind AS 11 deals with disclosures of such arrangements.

## 8.7 Ind AS 12: Income Taxes

### 8.7.1 Objective

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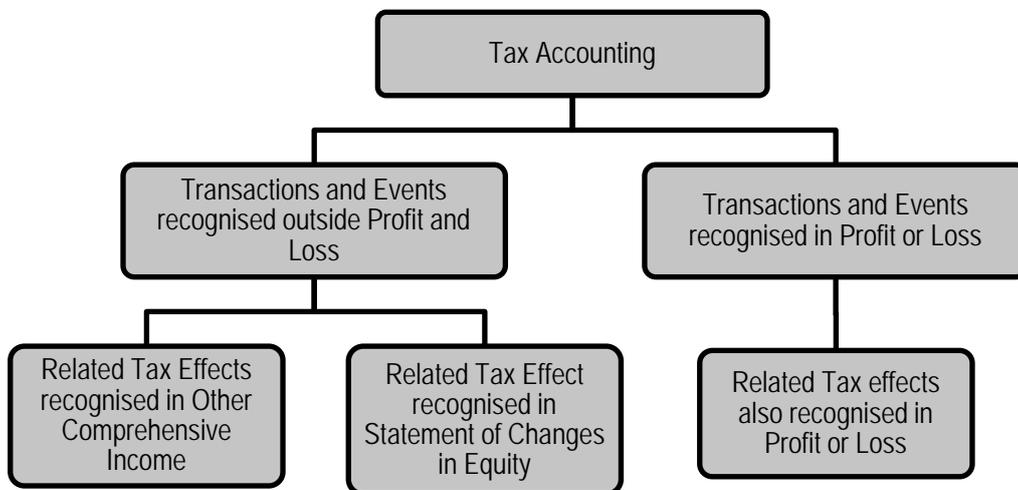
The objective of this Standard is to prescribe the accounting treatment for income taxes.

The principal issue in accounting for income taxes is how to account for the current and future tax consequences of:

- (a) the future recovery (settlement) of the carrying amount of assets (liabilities) that are recognised in an entity's balance sheet; and
- (b) transactions and other events of the current period that are recognised in an entity's financial statements.

It is inherent in the recognition of an asset or liability that the reporting entity expects to recover or settle the carrying amount of that asset or liability. If it is probable that recovery or settlement of that carrying amount will make future tax payments larger (smaller) than they would be if such recovery or settlement were to have no tax consequences, this Standard requires an entity to recognise a deferred tax liability (deferred tax asset), with certain limited exceptions.

This Standard requires an entity to account for the tax consequences of transactions and other events in the same way that it accounts for the transactions and other events themselves.



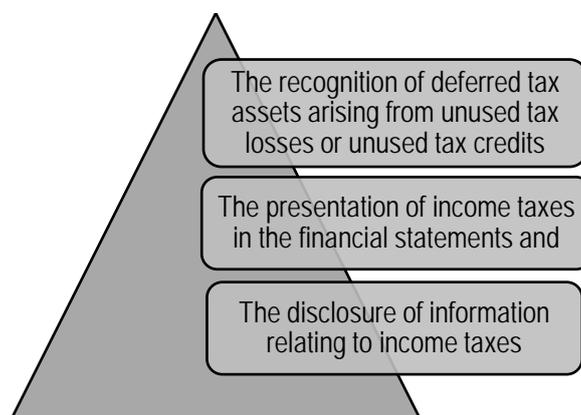
- Thus, for transactions and other events recognised in profit or loss, any related tax effects are also recognised in profit or loss.
- For transactions and other events recognised outside profit or loss (either in other comprehensive income or directly in equity), any related tax effects are also recognised outside profit or loss (either in other comprehensive income or directly in equity, respectively).

Similarly, the recognition of deferred tax assets and liabilities in a business combination affects the amount of goodwill arising in that business combination or the amount of the bargain purchase gain recognised.

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This Standard also deals with:



### 8.7.2 Scope

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This Standard **shall be applied** in accounting for income taxes.

For the purposes of this Standard, income taxes include:

- All domestic and foreign taxes which are based on taxable profits.
- Taxes, such as withholding taxes, which are payable by a subsidiary, associate or joint arrangement on distributions to the reporting entity.

This Standard **does not deal** with the methods of accounting for government grants (Ind AS 20, Accounting for Government Grants and Disclosure of Government Assistance) or investment tax credits.

**However**, this Standard does deal with the accounting for temporary differences that may arise from such grants or investment tax credits.



### 8.7.3 Concept of Current Tax, Deferred Tax Assets/Liabilities, Temporary Differences and Tax Base

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**Accounting Profit** is profit or loss for a period before deducting **tax expense**.

**Tax expense** (tax income) is the aggregate amount included in the determination of profit or loss for the period in respect of **current tax and deferred tax**. In other words tax expense (tax

income) comprises current tax expense (current tax income) and deferred tax expense (deferred tax income).

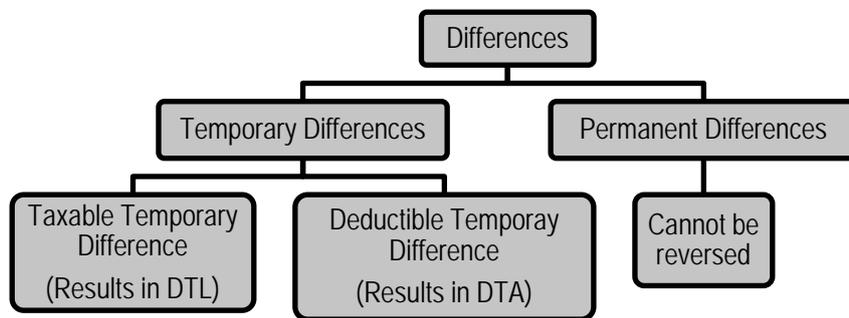
**Taxable Profit** is the profit (loss) for a period, determined in accordance with the rules established by the taxation authorities, upon which income taxes are payable (recoverable).

**Current tax** is the amount of income taxes payable (recoverable) in respect of the taxable profit (tax loss) for a period.

**Deferred tax liabilities** are the amounts of income taxes payable in future periods in respect of taxable temporary differences.

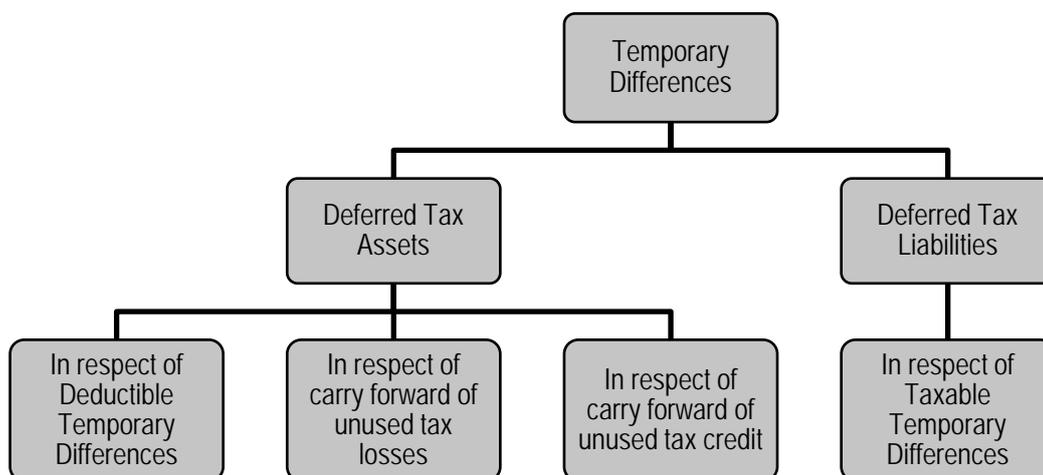
**Deferred tax assets** are the amounts of income taxes recoverable in future periods in respect of:

- (a) deductible temporary differences;
- (b) the carry forward of unused tax losses; and
- (c) the carry forward of unused tax credits.



**Temporary differences** are differences between the carrying amount of an asset or liability in the balance sheet and its tax base. Temporary differences may be either:

- (a) taxable temporary differences, which are temporary differences that will result in taxable amounts in determining taxable profit (tax loss) of future periods when the carrying amount of the asset or liability is recovered or settled; or
- (b) deductible temporary differences, which are temporary differences that will result in amounts that are deductible in determining taxable profit (tax loss) of future periods when the carrying amount of the asset or liability is recovered or settled.



#### 8.7.4 Tax Base

The tax base of an **asset or liability** is the amount attributed to that asset or liability for tax purposes.

The **tax base of an asset** is the amount that will be deductible for tax purposes against any taxable economic benefits that will flow to an entity when it recovers the carrying amount of the asset. If those economic benefits will not be taxable, the tax base of the asset is equal to its carrying amount.

Examples of Tax Base of an Asset:

S.No.	Particulars	Tax Base of an Asset
1.	A machine cost ₹ 100. For tax purposes, depreciation of ₹ 30 has already been deducted in the current and prior periods and the remaining cost will be deductible in future periods, either as depreciation or through a deduction on disposal.	Revenue generated by using the machine is taxable, any gain on disposal of the machine will be taxable and any loss on disposal will be deductible for tax purposes. The tax base of the machine is ₹ 70.
2.	Interest receivable has a carrying amount of ₹ 100. The related interest revenue will be taxed on cash basis.	The tax base of the interest receivable is nil.
3.	Trade receivables have a carrying amount of ₹ 100. The related revenue has already been included in taxable profit (tax loss).	The tax base of trade receivable is ₹ 100.
4.	Dividends receivable from a subsidiary have a carrying amount of ₹ 100. The dividends are not taxable. In substance, the entire carrying amount of the asset is deductible against the economic benefits.	Consequently, the tax base of the dividends receivable is ₹ 100. (Under this analysis, there is no taxable temporary difference. An alternative analysis is that the accrued dividends

		receivable have a tax base of nil and that a tax rate of nil is applied to the resulting taxable temporary difference of ₹ 100. Under both analyses, there is no deferred tax liability.}
5.	A loan receivable has a carrying amount of ₹ 100. The repayment of the loan will have no tax consequences.	The tax base of the loan is ₹ 100.

The **tax base of a liability** is its carrying amount, less any amount that will be deductible for tax purposes in respect of that liability in future periods. In the case of revenue which is received in advance, the tax base of the resulting liability is its carrying amount, less any amount of the revenue that will not be taxable in future periods.

**Examples of Tax Base of a Liability:**

S. No.	Particulars	Tax Base of Liability
1.	Current liabilities include accrued expenses with a carrying amount of ₹ 100. The related expense will be deducted for tax purposes on a cash basis.	The tax base of the accrued expenses is nil.
2.	Current liabilities include interest revenue received in advance, with a carrying amount of ₹ 100. The related interest revenue was taxed on a cash basis.	The tax base of the interest received in advance is nil.
3.	Current liabilities include accrued expenses with a carrying amount of ₹ 100. The related expense has already been deducted for tax purposes.	The tax base of the accrued expenses is ₹ 100.
4.	Current liabilities include accrued fines and penalties with a carrying amount of ₹ 100. Fines and penalties are not deductible for tax purposes.	The tax base of the accrued fines and penalties is ₹ 100. {Under this analysis, there is no deductible temporary difference. An alternative analysis is that the accrued fines and penalties payable have a tax base of nil and that a tax rate of nil is applied to the resulting deductible temporary difference of ₹ 100. Under both analyses, there is no deferred tax asset.}
5.	A loan payable has a carrying amount of ₹ 100. The repayment of the loan will have no tax consequences.	The tax base of the loan is ₹ 100.

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### 8.7.5 Recognition of Current Tax Liabilities and Current Tax Assets

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- Current tax for current and prior periods shall, to the extent unpaid, be recognised as a liability.
- If the amount already paid in respect of current and prior periods exceeds the amount due for those periods, the excess shall be recognised as an asset.
- The benefit relating to a tax loss that can be carried back to recover current tax of a previous period shall be recognised as an asset.
- When a tax loss is used to recover current tax of a previous period, an entity recognises the benefit as an asset in the period in which the tax loss occurs because it is probable that the benefit will flow to the entity and the benefit can be reliably measured.

**Example:** A company had a loss of ₹ 1,00,000 in the current year. It had a profit of ₹ 60,000 and ₹ 50,000 in last 2 years.

The tax authorities allowed the company to offset the loss of current year against the profit of last 2 years and claim a tax refund for the tax paid in last 2 years.

Thus, if the company uses its tax loss of current year to recover current tax of the prior years, it can record the tax refund (which if probable) as an asset.

### 8.7.6 Recognition of Deferred Tax Liabilities and Deferred Tax Assets

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**Taxable Temporary Differences:** A deferred tax liability shall be recognised for all taxable temporary differences, except to the extent that the deferred tax liability arises from:

- (a) the initial recognition of goodwill; or
- (b) the initial recognition of an asset or liability in a transaction which:
  - (i) is not a business combination; and
  - (ii) at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).

However, for taxable temporary differences associated with investments in subsidiaries, branches and associates, and interests in joint ventures, a deferred tax liability shall be recognised.

It is inherent in the recognition of an asset that its carrying amount will be recovered in the form of economic benefits that flow to the entity in future periods.

When the **carrying amount of the asset exceeds its tax base**, the amount of taxable economic benefits will exceed the amount that will be allowed as a deduction for tax purposes. This difference is a **taxable temporary difference** and the obligation to pay the resulting income taxes in future periods is a deferred tax liability.

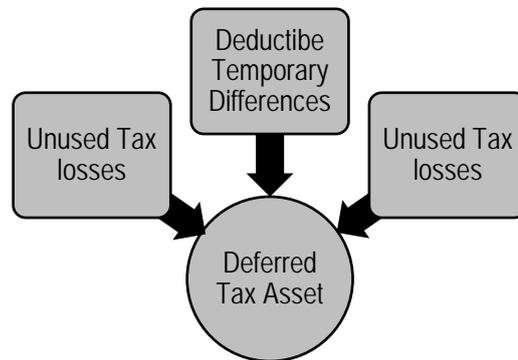
As the entity recovers the carrying amount of the asset, the taxable temporary difference will reverse and the entity will have taxable profit. This makes it probable that economic benefits will flow from the entity in the form of tax payments. Therefore, this Standard requires the recognition

of all deferred tax liabilities, except in certain circumstances described in paragraphs 15 and 39 of Ind AS 12.

**Example:** An asset which cost ₹ 150 has a carrying amount of ₹ 100. Cumulative depreciation for tax purposes is ₹ 90 and the tax rate is 25%.

The tax base of the asset is ₹ 60 (cost of ₹ 150 less cumulative tax depreciation of ₹ 90). To recover the carrying amount of ₹ 100, the entity must earn taxable income of ₹ 100, but will only be able to deduct tax depreciation of ₹ 60. Consequently, the entity will pay income taxes of ₹ 10 (₹ 40 at 25%) when it recovers the carrying amount of the asset. The difference between the carrying amount of ₹ 100 and the tax base of ₹ 60 is a taxable temporary difference of ₹ 40. Therefore, the entity recognises a deferred tax liability of ₹ 10 (₹ 40 at 25%) representing the income taxes that it will pay when it recovers the carrying amount of the asset.

**Unused Tax Losses and Unused Tax Credits**



A deferred tax asset shall be recognised for the carry forward of unused tax losses and unused tax credits to the extent that it is probable that future taxable profit will be available against which the unused tax losses and unused tax credits can be utilised.

The criteria for recognising deferred tax assets arising from the carry forward of unused tax losses and tax credits are the same as the criteria for recognising deferred tax assets arising from deductible temporary differences.

However, the existence of unused tax losses is strong evidence that future taxable profit may not be available. Therefore, when an entity has a **history of recent losses**, the entity recognises a deferred tax asset arising from unused tax losses or tax credits only to the extent that the entity has sufficient taxable temporary differences or there is convincing other evidence that sufficient taxable profit will be available against which the unused tax losses or unused tax credits can be utilised by the entity. In such circumstances, paragraph 82 requires disclosure of the amount of the deferred tax asset and the nature of the evidence supporting its recognition.

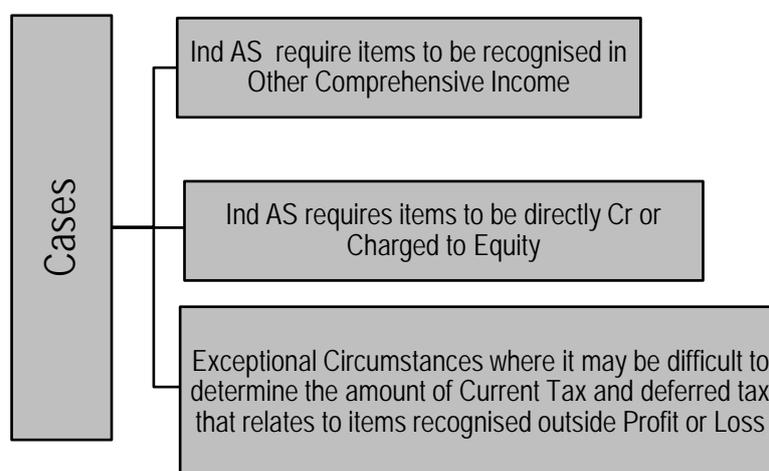
**Reassessment of unrecognised deferred tax assets:** At the end of each reporting period, an entity reassesses unrecognised deferred tax assets. The entity recognises a previously unrecognised deferred tax asset to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

**Measurement**

- Current tax liabilities (assets) for the current and prior periods shall be measured at the amount expected to be paid to (recovered from) the taxation authorities, using the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.
- Deferred tax assets and liabilities shall be measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

**Items recognised outside profit or loss:** Current tax and deferred tax shall be recognised outside profit or loss if the tax relates to items that are recognised, in the same or a different period, outside profit or loss. Therefore, current tax and deferred tax that relates to items that are recognised, in the same or a different period:

- (a) in other comprehensive income, shall be recognised in other comprehensive income.
- (b) directly in equity, shall be recognised directly in equity.



**CASE I:** Indian Accounting Standards require or permit particular items to be recognised in other comprehensive income.

Examples of such items are:

- (a) a change in carrying amount arising from the revaluation of property, plant and equipment (Ind AS 16); and
- (b) exchange differences arising on the translation of the financial statements of a foreign operation (Ind AS 21).

**CASE II:** Indian Accounting Standards require or permit particular items to be credited or charged directly to equity.

Examples of such items are:

- (a) an adjustment to the opening balance of retained earnings resulting from either a change in accounting policy that is applied retrospectively or the correction of an error (Ind AS 8 Accounting Policies, Changes in Accounting Estimates and Errors); and
- (b) amounts arising on initial recognition of the equity component of a compound financial instrument.

**CASE III:** In exceptional circumstances it may be difficult to determine the amount of current and deferred tax that relates to items recognised outside profit or loss (either in other comprehensive income or directly in equity).

This may be the case, **for example**, when:

- (a) there are graduated rates of income tax and it is impossible to determine the rate at which a specific component of taxable profit (tax loss) has been taxed;
- (b) a change in the tax rate or other tax rules affects a deferred tax asset or liability relating (in whole or in part) to an item that was previously recognised outside profit or loss; or
- (c) an entity determines that a deferred tax asset should be recognised, or should no longer be recognised in full, and the deferred tax asset relates (in whole or in part) to an item that was previously recognised outside profit or loss.

#### 8.7.7 Presentation - Offset

An entity shall offset **current tax assets and current tax liabilities** if, and only if, the entity:

- (a) has a legally enforceable right to set off the recognised amounts; and
- (b) intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

An entity shall offset **deferred tax assets and deferred tax liabilities** if, and only if:

- (a) the entity has a legally enforceable right to set off current tax assets against current tax liabilities; and
- (b) the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either:
  - (i) the same taxable entity; or
  - (ii) different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

#### 8.7.8 Deferred Tax Assets and Liabilities shall not be Discounted

The carrying amount of a deferred tax asset shall be reviewed at the end of each reporting period. An entity shall reduce the carrying amount of a deferred tax asset to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all

of that deferred tax asset to be utilised. Any such reduction shall be reversed to the extent that it becomes probable that sufficient taxable profit will be available.

#### **8.7.9 Major Changes in Ind AS 12 vis-à-vis IAS\* 12 Not Resulting in Carve Outs**

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- (i) **Presentation of Tax Expense:** IAS 12 requires presentation of tax expense (income) in the separate income statement, where separate income statement is presented. Ind AS 12 does not require such presentation since in Ind AS 1 option regarding the two statement approach has been removed.
- (ii) **Fair Value Model:** Since fair value model is not allowed in Ind AS 40, paragraph 20 of Ind AS 12 has been modified by not giving reference of Ind AS 40 and consequently paragraphs 51C-51D have been deleted.
- (iii) **Deferred Tax Benefits Related to Business Combinations:** IAS 12 provides that acquired deferred tax benefits recognised within the measurement period that results from new information about facts and circumstances existed at the acquisition date shall be applied to reduce the carrying amount of goodwill related to that acquisition. If the carrying amount of that goodwill is zero, any remaining deferred tax benefits shall be recognised in profit and loss. As a consequence of different accounting treatment of bargain purchase gain prescribed in Ind AS 103, in comparison to IFRS 3, Ind AS 12 provides that if the carrying amount of such goodwill is zero, any remaining deferred tax benefits shall be recognised in other comprehensive income and accumulated in equity as capital reserve or recognised directly in capital reserve.
- (iv) **Specified Grant Related to Asset (Para 33):** As against IAS 12, Ind AS 12 does not allow the option of deducting specified grant from the cost of the related asset as this option is not permitted in Ind AS 20 'Accounting for Government Grants and Disclosure of Government Assistance'.

#### **8.7.10 Major Changes in Ind AS 12 vis-à-vis Notified AS 22**

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- (i) **Approach for creating Deferred Tax:** Ind AS 12 is based on balance sheet approach. It requires recognition of tax consequences of differences between the carrying amounts of assets and liabilities and their tax base. Existing AS 22 is based on income statement approach. It requires recognition of tax consequences of differences between taxable income and accounting income. For this purpose, differences between taxable income.
- (ii) **Limited Exceptions for Recognition of Deferred Tax Asset:** As per Ind AS 12, subject to limited exceptions, deferred tax asset is recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised. The criteria for recognising deferred tax assets arising from the carry forward of unused tax losses and tax credits are the same that for recognising deferred tax assets arising from deductible temporary differences.

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\* The term 'IFRS' includes not only the International Financial Reporting Standards (IFRSs) issued by the IASB, it also includes the International Accounting Standards (IASs), IFRICs and SICs.

However, the existence of unused tax losses is strong evidence that future taxable profit may not be available. Therefore, when an entity has a history of recent losses, the entity recognises a deferred tax asset arising from unused tax losses or tax credits only to the extent that the entity has sufficient taxable temporary differences or there is convincing other evidence that sufficient taxable profit will be available against which the unused tax losses or unused tax credits can be utilised by the entity

- (iii) **Recognition of Current and Deferred Tax:** As per the existing AS 22, deferred tax assets are recognised and carried forward only to the extent that there is a reasonable certainty that sufficient future taxable income will be available against which such deferred tax assets can be realised. Where deferred tax asset is recognised against unabsorbed depreciation or carry forward of losses under tax laws, it is recognised only to the extent that there is virtual certainty supported by convincing evidence that sufficient future taxable income will be available against which such deferred tax assets can be realised.

As per Ind AS 12, current and deferred tax are recognised as income or an expense and included in profit or loss for the period, except to the extent that the tax arises from a transaction or event which is recognised outside profit or loss, either in other comprehensive income or directly in equity, in those cases tax is also recognised in other comprehensive income or in equity, as appropriate. Existing AS 22 does not specifically deal with this aspect.

- (iv) **Disclosure of DTA and DTL in Balance Sheet:** Existing AS 22 deals with disclosure of deferred tax assets and deferred tax liabilities in the balance sheet. Ind AS 12 does not deal with this aspect except that it requires that income tax relating to each component of other comprehensive income shall be disclosed as current or non-current asset/liability in accordance with the requirements of Ind AS 1.
- (v) **Disclosure Requirements:** Disclosure requirements given in the Ind AS 12 are more detailed as compared to existing AS 22.
- (vi) **DTA/DTL arising out of Revaluation of Assets:** Ind AS 12 requires that deferred tax asset/liability arising from revaluation of non-depreciable assets shall be measured on the basis of tax consequences from the sale of asset rather than through use. Existing AS 22 does not deal with this aspect.
- (vii) **Changes in Entities Tax Status or that of its Shareholders:** Ind AS 12 provides guidance as to how an entity should account for the tax consequences of a change in its tax status or that of its shareholders. Existing AS 22 does not deal with this aspect.
- (viii) **Virtual Certainty:** Existing AS 22 explains virtual certainty supported by convincing evidence. Since the concept of virtual certainty does not exist in Ind AS 12, this explanation is not included.
- (ix) **Guidance for Recognition of Deferred Tax in a Tax Holiday Period:** Existing AS 22 specifically provides guidance regarding recognition of deferred tax in the situations of Tax Holiday under Sections 80-IA and 80-IB and Tax Holiday under Sections 10A and 10B of the Income Tax Act, 1961. Similarly, existing AS 22 provides guidance regarding recognition of deferred tax asset in case of loss under the head 'capital gains'. Ind AS 12 does not specifically deal with these situations.

- (x) **Guidance on Certain Issues:** Existing AS 22 specifically provides guidance regarding tax rates to be applied in measuring deferred tax assets/liabilities in a situation where a company pays tax under section 115JB. Ind AS 12 does not specifically deal with this aspect.

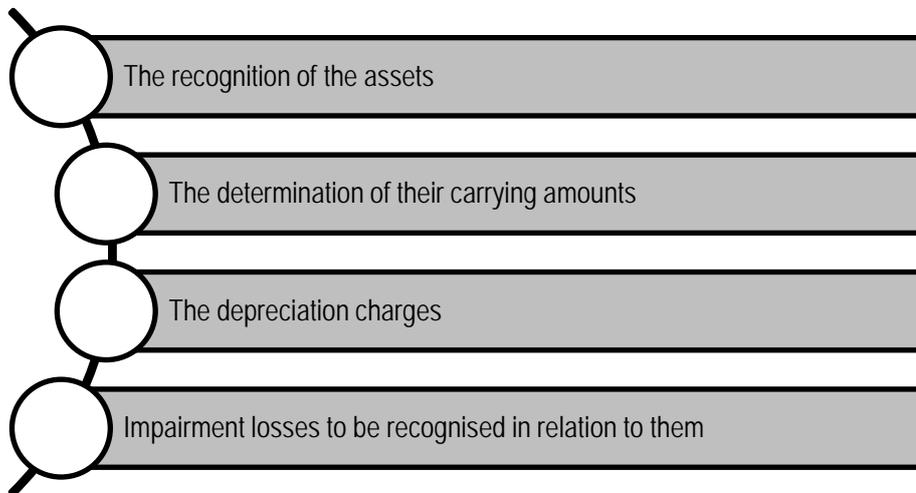
## 8.8 Ind AS 16 : Property, Plant and Equipment

### 8.8.1 Objective

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The objective of this Standard is to prescribe the **accounting treatment** for property, plant and equipment so that users of the financial statements can discern information about an entity's investment in its property, plant and equipment and the changes in such investment.

The **principal issues** in accounting for property, plant and equipment are:

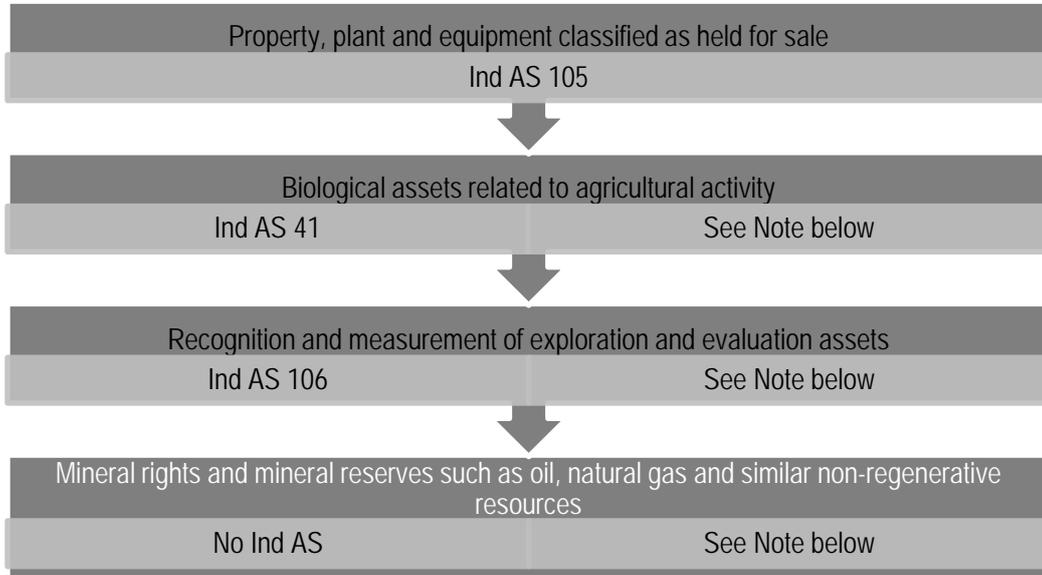


### 8.8.2 Scope

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This Standard shall be applied in accounting for property, plant and equipment **except** when another Standard requires or permits a different accounting treatment.

This Standard does not apply to:



This Standard applies to property, plant and equipment used to **develop or maintain the assets** described above.

**For example:** Ind AS 17 'Leases' requires an entity to evaluate its recognition of an item of leased property, plant and equipment on the basis of the transfer of risks and rewards. However, in such cases other aspects of the accounting treatment for these assets, including depreciation, are prescribed by this Standard.

An entity accounting for investment property in accordance with Ind AS 40 'Investment Property' shall use the cost model in this Standard.

### 8.8.3 Property, Plant and Equipment

**8.8.3.1 Definition:** Property, plant and equipment are tangible items that:

- (a) are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and
- (b) are expected to be used during more than one period.

**8.8.3.2 Recognition:** The cost of an item of property, plant and equipment shall be recognised as an asset if, and only if:

- (a) it is probable that future economic benefits associated with the item will flow to the entity; and
- (b) the cost of the item can be measured reliably.

An entity evaluates under this recognition principle all its property, plant and equipment costs at the time they are incurred. These costs include:

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- (a) **Initial Costs:** Costs incurred initially to acquire or construct an item of property, plant and equipment and
- (b) **Subsequent Costs:** Costs incurred subsequently to add to, replace part of, or service it.

Items such as spare parts, stand-by equipment and servicing equipment are recognised in accordance with this Ind AS when they meet the definition of property, plant and equipment. Otherwise, such items are classified as inventory.

### 8.8.4 Measurement at Recognition

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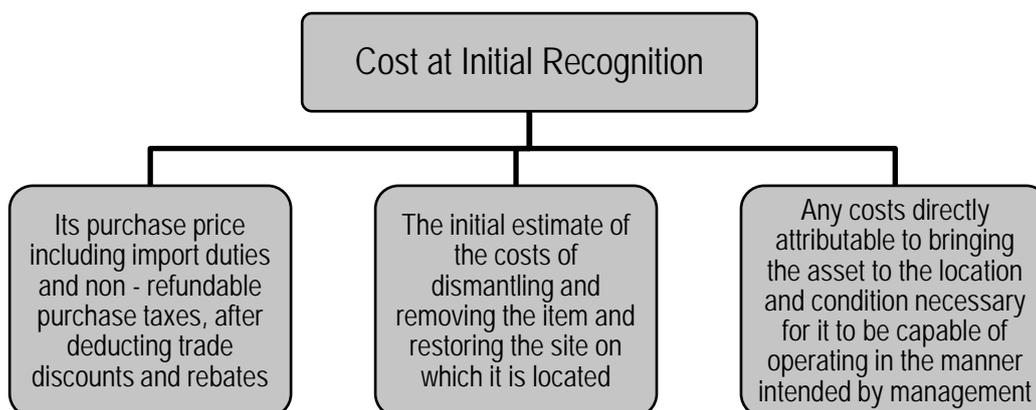
An item of property, plant and equipment that qualifies for recognition as an asset shall be measured at its cost.

The cost of an item of property, plant and equipment is the cash price equivalent at the recognition date. If payment is deferred beyond normal credit terms, the difference between the cash price equivalent and the total payment is recognised as interest over the period of credit unless such interest is capitalised in accordance with Ind AS 23.

Cost is:

- The amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset
- At the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other Indian Accounting Standards, e.g. Ind AS 102 '*Share-based Payment*'.

**8.8.4.1 Elements of Cost:** The cost of an item of property, plant and equipment comprises:



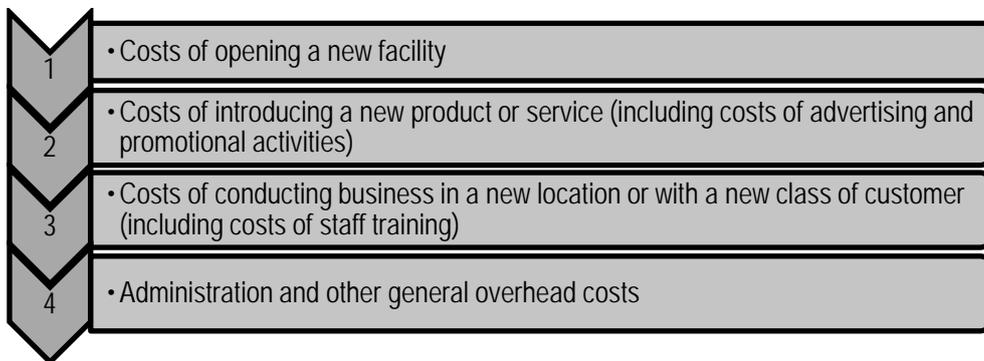
**8.8.4.2 Cost of Dismantling, Removal and Restoration:** The obligation for which an entity incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

An entity applies Ind AS 2 *Inventories* to the costs of obligations for dismantling, removing and restoring the site on which an item is located that are incurred during a particular period as a consequence of having used the item to produce inventories during that period.

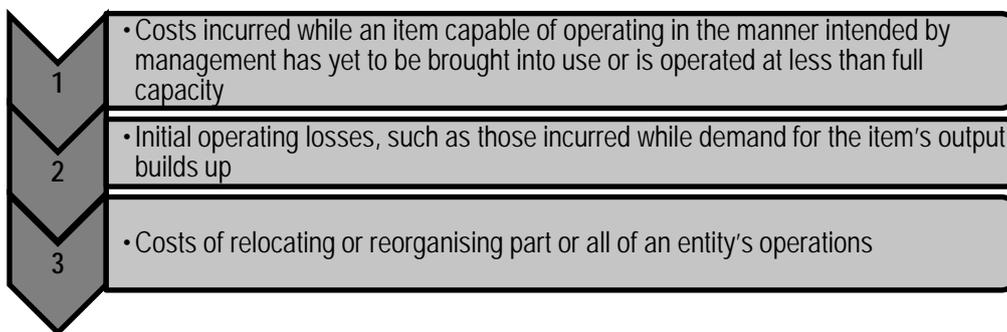
**8.8.4.3 Examples of Directly Attributable Costs:** costs of employee benefits (as defined in Ind AS 19 *Employee Benefits*) arising directly from the construction or acquisition of the item of property, plant and equipment;

- costs of site preparation;
- initial delivery and handling costs;
- installation and assembly costs;
- costs of testing whether the asset is functioning properly, after deducting the net proceeds from selling any items produced while bringing the asset to that location and condition (such as samples produced when testing equipment); and
- professional fees.

**8.8.4.4 Examples of Costs that are not Costs of an Item of Property, Plant and Equipment**



**8.8.4.5 Costs not Included in the Carrying Amount of an Item of Property, Plant and Equipment**



**8.8.4.6 Self-constructed Asset:** The cost of a self-constructed asset is determined using the same principles as for an acquired asset. Therefore, any internal profits are eliminated in arriving at such costs.

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**For Example:** A transfer from one division of an organisation to another at a transfer price including profit margin. In such a case we will consider only the cost of transfer and not transfer price.

Similarly, the cost of abnormal amounts of wasted material, labour, or other resources incurred in self-constructing an asset is not included in the cost of the asset.

Ind AS 23 '*Borrowing Costs*' establishes criteria for the recognition of interest as a component of the carrying amount of a self-constructed item of property, plant and equipment.

**8.8.4.7 Asset Exchange Transaction:** One or more items of property, plant and equipment may be acquired in exchange for:

- A non-monetary asset or assets, or
- A combination of monetary and non-monetary assets.

The cost of such an item of property, plant and equipment is measured at fair value unless:

- (a) the exchange transaction lacks commercial substance or
- (b) the fair value of neither the asset received nor the asset given up is reliably measurable.

### 8.8.5 Measurement after Recognition

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An entity shall choose either:

- The cost model or
- The revaluation model

As its accounting policy and shall apply that policy to an entire class of property, plant and equipment.

**8.8.5.1 Cost Model:** After recognition as an asset, an item of property, plant and equipment shall be carried at its cost less any accumulated depreciation less any accumulated impairment losses.

**8.8.5.2 Revaluation Model:** After recognition as an asset, an item of property, plant and equipment whose fair value can be measured reliably shall be carried at revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation less subsequent accumulated impairment losses.

Revaluations should be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

If an asset's carrying amount is increased as a result of a revaluation, the increase should be recognised in other comprehensive income and accumulated in equity under the heading of revaluation surplus. However, the increase should be recognised in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss.

If an asset's carrying amount is decreased as a result of a revaluation, the decrease should be recognised in profit or loss. However, the decrease shall be recognised in other comprehensive income to the extent of any credit balance existing in the revaluation surplus in respect of that

asset. The decrease recognised in other comprehensive income reduces the amount accumulated in equity under the heading of revaluation surplus.

### 8.8.6 Depreciation

Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life. The depreciable amount of an asset should be determined after deducting its residual value.

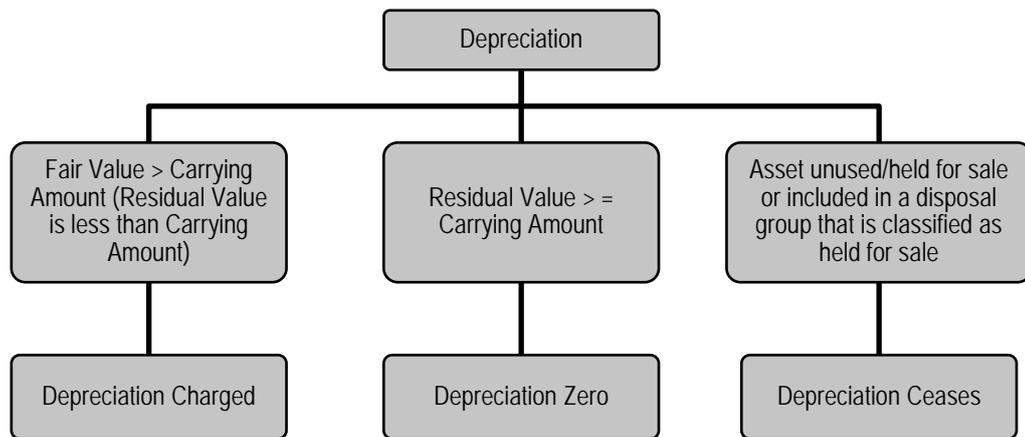
**8.8.6.1 Component Cost Approach:** Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately.

An entity allocates the amount initially recognised in respect of an item of property, plant and equipment to its significant parts and depreciates separately each such part.

The depreciation charge for each period shall be recognised in profit or loss unless it is included in the carrying amount of another asset.

The depreciation charge for a period is usually recognised in profit or loss.

However, sometimes, the future economic benefits embodied in an asset are absorbed **in producing other assets**. In this case, the depreciation charge constitutes part of the cost of the other asset and is included in its carrying amount.



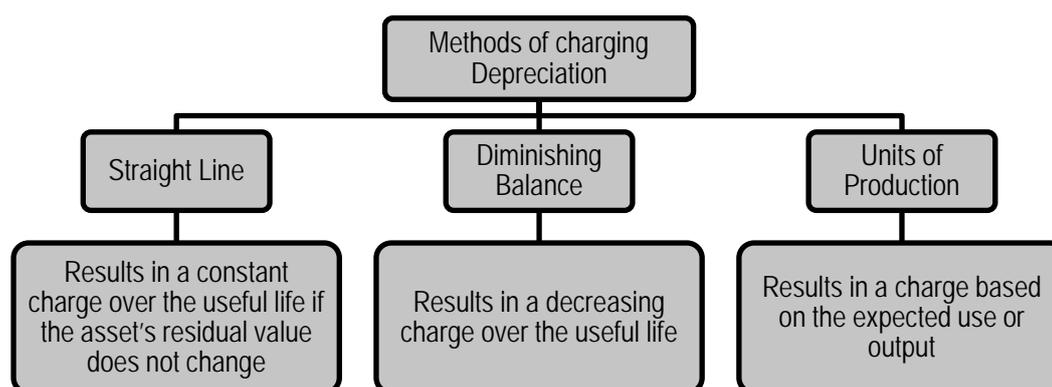
**Depreciation Begins:** Depreciation of an asset begins when it is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management.

**Depreciation Ceases:** Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with Ind AS 105 and the date that the asset is derecognised.

Therefore, depreciation does not cease when the asset becomes idle or is retired from active use unless the asset is fully depreciated. However, under usage methods of depreciation the depreciation charge can be zero while there is no production.

### 8.8.6.2 Depreciation Method

- The depreciation method used shall reflect the pattern in which the asset's future economic benefits are expected to be consumed by the entity.
- The depreciation method applied to an asset shall be reviewed at least at each financial year-end and, if there has been a significant change in the expected pattern of consumption of the future economic benefits embodied in the asset, the method shall be changed to reflect the changed pattern. Such a change shall be accounted for as a change in an accounting estimate in accordance with Ind AS 8.



### 8.8.7 Impairment

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To determine whether an item of property, plant and equipment is impaired, an entity applies Ind AS 36 'Impairment of Assets'.

### 8.8.8 Derecognition

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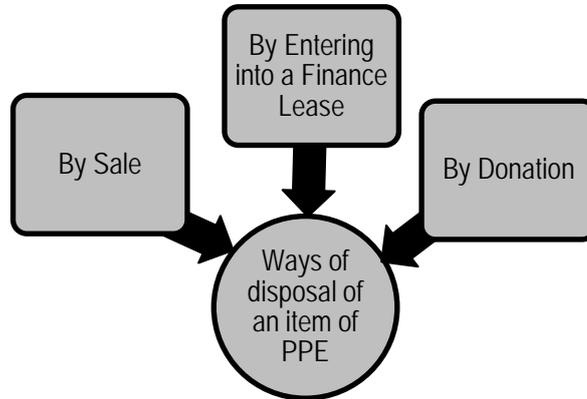
The carrying amount of an item of property, plant and equipment shall be derecognised:

- on disposal; or
- when no future economic benefits are expected from its use or disposal.

The gain or loss arising from the de-recognition of an item of property, plant and equipment shall be included in profit or loss when the item is derecognised (unless Ind AS 17 requires otherwise on a sale and leaseback). Gains shall not be classified as revenue.

However, an entity that, in the course of its ordinary activities, routinely sells items of property, plant and equipment that it has held for rental to others shall transfer such assets to inventories at their carrying amount when they cease to be rented and become held for sale.

8.8.8.1 Ways of Disposal:



8.8.8.2 **Gain or Loss:** The gain or loss arising from the de-recognition of an item of property, plant and equipment shall be determined as the difference between

- The net disposal proceeds, if any, and
- The carrying amount of the item.

8.8.8.3 **Consideration Receivable**

- The consideration receivable on disposal of an item of property, plant and equipment is recognised initially at its fair value.
- If payment for the item is **deferred**, the consideration received is recognised initially at the cash price equivalent.

8.8.9 **Major Changes in Ind AS 16 vis-à-vis IAS\* 16 Not Resulting in Carve Outs**

1. **Reduction in the Carrying Amount of PPE:** Paragraph 28 has been shown as deleted since Ind AS 20 'Accounting for Government Grants and Disclosure of Government Assistance' does not permit the option of reducing the carrying amount of an item of property, plant and equipment by the amount of government grant received in respect of such an item, as permitted in IAS 20.
2. **Fair Value Model:** Paragraph 5 of Ind AS 16 has been modified, since Ind AS 40, 'Investment Property', prohibits the use of fair value model.
3. **Guidance for Allocation Basis:** Paragraph 12 of Appendix B has been modified by giving example of types of costs that would be included as directly attributable overhead costs of the stripping activity asset. Paragraph 13A has been added in Appendix B to provide guidance on allocation basis.

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\* The term 'IFRS' includes not only the International Financial Reporting Standards (IFRSs) issued by the IASB, it also includes the International Accounting Standards (IASs), IFRICs and SICs.

#### 8.8.10 Major Changes in Ind AS 16 vis-à-vis Notified AS 10

- (i) **Fixed Assets retired from Active Use and Held for Sale:** Ind AS 16 does not deal with the assets 'held for sale' because the treatment of such assets is covered in Ind AS 105, Non-current Assets Held for Sale and Discontinued Operations. Existing AS 10 deals with accounting for items of fixed assets retired from active use and held for sale.
- (ii) **Stripping Costs in the Production Phase of a Surface Mine:** Ind AS 16 provides guidance on measuring 'Stripping Costs in the Production Phase of a Surface Mine'. Existing AS does not contain this guidance.

### 8.9 Ind AS 17: Leases

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#### 8.9.1 Objective

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The objective of this Standard is to prescribe, for lessees and lessors, the appropriate accounting policies and disclosure to apply in relation to leases.

#### 8.9.2 Scope

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This Standard shall be applied in accounting for all leases other than:

- Leases to explore for or use minerals, oil, natural gas and similar non-regenerative resources; and
- Licensing agreements for such items as motion picture films, video recordings, plays, manuscripts, patents and copyrights

However, this Standard shall not be applied as the basis of measurement for:

- Property held by lessees that is accounted for as investment property (Ind AS 40, 'Investment Property')
- Investment property provided by lessors under operating leases (Ind AS 40, 'Investment Property')
- Biological assets within the scope of Ind AS 41, 'Agriculture' held by lessees under finance leases
- Biological assets within the scope of Ind AS 41, provided by lessors under operating leases

#### 8.9.3 Lease

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A lease is an agreement whereby:

- The lessor conveys to the lessee

- In return for a payment or series of payments
- The right to use an asset
- For an agreed period of time

**8.9.3.1 Finance Lease:** A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset.

Where, Risks include the possibilities of losses from idle capacity or technological obsolescence and of variations in return because of changing economic conditions.

Rewards may be represented by the expectation of profitable operation over the asset's economic life and of gain from appreciation in value or realisation of a residual value.

Title may or may not eventually be transferred.

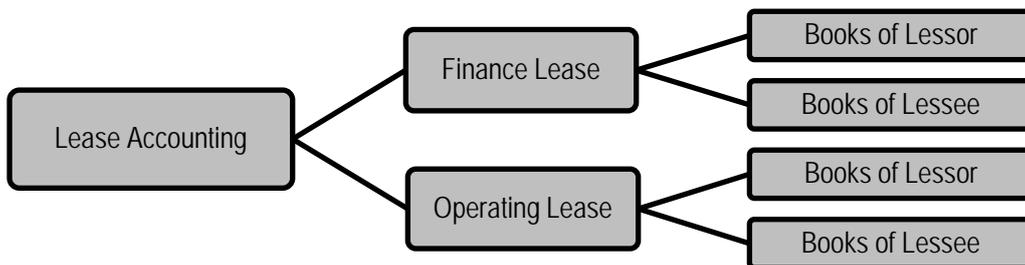
**8.9.3.2 Operating Lease:** An operating lease is a lease other than a finance lease.

**8.9.3.3 Non-cancellable Lease:** A non-cancellable lease is a lease that is cancellable only:

- (a) upon the occurrence of some remote contingency;
- (b) with the permission of the lessor;
- (c) if the lessee enters into a new lease for the same or an equivalent asset with the same lessor; or
- (d) upon payment by the lessee of such an additional amount that, at inception of the lease, continuation of the lease is reasonably certain.

#### 8.9.4 Accounting Treatment of Lease

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##### 8.9.4.1 Leases in the Financial Statements of Lessees

###### (a) Finance Leases

**Initial recognition:** At the commencement of the lease term, lessees shall recognise finance leases as assets and liabilities in their balance sheets at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease.

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The discount rate to be used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease, if this is practicable to determine; if not, the lessee's incremental borrowing rate shall be used.

Any initial direct costs of the lessee are added to the amount recognised as an asset.

### Subsequent measurement

- Minimum lease payments shall be apportioned between the finance charge and the reduction of the outstanding liability.
  - The finance charge shall be allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.
  - Contingent rents shall be charged as expenses in the periods in which they are incurred.
  - A finance lease gives rise to depreciation expense for depreciable assets as well as finance expense for each accounting period.
  - The depreciation policy for depreciable leased assets shall be consistent with that for depreciable assets that are owned, and the depreciation recognised shall be calculated in accordance with Ind AS 16, 'Property, Plant and Equipment' and Ind AS 38, 'Intangible Assets'.
- (b) **Operating Leases:** Lease payments under an operating lease shall be recognised as an expense on a straight-line basis over the lease term unless either:
- (a) another systematic basis is more representative of the time pattern of the user's benefit even if the payments to the lessors are not on that basis; or
  - (b) the payments to the lessor are structured to increase in line with expected general inflation to compensate for the lessor's expected inflationary cost increases.

### 8.9.4.2 Leases in the Financial Statements of Lessors

#### (a) Finance Leases

**Initial recognition:** Lessors shall recognise assets held under a finance lease in their balance sheets and present them as a receivable at an amount equal to the net investment in the lease.

**Subsequent measurement:** The recognition of finance income shall be based on a pattern reflecting a constant periodic rate of return on the lessor's net investment in the finance lease.

- (b) **Operating Leases:** Lessors shall present assets subject to operating leases in their balance sheet according to the nature of the asset.

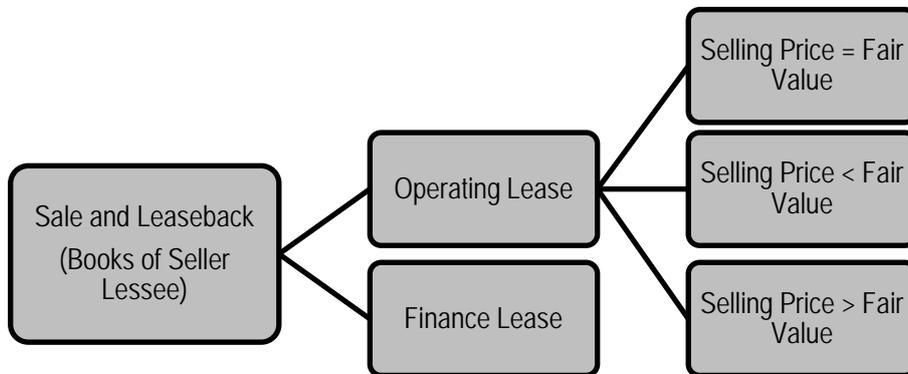
Lease income from operating leases (excluding amounts for services such as insurance and maintenance) shall be recognised in income on a straight-line basis over the lease term, unless either:

- (a) another systematic basis is more representative of the time pattern in which use benefit derived from the leased asset is diminished, even if the payments to the lessors are not on that basis; or
- (b) the payments to the lessor are structured to increase in line with expected general inflation to compensate for the lessor's expected inflationary cost increases. If payments to the lessor vary according to factors other than inflation, then this condition is not met

The depreciation policy for depreciable leased assets shall be consistent with the lessor's normal depreciation policy for similar assets, and depreciation shall be calculated in accordance with Ind AS 16 and Ind AS 38.

**8.9.5 Sale and Leaseback Transactions**

A sale and leaseback transaction involves the sale of an asset and the leasing back of the same asset. The lease payment and the sale price are usually interdependent because they are negotiated as a package. The accounting treatment of a sale and leaseback transaction depends upon the type of lease involved.



**8.9.5.1 If a Sale and Leaseback Transaction Results in a Finance Lease:** If a sale and leaseback transaction results in a finance lease, any excess of sales proceeds over the carrying amount shall not be immediately recognised as income by a seller-lessee. Instead, it shall be deferred and amortised over the lease term.

**8.9.5.2 If a Sale and Leaseback Transaction Results in an Operating Lease**

**CASE I: When Sale Price = Fair Value:** If a sale and leaseback transaction results in an operating lease, and it is clear that the transaction is established at fair value, any profit or loss shall be recognised immediately.

**CASE II: When Sale Price < Fair Value:** If the sale price is below fair value, any profit or loss shall be recognised immediately except that, if the loss is compensated for by future lease payments at below market price, it shall be deferred and amortised in proportion to the lease payments over the period for which the asset is expected to be used.

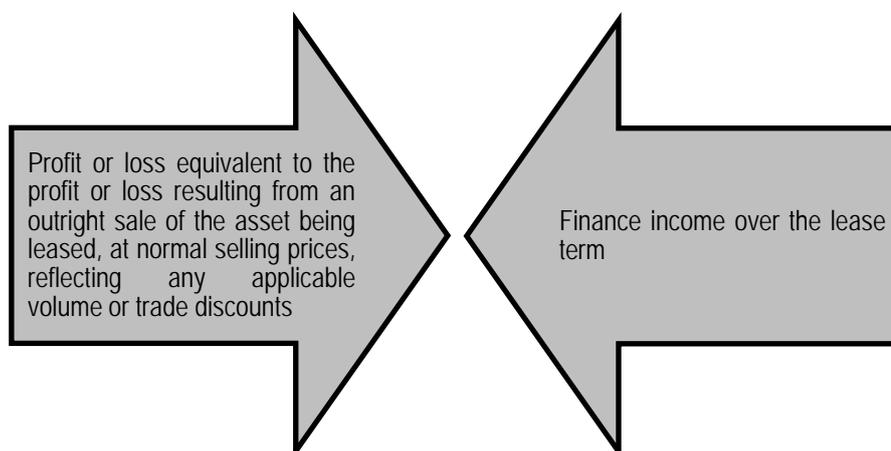
**CASE III: When Sale Price > Fair Value:** If the sale price is above fair value, the excess over fair value shall be deferred and amortised over the period for which the asset is expected to be used.

For operating leases, if the fair value at the time of a sale and leaseback transaction is less than the carrying amount of the asset, a loss equal to the amount of the difference between the carrying amount and fair value shall be recognised immediately.

#### 8.9.6 Accounting Treatment in the Books of Manufacturer or Dealer Lessors

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- Manufacturer or dealer lessors shall recognise selling profit or loss in the period, in accordance with the policy followed by the entity for outright sales.
- If artificially low rates of interest are quoted, selling profit shall be restricted to that which would apply if a market rate of interest were charged.
- Costs incurred by manufacturer or dealer lessors in connection with negotiating and arranging a lease shall be recognised as an expense when the selling profit is recognised.
- Manufacturers or dealers often offer to customers the choice of either buying or leasing an asset. A finance lease of an asset by a manufacturer or dealer lessor gives rise to two types of income:



Appendix C of Ind AS 17 provides guidance (a) for determining whether the arrangement is, or contain, leases that should be accounted for in accordance with Ind AS 17; (b) when the assessment or a reassessment of whether an arrangement is, or contains, a lease should be made; and (c) if an arrangement is, or contains, a lease, how the payments for the lease should be separated from payments for any other elements in the arrangement.

Appendix A of Ind AS 17 provides guidance on recognition of incentives in an operating lease in the financial statements of lessor and lessee. The Appendix prescribes that the lessor shall recognise the aggregate cost of incentives as a reduction of rental income over the lease term, on a straight-line basis unless another systematic basis is representative of the time pattern over which the benefit of the leased asset is diminished. The lessee shall recognise the aggregate benefit of incentives as a reduction of rental expense over the lease term, on a

straight-line basis unless another systematic basis is representative of the time pattern of the lessee's benefit from the use of the leased asset.

### 8.9.7 Major Changes in Ind AS 17 vis-à-vis IAS\* 17

#### 8.9.7.1 Resulting in Carve Out

**As per IFRS:** IAS 17 requires all lease rentals to be charged to statement of profit and loss on straight-line basis in case of operating leases unless another systematic basis is more representative of the time pattern of the user's benefit even if the payments to the lessor are not on that basis.

**Carve out:** A carve-out has been made to provide that lease rentals, in case of operating leases, shall be charged to the statement of profit and loss in accordance with the lease agreement unless the payments to the lessor are structured to increase in line with expected general inflation to compensate for the lessor's expected inflationary cost increases. If payments to the lessor vary because of factors other than general inflation, then this condition is not met.

**Reason:** Companies enter into various kinds of lease agreements to get the right to use an asset of the lessor. Considering the Indian inflationary situation, lease agreements contain periodic rent escalation. Accordingly, where there is periodic rent escalation in line with the expected inflation so as to compensate the lessor for expected inflationary cost increases, the rentals shall not be straight-lined.

#### 8.9.7.2 Not Resulting in Carve Out

**Investment Property:** IAS 17 provides that separate measurement of land and buildings elements is not required when the lessee's interest in both land and buildings is classified as an investment property in accordance with Ind AS 40, 'Investment Property', and fair value model is adopted. IAS 17 also permits property interest held under an operating lease as an investment property, if the definition of investment property is otherwise met and fair value model is applied. Since Ind AS 40 'Investment Property' prohibits the use of fair value model, these provisions of IAS 17 have not been included in Ind AS 17.

### 8.9.8 Major Changes in Ind AS 17 vis-à-vis Notified AS 19

- (i) **Land:** The existing standard excludes leases of land from its scope. Ind AS 17 does not have such scope exclusion. It has specific provisions dealing with leases of land and building applicable. Further, Ind AS 17 is not applicable as the basis of measurement for
- property held by lessees/provided by lessors under operating leases but treated as investment property and
  - biological assets held by lessees/provided by lessors under operating leases that are covered in the Standard on Agriculture.

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\* The term 'IFRS' includes not only the International Financial Reporting Standards (IFRSs) issued by the IASB, it also includes the International Accounting Standards (IASs), IFRICs and SICs.

The existing standard does not contain such provisions.

- (ii) **Definition of Residual Value:** The definition of residual value appearing in the existing standard has been deleted in Ind AS 17.
- (iii) **Initial Direct Costs:** Consequent upon the difference between the existing standard and Ind AS 17 in respect of treatment of initial direct costs incurred by a non-manufacturer/non-dealer-lessor in respect of a finance lease (see point 5 below), the term 'initial direct costs' has been specifically defined in Ind AS 17 and definition of the term 'interest rate implicit in the lease' as per the existing standard has been modified in Ind AS 17.
- (iv) **Inception of Lease and Commencement of Lease:** Ind AS 17 makes a distinction between inception of lease and commencement of lease. In the existing standard, though both the terms are used at some places, these terms have not been defined and distinguished. Further, Ind AS 17 deals with adjustment of lease payments during the period between inception of the lease and the commencement of the lease term. This aspect is not dealt with in the existing standard. Also, as per Ind AS 17, the lessee shall recognise finance leases as assets and liabilities in balance sheet at the commencement of the lease term whereas as per the existing standard such recognition is at the inception of the lease.
- (v) **Treatment of Initial Direct Costs:** Treatment of initial direct costs under Ind AS 17 differs from the treatment prescribed under the existing standard. This is tabulated below:

<i>Subject</i>	<i>Existing standard</i>	<i>Ind AS 17</i>
Finance lease-lessee accounting	Added to the amount recognised as asset.	Same as per the existing standard.
Finance lease-lessor accounting		
<i>Non-manufacturer/ Non-dealer</i>	Either recognised as expense immediately or allocated against the finance income over the lease term.	Interest rate implicit in the lease is defined in such a way that the initial direct costs included automatically in the finance lease receivable; there is no need to add them separately.
<i>Manufacturer/dealer:</i>	Recognised as expense at the commencement of the lease term.	Same as per the existing standard.
Operating lease-Lessee accounting	No discussion	No discussion
Operating lease-Lessor accounting	Either deferred and allocated to income over the lease term in proportion to the recognition of rent	Added to the carrying amount of the leased asset and recognized as expense over the lease term on the same basis as lease income

	income, or recognized as expense in the period in which incurred.	
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- (vi) **Current/Non-current Classification of Lease Liabilities:** Ind AS 17 requires current/non-current classification of lease Liabilities if such classification is made for other liabilities. Also, it makes reference to Ind AS 105, 'Non-current Assets Held for Sale and Discontinued Operations'. These matters are not addressed in the existing standard.
- (vii) **Sale and Leaseback Transaction:** As per the existing standard, if a sale and leaseback transaction results in a finance lease, excess, if any, of the sale proceeds over the carrying amount shall be deferred and amortised by the seller-lessee over the lease term in proportion to depreciation of the leased asset. While Ind AS 17 retains the deferral and amortisation principle, it does not specify any method of amortisation.
- (viii) **Accounting for Incentives in the Case of Operating Leases:** Ind AS 17 provides guidance on accounting for incentives in the case of operating leases, evaluating the substance of transactions involving the legal form of a lease and determining whether an arrangement contains a lease. The existing standard does not contain such guidance.
- (ix) **Recognition of Lease Payments:** Ind AS 17 requires that in case of operating lease, where escalation of lease rentals is in line with the expected general inflation so as to compensate the lessor for expected inflationary cost increases shall not be straight lined. AS 19 does not provide for the same.
- (x) **Disclosure Requirements:** There are some differences in disclosure requirements as per the existing standard and disclosure requirements as per Ind AS 17.

**8.10 Ind AS 18 : Revenue**

The primary issue in accounting for revenue is determining when to recognise revenue. Revenue is recognised when it is probable that future economic benefits will flow to the entity and these benefits can be measured reliably. This Standard identifies the circumstances in which these criteria will be met and, therefore, revenue will be recognised. It also provides practical guidance on the application of these criteria.

Revenue is the gross inflow of economic benefits during the period arising in the course of the ordinary activities of an entity when those inflows result in increases in equity, other than increases relating to contributions from equity participants.

The Standard shall be applied in accounting for revenue arising from the following transactions and events: (a) the sale of goods; (b) the rendering of services; and (c) the use by others of entity assets yielding interest and royalties. The Standard deals with recognition of interest. However, measurement of interest and recognition and measurement of dividend are dealt in accordance with Ind AS 109, *Financial Instruments*.

The impairment of any contractual right to receive cash or another financial asset arising from this Standard shall be dealt in accordance with Ind AS 109, *Financial Instruments*.

#### **8.10.1 Identification of the transaction**

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The recognition criteria in this Standard are usually applied separately to each transaction. However, in certain circumstances, it is necessary to apply the recognition criteria to the separately identifiable components of a single transaction in order to reflect the substance of the transaction. For example, when the selling price of a product includes an identifiable amount for subsequent servicing, that amount is deferred and recognised as revenue over the period during which the service is performed. Conversely, the recognition criteria are applied to two or more transactions together when they are linked in such a way that the commercial effect cannot be understood without reference to the series of transactions as a whole. For example, an entity may sell goods and, at the same time, enter into a separate agreement to repurchase the goods at a later date, thus negating the substantive effect of the transaction; in such a case, the two transactions are dealt with together.

#### **8.10.2 Measurement of revenue**

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Revenue shall be measured at the fair value of the consideration received or receivable. *Fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The amount of revenue arising on a transaction is usually determined by agreement between the entity and the buyer or user of the asset. It is measured at the fair value of the consideration received or receivable taking into account the amount of any trade discounts and volume rebates allowed by the entity.

#### **8.10.3 Sale of goods**

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Revenue from the sale of goods shall be recognised when all the following conditions have been satisfied: (a) the entity has transferred to the buyer the significant risks and rewards of ownership of the goods; (b) the entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold; (c) the amount of revenue can be measured reliably; (d) it is probable that the economic benefits associated with the transaction will flow to the entity; and (e) the costs incurred or to be incurred in respect of the transaction can be measured reliably.

#### **8.10.4 Rendering of services**

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When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction shall be recognised by reference to the stage of completion of the transaction at the end of the reporting period. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied: (a) the amount of revenue can be measured reliably; (b) it is probable that the economic benefits associated with the transaction will flow to the entity; (c) the stage of completion of the transaction at the end of the reporting period can be measured reliably; and (d) the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

The recognition of revenue by reference to the stage of completion of a transaction is often referred to as the percentage of completion method. Under this method, revenue is recognised in the

accounting periods in which the services are rendered. The recognition of revenue on this basis provides useful information on the extent of service activity and performance during a period.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue shall be recognised only to the extent of the expenses recognised that are recoverable.

### 8.10.5 Interest and Royalties

Revenue arising from the use by others of entity assets yielding interest and royalties shall be recognised when: (a) it is probable that the economic benefits associated with the transaction will flow to the entity; and (b) the amount of the revenue can be measured reliably.

Revenue shall be recognised on the following bases: (a) interest shall be recognised using the effective interest method as set out in Ind AS 109; (b) royalties shall be recognised on an accrual basis in accordance with the substance of the relevant agreement.

### 8.10.6 Major Changes in Ind AS 18 vis-à-vis IAS\* 18

#### 8.10.6.1 Resulting in Carve Out

**As per IFRS:** On the basis of principles of the IAS 18, IFRIC 15, Agreement for Construction of Real Estate, prescribes that construction of real estate should be treated as sale of goods and revenue should be recognised when the entity has transferred significant risks and rewards of ownership and retained neither continuing managerial involvement nor effective control.

**Carve out:** IFRIC 15 has not been included in Ind AS 18 to scope out such agreements from Ind AS 18. A separate guidance note on accounting for real estate developers (for Ind AS compliant entities) has been issued by the ICAI to address the matter.

**Reason:** It was observed that requirement will lead to recognition of revenue in the financial statements by real estate developers based on the completion method, i.e., only in the last year of the completion of project. It was felt that in case the revenue for the whole project is recognised in the last year of completion of project, it will not reflect the true performance of the business of the real estate developer. Further, it was felt that since Ind AS 11 requires recognition of revenue of all construction contracts by reference to stage of completion, it may lead to inappropriate accounting in case of certain real estate development projects in case this Ind AS is applied for all real estate development projects. Therefore, it was considered appropriate that rather than making changes in Ind AS 11 or Ind AS 18, a separate Guidance note (for Ind AS-compliant entities) should be issued in line with the Guidance note on Accounting for Real Estate Transactions issued by the Institute of Chartered Accountants of India (for entities on which AS are applicable).

#### 8.10.6.2 Not Resulting in Carve Out

1. **Recognition and Measurement of Interest:** Paragraph 1A is inserted in Ind AS 18 which states that recognition of interest is dealt in this standard whereas measurement of interest is dealt in accordance with Ind AS 109, *Financial Instruments*.

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\* The term 'IFRS' includes not only the International Financial Reporting Standards (IFRSs) issued by the IASB, it also includes the International Accounting Standards (IASs), IFRICs and SICs.

2. **Impairment of Contractual Right:** Paragraph 1B is inserted in Ind AS 18, which prescribes the impairment of any contractual right to receive cash or another financial asset arising from this standard, shall be dealt in accordance with Ind AS 109, *Financial Instruments*.

#### 8.10.7 Major Changes in Ind AS 18 vis-à-vis Notified AS 9

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- (i) **Definition of 'Revenue':** Definition of 'revenue' given in Ind AS 18 is broad compared to the definition of 'revenue' given in existing AS 9 because it covers all economic benefits that arise in the ordinary course of activities of an entity which result in increases in equity, other than increases relating to contributions from equity participants. On the other hand, as per the existing AS 9, revenue is gross inflow of cash, receivables or other consideration arising in the course of the ordinary activities of an enterprise from the sale of goods, from the rendering of services, and from the use by others of enterprise resources yielding interest, royalties and dividends.
- (ii) **Measurement of Revenue:** Measurement of revenue is briefly covered in the definition of revenue in the existing AS 9, while Ind AS 18 deals separately in detail with measurement of revenue. As per existing AS 9, revenue is recognised at the nominal amount of consideration receivable. Ind AS 18 requires the revenue to be measured at fair value of the consideration received or receivable.
- (iii) **Barter Transactions:** Ind AS 18 specifically deals with the exchange of goods and services with goods and services of similar and dissimilar nature. In this regard specific guidance is given regarding barter transactions involving advertising services. This aspect is not dealt with in the existing AS 9.
- (iv) **Recognition of Separately Identifiable Components:** Ind AS 18 provides guidance on application of recognition criteria to the separately identifiable components of a single transaction in order to reflect the substance of the transaction. Existing AS 9 does not specifically deal with the same.
- (v) **Recognition of Interest:** Existing AS 9 requires the recognition of revenue from interest on time proportion basis. Ind AS 18 requires interest to be recognised using effective interest rate method as set out in Ind AS 109, *Financial Instruments*.
- (vi) **Guidance Regarding Revenue Recognition in Specific Cases:** Ind AS 18 specifically provides guidance regarding revenue recognition in case the entity is under any obligation to provide free or discounted goods or services or award credits to its customers due to any customer loyalty programme. Existing AS 9 does not deal with this aspect.
- (vii) **Disclosure of Excise Duty:** Existing AS 9 specifically deals with disclosure of excise duty as a deduction from revenue from sales transactions. Ind AS 18 does not specifically deal with the same.
- (viii) **Disclosure Requirements:** Disclosure requirements given in the Ind AS 18 are more detailed as compared to existing AS 9.

## 8.11 Ind AS 19 : Employee Benefits

### 8.11.1 Objective

The objective of this Standard is to prescribe the accounting and disclosure for employee benefits. The Standard requires an entity to recognise:



A liability - When an employee has provided service in exchange for employee benefits to be paid in the future



An expense - When the entity consumes the economic benefit arising from service provided by an employee in exchange for employee benefits

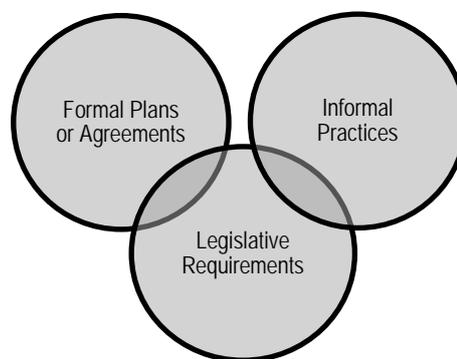
### 8.11.2 Scope

This Standard shall be applied by an employer in accounting for all employee benefits, except those to which Ind AS 102, *'Share-based Payment'*, applies.

This Standard does not deal with reporting by employee benefit plans.

The employee benefits to which this Standard applies include those provided:

- (a) under formal plans or other formal agreements between an entity and individual employees, groups of employees or their representatives;
- (b) under legislative requirements, or through industry arrangements, whereby entities are required to contribute to national, state, industry or other multi-employer plans; or
- (c) by those informal practices that give rise to a constructive obligation. Informal practices give rise to a constructive obligation where the entity has no realistic alternative but to pay employee benefits.



### 8.11.3 Employee Benefits

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees or for the termination of employment.

8.11.3.1 Types of Employee Benefits: Employee benefits include:



- (a) **Short-term Employee Benefits:** Short-term employee benefits are employee benefits (other than termination benefits) that are expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related services. It includes:
- (i) wages, salaries and social security contributions;
  - (ii) paid annual leave and paid sick leave;
  - (iii) profit-sharing and bonuses; and
  - (iv) non-monetary benefits (such as medical care, housing, cars and free or subsidised goods or services) for current employees;
- (b) **Post-employment Benefits:** Post-employment benefits are employee benefits (other than termination benefits and short-term employee benefits) that are payable after the completion of employment. Post-employment benefit plans are formal or informal arrangements under which an entity provides post-employment benefits for one or more employees, such as the following:
- (i) retirement benefits (e.g. pensions and lump sum payments on retirement); and
  - (ii) other post-employment benefits, such as post-employment life insurance and post-employment medical care;
- (c) **Other Long-term Employee Benefits:** Other long-term employee benefits are all employee benefits other than short-term employee benefits, post-employment benefits and termination benefits, such as the following:
- (i) long-term paid absences such as long-service leave or sabbatical leave;
  - (ii) jubilee or other long-service benefits; and
  - (iii) long-term disability benefits; and
- (d) **Termination Benefits:** Termination benefits are employee benefits provided in exchange for the termination of an employee's employment.

8.11.3.2 Settlement of Employee Benefits: Employee benefits include benefits provided:

- To employees or

- To their dependants or beneficiaries

And may be settled by payments (or the provision of goods or services) made either directly:

- To the employees; or
- To their spouses; or
- Children; or
- Other dependants; or
- To others, such as insurance companies.

An employee may provide services to an entity on:

- A full-time
- Part-time
- Permanent
- Casual or
- Temporary basis

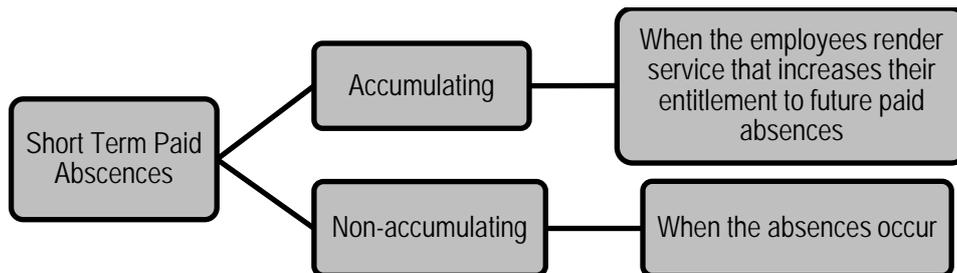
For the purpose of this Standard, employees include directors and other management personnel.

#### 8.11.4 Short-term Employee Benefits

When an employee has rendered service to an entity during an accounting period, the entity shall recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

- as a liability** (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, an entity shall recognise that excess as an **asset** (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund.
- as an expense**, unless another Ind AS requires or permits the inclusion of the benefits in the cost of an asset (For example, Ind AS 2, *'Inventories'*, and Ind AS 16, *'Property, Plant and Equipment'*).

**Short-term paid absences:** An entity shall recognise the expected cost of short-term employee benefits in the form of paid absences as follows:



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**Profit-sharing and bonus plans:** An entity shall recognise the expected cost of profit-sharing and bonus payments, only when:

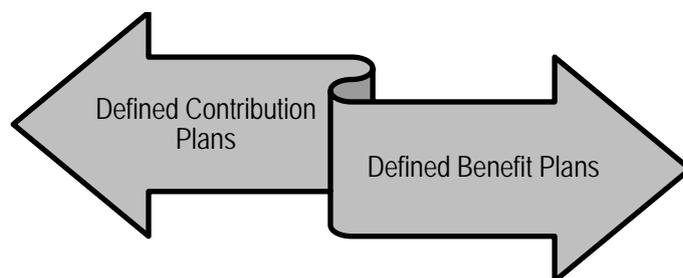
- (i) the entity has a present legal or constructive obligation to make such payments as a result of past events; and
- (ii) a reliable estimate of the obligation can be made.

A present obligation exists when, and only when, the entity has no realistic alternative but to make the payments.

### 8.11.5 Post-Employment Benefits

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Post-employment benefit plans are classified as either defined contribution plans or defined benefit plans, depending on the economic substance of the plan as derived from its principal terms and conditions.



**8.11.5.1 Defined Contribution Plans:** The entity's legal or constructive obligation is limited to the amount that it agrees to contribute to the fund. Thus, the amount of the post-employment benefits received by the employee is determined by the amount of contributions paid by an entity (and perhaps also the employee) to a post-employment benefit plan or to an insurance company, together with investment returns arising from the contributions.

In consequence, actuarial risk (that benefits will be less than expected) and investment risk (that assets invested will be insufficient to meet expected benefits) fall, in substance, on the employee.

**Recognition and measurement:** When an employee has rendered service to an entity during a period, the entity shall recognise the contribution payable to a defined contribution plan in exchange for that service:

- (a) as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the end of the reporting period, an entity shall recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund.
- (b) as an expense, unless another Ind AS requires or permits the inclusion of the contribution in the cost of an asset (For example, Ind AS 2 and Ind AS 16).

**Note:** When contributions to a defined contribution plan are not expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related service, they shall be discounted using discount rate.

**8.11.5.2 Defined Benefit Plans**

- The entity's obligation is to provide the agreed benefits to current and former employees; and
- Actuarial risk (that benefits will cost more than expected) and investment risk fall, in substance, on the entity. If actuarial or investment experience are worse than expected, the entity's obligation may be increased.

**Recognition and Measurement:**

	Determining the Deficit or Surplus	<ul style="list-style-type: none"> <li>• PUCM</li> <li>• Discounting</li> <li>• Fair Value of Plan Assets</li> </ul>
	Determining the amount of the Net Defined Benefit Liability (Asset)	
	Determining amounts to be recognised in Profit or Loss	<ul style="list-style-type: none"> <li>• Current Service Cost</li> <li>• Past Service Cost</li> <li>• Net Interest</li> </ul>
	Determining the remeasurements of the Net Defined Benefit Liability (Asset)	<ul style="list-style-type: none"> <li>• Actuarial Gain or Loss</li> <li>• Return on Plan Assets</li> <li>• Any Change in effect of Asset Ceiling</li> </ul>

Accounting by an entity for defined benefit plans involves the following steps:

- (A) Determining the deficit or surplus. This involves:
- (i) using an actuarial technique, the projected unit credit method, to make a reliable estimate of the ultimate cost to the entity of the benefit that employees have earned in return for their service in the current and prior periods.
  - (ii) discounting that benefit in order to determine the present value of the defined benefit obligation and the current service cost.
  - (iii) deducting the fair value of any plan assets from the present value of the defined benefit obligation.

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- (B) Determining the amount of the net defined benefit liability (asset) as the amount of the deficit or surplus determined in (A), adjusted for any effect of limiting a net defined benefit asset to the asset ceiling.
- (C) Determining amounts to be recognised in profit or loss:
  - (i) current service cost.
  - (ii) any past service cost and gain or loss on settlement.
  - (iii) net interest on the net defined benefit liability (asset).
- (D) Determining the remeasurements of the net defined benefit liability (asset), to be recognised in other comprehensive income, comprising:
  - (i) actuarial gains and losses;
  - (ii) return on plan assets, excluding amounts included in net interest on the net defined benefit liability (asset); and
  - (iii) any change in the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit liability (asset).

### 8.11.6 Other Long-term Employee Benefits

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Other long-term employee benefits are all employee benefits other than short-term employee benefits, post-employment benefits and termination benefits.

#### Recognition and Measurement

The Standard does not require the measurement of other long-term employee benefits to the same degree of uncertainty as the measurement of post-employment benefits. The Standard requires a simplified method of accounting for other long-term employee benefits. Unlike the accounting required for post-employment benefits, this method does not recognise remeasurements in other comprehensive income.

For other long-term employee benefits, an entity shall recognise the net total of the following amounts in profit or loss, except to the extent that another Ind AS requires or permits their inclusion in the cost of an asset:

- Service cost;
- Net interest on the net defined benefit liability (asset); and
- Remeasurements of the net defined benefit liability (asset).

### 8.11.7 Termination Benefits

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Termination benefits are employee benefits provided in exchange for the termination of an employee's employment as a result of either:

- (a) an entity's decision to terminate an employee's employment before the normal retirement date; or
- (b) an employee's decision to accept an offer of benefits in exchange for the termination of employment.

### Recognition and Measurement

An entity shall recognise a liability and expense for termination benefits at the earlier of the following dates:

- (a) when the entity can no longer withdraw the offer of those benefits; and
- (b) when the entity recognises costs for a restructuring that is within the scope of Ind AS 37 and involves the payment of termination benefits.

An entity shall measure termination benefits on initial recognition, and shall measure and recognise subsequent changes, in accordance with the nature of the employee benefit, provided that if the termination benefits are an enhancement to post-employment benefits, the entity shall apply the requirements for post-employment benefits. Otherwise:

- (i) if the termination benefits are expected to be settled wholly before twelve months after the end of the annual reporting period in which the termination benefit is recognised, the entity shall apply the requirements for short-term employee benefits.
- (ii) if the termination benefits are not expected to be settled wholly before twelve months after the end of the annual reporting period, the entity shall apply the requirements for other long-term employee benefits.

#### 8.11.8 Major Changes in Ind AS 19 vis-à-vis IAS\* 19 Not Resulting in Carve Outs

1. **Discount Rate:** According to Ind AS 19, the rate to be used to discount postemployment benefit obligations (both funded and unfunded) shall be determined by reference to the market yields on government bonds whereas under IAS 19, the government bonds can be used only where there is no deep market of high quality corporate bonds. However, requirements given in IAS 19 in this regard have been retained with appropriate modifications for currencies other than Indian rupee.
2. **Example on Gratuity:** To illustrate treatment of gratuity subject to ceiling under Indian Gratuity Rules, an example has been added in Ind AS 19.
3. **Appendix B of Ind AS 19:** In Appendix B of Ind AS 19, paragraph of IFRIC 14 dealing with reason for amending IFRIC 14 has not been included.

#### 8.11.9 Major Changes in Ind AS 19 vis-à-vis Notified AS 15

- (i) **Constructive Obligations:** In Ind AS 19, employee benefits arising from constructive obligations are also covered whereas the existing AS 15 does not deal with the same.
- (ii) **Definition of Employee:** As per the existing standard, the term 'employee' includes whole-time directors whereas under Ind AS 19 the term includes directors.
- (iii) **Other Definitions:** Definitions of short-term employee benefits, other long-term employee benefits, and past service cost as per the existing AS 15 have been changed in Ind AS 19.

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\* The term 'IFRS' includes not only the International Financial Reporting Standards (IFRSs) issued by the IASB, it also includes the International Accounting Standards (IASs), IFRICs and SICs.

- (iv) **Contractual Agreement between a Multi-employer Plan and its Participants:** Ind AS 19 deals with situations where there is a contractual agreement between a multi-employer plan and its participants that determines how the surplus in the plan will be distributed to the participants (or the deficit funded). The existing AS 15 does not deal with it.
- (v) **Participation in a Defined Benefit Plan Sharing Risks Between Various Entities under Common Control:** As per Ind AS 19, participation in a defined benefit plan sharing risks between various entities under common control is a related party transaction for each group entity and some disclosures are required in the separate or individual financial statements of an entity whereas the existing AS 15 does not contain similar provisions.
- (vi) **Qualified Actuary:** Ind AS 19 encourages, but does not require, an entity to involve a qualified actuary in the measurement of all material post-employment benefit obligations whereas the existing standard, though does not require involvement of a qualified actuary, does not specifically encourage the same.
- (vii) **Recognition of Actuarial Gains and Losses:** Actuarial valuation is based on certain assumptions. Changes in these assumptions give rise to actuarial gains and losses, for example, changes in estimates of salary or medical cost. Existing AS 15 requires recognition of actuarial gains and losses immediately in the profit and loss but Ind AS 19 requires that the same shall be recognised in other comprehensive income and should not be recognised in profit or loss.
- (viii) **Financial Assumptions:** Ind AS 19 makes it clear that financial assumptions shall be based on market expectations, at the end of the reporting period, for the period over which the obligations are to be settled whereas the existing standard does not clarify the same.
- (ix) **Discounting of Post-employment Benefit Obligations:** As per Ind AS 19, subsidiaries, associates, joint ventures and branches domiciled outside India shall discount post-employment benefit obligations arising on account of post-employment benefit plans using the rate determined by reference to market yields at the end of the reporting period on high quality corporate bonds. In case, such subsidiaries, associates, joint ventures and branches are domiciled in countries where there is no deep market in such bonds, the market yields (at the end of the reporting period) on government bonds of that country shall be used.
- As per existing AS 15, the rate used to discount post-employment benefit obligations should always be determined by reference to market yields at the balance sheet date on government bond.
- (x) **Timing of Recognition of Termination Benefits:** Under Ind AS 19, more guidance has been given for timing of recognition of termination benefits. Recognition criteria for termination benefits under the revised standard differ from the criteria prescribed in the existing standard.
- (xi) **Guidance on Interaction of Ceiling of Asset Recognition and Minimum Funding Requirement:** Ind AS 19 gives guidance on the interaction of ceiling of asset recognition and minimum funding requirement in the case of defined benefit obligations, whereas this guidance is not available in the existing standard.

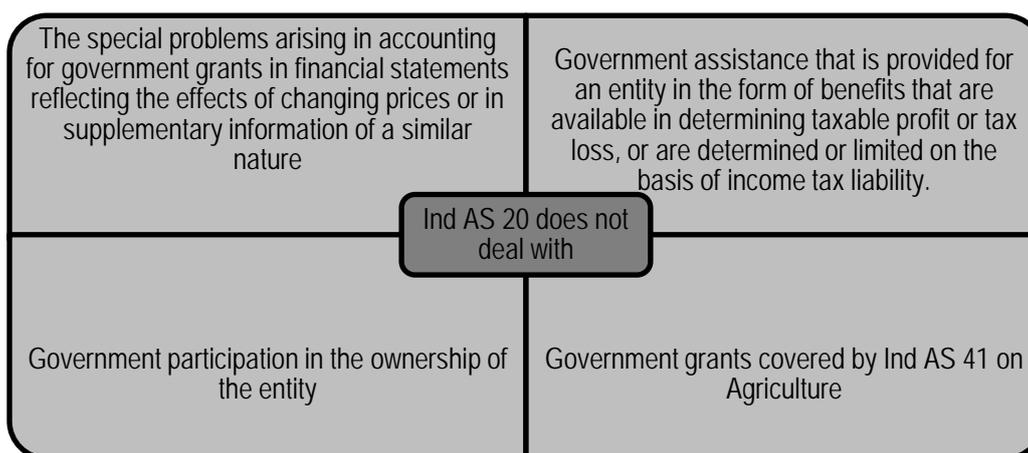
**8.12 Ind AS 20: Accounting for Government Grants and Disclosure of Government Assistance**

**8.12.1 Scope**

This Standard shall be applied in:

- Accounting for and the disclosure of government grants and
- In the disclosure of other forms of government assistance.

This Standard does not deal with:



**8.12.2 Government Grants**

Government grants are sometimes called by other names such as subsidies, subventions, or premiums.

Government grants are

- assistance by **government**
- in the form of transfers of resources to an entity in return for past or future compliance with certain conditions
- relating to the operating activities of the entity.

They exclude those forms of government assistance which cannot reasonably have a value placed upon them and transactions with government which cannot be distinguished from the normal trading transactions of the entity.

**8.12.2.1 Forgivable Loan:** Forgivable loans are loans which the lender undertakes to waive repayment under certain prescribed conditions.

A forgivable loan from government is treated as a government grant when there is reasonable assurance that the entity will meet the terms for forgiveness of the loan.

**8.12.2.2 Government Loan at a below Market Rate of Interest:** The benefit of a government loan at a below-market rate of interest is treated as a government grant.

## 2.80 Financial Reporting

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The loan shall be recognised and measured in accordance with Ind AS 109 Financial Instruments: Recognition and Measurement. The benefit of the below-market rate of interest shall be measured as the difference between the initial carrying value of the loan determined in accordance with Ind AS 109 and the proceeds received.

The benefit is accounted for in accordance with this Standard. The entity shall consider the conditions and obligations that have been, or must be, met when identifying the costs for which the benefit of the loan is intended to compensate.

### 8.12.3 Government Assistance

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- is action by government
- designed to provide an economic benefit specific to an entity or range of entities qualifying under certain criteria.

Government assistance for the purpose of this Standard does not include benefits provided only indirectly through action affecting general trading conditions, such as the provision of infrastructure in development areas or the imposition of trading constraints on competitors.

In this Standard, government assistance does not include the provision of infrastructure by improvement to the general transport and communication network and the supply of improved facilities such as irrigation or water reticulation which is available on an ongoing indeterminate basis for the benefit of an entire local community.

### 8.12.4 Recognition and Presentation of Government Grants

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Government grants, including non-monetary grants at fair value, shall not be recognised until there is reasonable assurance that:

- (a) the entity will comply with the conditions attaching to them; and
- (b) the grants will be received.

A government grant may take the form of a transfer of a non-monetary asset, such as land or other resources, for the use of the entity. In these circumstances, the fair value of the non-monetary asset is assessed and both grant and asset are accounted for at that fair value.

Government grants shall be recognised in profit or loss on a systematic basis over the periods in which the entity recognises as expenses the related costs for which the grants are intended to compensate.

**8.12.4.1 Grants Related to Assets:** Grants related to assets are Government grants whose primary condition is that an entity qualifying for them should purchase, construct or otherwise acquire long-term assets. Subsidiary conditions may also be attached restricting the type or location of the assets or the periods during which they are to be acquired or held.

Government grants related to assets, including non-monetary grants at fair value, shall be presented in the balance sheet by setting up the grant as deferred income.

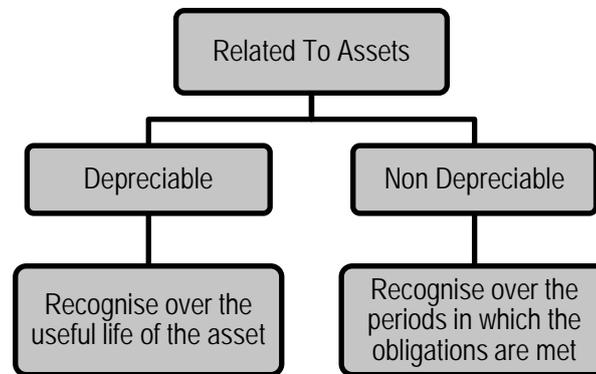
1. **Grants Related to Depreciable Assets:** Grants related to depreciable assets are usually recognised in profit or loss over the periods and in the proportions in which depreciation expense on those assets is recognised.

2. **Grants Related to Non-depreciable Assets:** Grants related to non-depreciable assets may also require the fulfilment of certain obligations and would then be recognised in profit or loss over the periods that bear the cost of meeting the obligations.

**For example:** A grant of land may be conditional upon the erection of a building on the site and it may be appropriate to recognise the grant in profit or loss over the life of the building.

**Presentation of Grants Related to Assets:** Government grants related to assets, including non-monetary grants at fair value, shall be

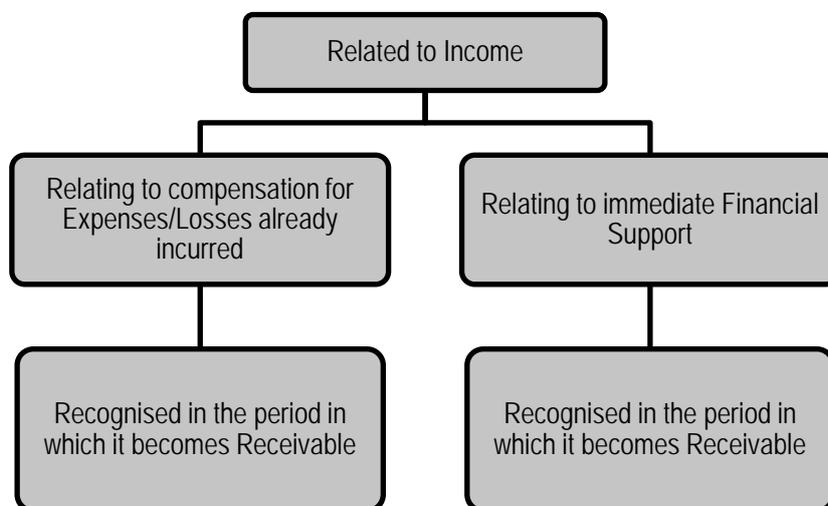
- Presented in the balance sheet by setting up the grant as deferred income.
- The grant set up as deferred income is recognised in profit or loss on a systematic basis over the useful life of the asset.
- The purchase of assets and the receipt of related grants can cause major movements in the cash flow of an entity. For this reason and in order to show the gross investment in assets, such movements are disclosed as separate items in the statement of cash flows (as a Financing Activity).



**8.12.4.2 Grants related to Income:** Grants related to income are Government grants other than those related to assets. Grants related to income are presented as part of profit or loss, either separately or under a general heading such as 'Other income'; alternatively, they are deducted in reporting the related expenses.

**Presentation of Grants related to Income:** Grants related to income are presented as a

- As a part of profit and loss, either separately or under a general heading such as 'Other income';
- Alternatively, they are deducted in reporting the related expense.



**8.12.4.3 Grants Receivable as Compensation for Expenses or Losses with no Future Related Costs:** A government grant that becomes receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the entity with no future related costs shall be recognised in profit or loss of the period in which it becomes receivable.

**8.12.4.4 Grants Received as a Package:** Grants are sometimes received as part of a package of financial or fiscal aids to which a number of conditions are attached. In such cases, care is needed in identifying the conditions giving rise to costs and expenses which determine the periods over which the grant will be earned. It may be appropriate to allocate part of a grant on one basis and part on another.

### 8.12.5 Repayment of Government Grants

A government grant that becomes repayable shall be accounted for as a change in accounting estimate as per Ind AS 8 'Accounting Policies, Changes in Accounting Estimates and Errors'.

**8.12.5.1 Repayment of a Grant Related to Income:** Repayment of a grant related to income shall be applied first against any unamortised deferred credit recognised in respect of the grant.

To the extent that the repayment exceeds any such deferred credit, or when no deferred credit exists, the repayment shall be recognised immediately in profit or loss.

**8.12.5.2 Repayment of a Grant Related to an Asset:** Repayment of a grant related to an asset shall be recognised by reducing the deferred income balance by the amount repayable.

### 8.12.6 Government Assistance

Excluded from the definition of government grants are certain forms of government assistance which cannot reasonably have a value placed upon them and transactions with government which cannot be distinguished from the normal trading transactions of the entity.

Examples of assistance that cannot reasonably have a value placed upon them are:

- Free technical or marketing advice and
- The provision of guarantees.

Appendix A of Ind AS 20 address the issue that whether government assistance is a government grant within the scope of Ind AS 20 and, therefore, should be accounted for in accordance within the Standard. The Appendix prescribes that government assistance to entities meets the definition of government grants in Ind AS 20, even if there are no conditions specifically relating to the operating activities of the entity other than the requirement to operate in certain regions or industry sectors. The Appendix provides that such grants shall not be credited directly to shareholders' interests.

#### 8.12.7 Disclosures

The following matters shall be disclosed:

- (a) the accounting policy adopted for government grants, including the methods of presentation adopted in the financial statements;
- (b) the nature and extent of government grants recognised in the financial statements and an indication of other forms of government assistance from which the entity has directly benefited; and
- (c) unfulfilled conditions and other contingencies attaching to government assistance that has been recognised.

#### 8.12.8 Major Changes in Ind AS 20 vis-à-vis IAS\* 20 Not Resulting in Carve Outs

1. **Non-Monetary Grant:** IAS 20 gives an option to measure non-monetary government grants either at their fair value or at nominal value. Ind AS 20 requires measurement of such grants only at their fair value. Thus, the option to measure these grants at nominal value is not available under Ind AS 20.
2. **Grant related to Assets:** IAS 20 gives an option to present the grants related to assets, including non-monetary grants at fair value in the balance sheet either by setting up the grant as deferred income or by deducting the grant in arriving at the carrying amount of the asset. Ind AS 20 requires presentation of such grants in balance sheet only by setting up the grant as deferred income. Thus, the option to present such grants by deduction of the grant in arriving at the carrying amount of the asset is not available under Ind AS 20.
3. **Presentation of Grants Related to Income:** IAS 20 requires presentation of grants related to income in the separate income statement. This requirement is not provided in Ind AS 20 consequential to the removal of option regarding two statement approach in Ind AS 1. Ind AS 1 requires that the components of profit or loss and components of other comprehensive income shall be presented as a part of the statement of profit and loss.

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\* The term 'IFRS' includes not only the International Financial Reporting Standards (IFRSs) issued by the IASB, it also includes the International Accounting Standards (IASs), IFRICs and SICs.

**8.12.9 Major Changes in Ind AS 20 vis-à-vis Notified AS 12**

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- (i) **Government Assistance which does not fall within the Definition of Government Grants:** Ind AS 20 deals with the other forms of government assistance which do not fall within the definition of government grants. It requires that an indication of other forms of government assistance from which the entity has directly benefited should be disclosed in the financial statements. However, AS 12 does not deal with such government assistance.
- (ii) **Grant in respect of Non Depreciable Assets:** AS 12 requires that in case the grant is in respect of non-depreciable assets, the amount of the grant should be shown as capital reserve which is a part of shareholders' funds. It further requires that if a grant related to a non-depreciable asset requires the fulfilment of certain obligations, the grant should be credited to income over the same period over which the cost of meeting such obligations is charged to income. AS 12 also gives an alternative to treat such grants as a deduction from the cost of such asset.

As compared to the above, Ind AS 20, is based on the principle that all government grants would normally have certain obligations attached to them and these grants should be recognised as income over the periods which bear the cost of meeting the obligation. It, therefore, specifically prohibits recognition of grants directly in the shareholders' funds.

- (iii) **Government Grants in the Nature of Promoters Contribution:** AS 12 recognises that some government grants have the characteristics similar to those of promoters' contribution. It requires that such grants should be credited directly to capital reserve and treated as a part of shareholders' funds. Ind AS 20 does not recognise government grants of the nature of promoters' contribution. As stated at (ii) above, Ind AS 20 is based on the principle that all government grants would normally have certain obligations attached to them and it, accordingly, requires all grants to be recognised as income over the periods which bear the cost of meeting the obligation.
- (iv) **Valuation of Non-monetary Grants given Free or at a Concessional Rate:** AS 12 requires that government grants in the form of non-monetary assets, given at a concessional rate, should be accounted for on the basis of their acquisition cost. In case a non-monetary asset is given free of cost, it should be recorded at a nominal value. Ind AS 20 requires to value non-monetary grants at their fair value, since it results into presentation of more relevant information and is conceptually superior as compared to valuation at a nominal amount.
- (v) **Accounting for Grant Related to Assets including Non-monetary Grant:** Existing AS 12 gives an option to present the grants related to assets, including non-monetary grants at fair value in the balance sheet either by setting up the grant as deferred income or by deducting the grant from the gross value of asset concerned in arriving at its book value. Ind AS 20 requires presentation of such grants in balance sheet only by setting up the grant as deferred income. Thus, the option to present such grants by deduction of the grant in arriving at its book value is not available under Ind AS 20.
- (vi) **Government Assistance:** Ind AS 20 includes Appendix A which deals with Government Assistance—No Specific Relation to Operating Activities.

(vii) **Loans at Concessional Rate:** Ind AS 20 requires that loans received from a government that have a below-market rate of interest should be recognised and measured in accordance with Ind AS 109 (which requires all loans to be recognised at fair value, thus requiring interest to be imputed to loans with a below-market rate of interest) whereas AS 12 does not require so.

## 8.13 Ind AS 21: The Effects of Changes in Foreign Exchange Rates

### 8.13.1 Objective

An entity may carry on foreign activities in two ways:

1. It may have transactions in foreign currencies or
2. It may have foreign operations.

In addition, an entity may present its financial statements in a foreign currency.

The objective of this Standard is to prescribe how to:

-  Include foreign currency transactions and foreign operations in the financial statements of an entity
-  How to translate financial statements into a presentation currency

The principal issues are which exchange rate(s) to use and how to report the effects of changes in exchange rates in the financial statements.

### 8.13.2 Scope

This Standard shall be applied:

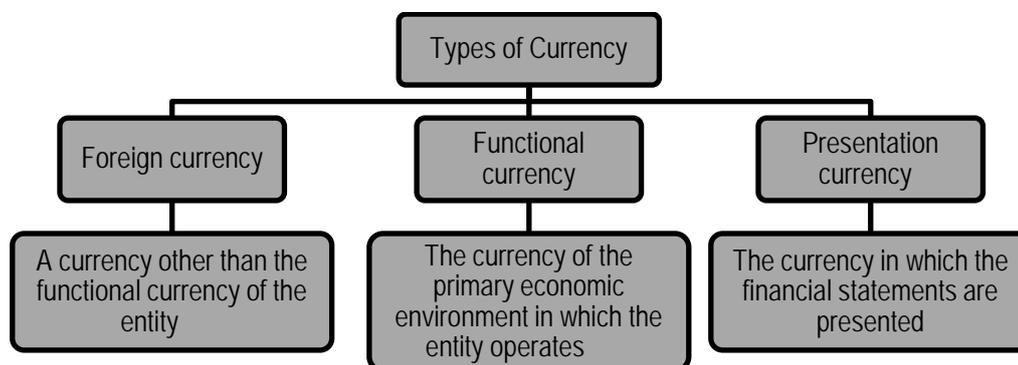
- (a) in accounting for transactions and balances in foreign currencies
- (b) in translating the results and financial position of foreign operations that are included in the financial statements of the entity by consolidation or the equity method; and
- (c) in translating an entity's results and financial position into a presentation currency.

This Standard does not apply to

- (a) hedge accounting for foreign currency items, including the hedging of a net investment in a foreign operation. Ind AS 109 applies to hedge accounting.
- (b) the presentation in a statement of cash flows of the cash flows arising from transactions in a foreign currency, or to the translation of cash flows of a foreign operation
- (c) long-term foreign currency monetary items for which an entity has opted for the exemption.

### 8.13.3 Types of Currency

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### 8.13.4 Functional Currency

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Functional currency is the currency of the primary economic environment in which the entity operates. The primary economic environment in which an entity operates is normally the one in which it primarily generates and expends cash. An entity considers the following factors in determining its functional currency:

- (a) the currency:
  - (i) that mainly influences sales prices for goods and services (this will often be the currency in which sales prices for its goods and services are denominated and settled); and
  - (ii) of the country whose competitive forces and regulations mainly determine the sales prices of its goods and services.
- (b) the currency that mainly influences labour, material and other costs of providing goods or services (this will often be the currency in which such costs are denominated and settled).

The following factors may also provide evidence of an entity's functional currency:

- (a) the currency in which funds from financing activities (i.e. issuing debt and equity instruments) are generated.
- (b) the currency in which receipts from operating activities are usually retained.

**Change in Functional Currency:** When there is a change in an entity's functional currency, the entity shall apply the translation procedures applicable to the new functional currency prospectively from the date of the change.

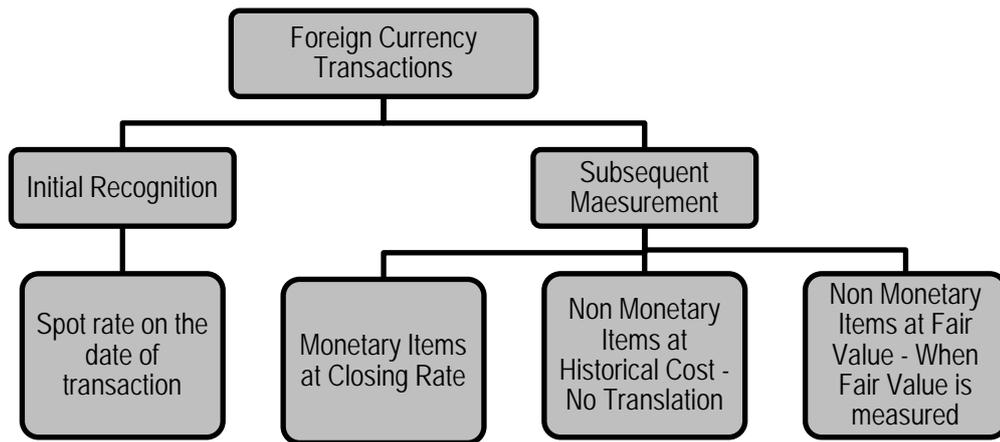
### 8.13.5 Reporting Foreign Currency Transactions in the Functional Currency

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**8.13.5.1 Initial Recognition:** A foreign currency transaction shall be recorded, on initial recognition in the functional currency, by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction.

**8.13.5.2 Reporting at the End of Subsequent Reporting Periods:** At the end of each reporting period:

- (a) foreign currency monetary items shall be translated using the closing rate;
- (b) non-monetary items that are measured in terms of historical cost in a foreign currency shall be translated using the exchange rate at the date of the transaction; and
- (c) non-monetary items that are measured at fair value in a foreign currency shall be translated using the exchange rates at the date when the fair value was measured.



**8.13.5.3 Recognition of Exchange Differences:** Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the period or in previous financial statements shall be recognised in profit or loss in the period in which they arise.

When a gain or loss on a non-monetary item is recognised in other comprehensive income, any exchange component of that gain or loss shall be recognised in other comprehensive income. Conversely, when a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss shall be recognised in profit or loss.

Exchange differences arising on a monetary item that forms part of a reporting entity's net investment in a foreign operation shall be recognised in profit or loss in the separate financial statements of the reporting entity or the individual financial statements of the foreign operation, as appropriate. In the financial statements that include the foreign operation and the reporting entity (e.g. consolidated financial statements when the foreign operation is a subsidiary), such exchange differences shall be recognised initially in other comprehensive income and reclassified from equity to profit or loss on disposal of the net investment.

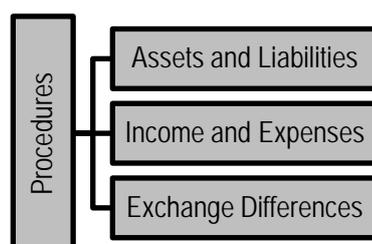
**8.13.6 Translation to the Presentation Currency from/other than the Functional Currency**

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An entity may present its financial statements in any currency (or currencies). If the presentation currency differs from the entity's functional currency, it translates its results and financial position into the presentation currency.

For example, when a group contains individual entities with different functional currencies, the results and financial position of each entity are expressed in a common currency so that consolidated financial statements may be presented.

**8.13.6.1 The Results and Financial Position of an Entity whose Functional Currency is NOT the Currency of a Hyperinflationary Economy :** The results and financial position of an entity whose functional currency is NOT the currency of a hyperinflationary economy shall be translated into a different presentation currency using the following procedures:



1. **Assets and liabilities for each balance sheet presented (i.e. including comparatives):** Translated at the closing rate at the date of that balance sheet
2. **Income and expenses for each statement of profit and loss presented (i.e. including comparatives):** Translated at exchange rates at the dates of the transactions.
3. **All resulting exchange differences:** Recognised in other comprehensive income

**8.13.6.2 The Results and Financial Position of an Entity whose Functional Currency is the Currency of a Hyperinflationary Economy:** The results and financial position of an entity whose functional currency is the currency of a hyperinflationary economy shall be translated into a different presentation currency using the following procedures:

- (a) all amounts (i.e. assets, liabilities, equity items, income and expenses, including comparatives) shall be translated at the closing rate at the date of the most recent balance sheet, except that
- (b) when amounts are translated into the currency of a non-hyperinflationary economy, comparative amounts shall be those that were presented as current year amounts in the relevant prior year financial statements (i.e. not adjusted for subsequent changes in the price level or subsequent changes in exchange rates).

### 8.13.7 Foreign Operation

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Foreign operation is an entity that is a Subsidiary, Associate, Joint arrangement or Branch of a reporting entity the activities of which are based or conducted in a country or currency other than those of the reporting entity.

**8.13.7.1 Approach required by this Standard**

- In preparing financial statements, each entity—whether a stand-alone entity, an entity with foreign operations (such as a parent) or a foreign operation (such as a subsidiary or branch)—determines its functional currency.
- Many reporting entities comprise a number of individual entities (e.g. A group is made up of a parent and one or more subsidiaries). It is necessary for the results and financial position of each individual entity included in the reporting entity to be translated into the currency in which the reporting entity presents its financial statements. This Standard permits the presentation currency of a reporting entity to be any currency (or currencies). The results and financial position of any individual entity within the reporting entity whose functional currency differs from the presentation currency are translated in accordance with this AS.
- This Standard also permits a stand-alone entity preparing financial statements or an entity preparing separate financial statements in accordance with Ind AS 27, 'Separate Financial Statements', to present its financial statements in any currency (or currencies). If the entity's presentation currency differs from its functional currency, its results and financial position are also translated into the presentation currency.

**8.13.7.2 Translation of a Foreign Operation:** Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of that foreign operation shall be treated as assets and liabilities of the foreign operation. Thus they shall be expressed in the functional currency of the foreign operation and shall be translated at the closing rate.

**8.13.7.3 Disposal or Partial Disposal of a Foreign Operation:** On the disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation, recognised in other comprehensive income and accumulated in the separate component of equity, shall be reclassified from equity to profit or loss (as a reclassification adjustment) when the gain or loss on disposal is recognised (Ind AS 1, Presentation of Financial Statements).

On the partial disposal of a subsidiary that includes a foreign operation, the entity shall re-attribute the proportionate share of the cumulative amount of the exchange differences recognised in other comprehensive income to the non-controlling interests in that foreign operation. In any other partial disposal of a foreign operation the entity shall reclassify to profit or loss only the proportionate share of the cumulative amount of the exchange differences recognised in other comprehensive income.

**8.13.8 Major Change in Ind AS 21 vis-à-vis IAS\* 21 Not Resulting in Carve Out**

***In case of Change in Functional Currency:*** When there is a change in functional currency, IAS 21 requires disclosure of that fact and the reason for the change in functional currency. Ind AS 21 requires an additional disclosure of the date of change in functional currency.

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\* The term 'IFRS' includes not only the International Financial Reporting Standards (IFRSs) issued by the IASB, it also includes the International Accounting Standards (IASs), IFRICs and SICs.

### 8.13.9 Major Changes in Ind AS 21 vis-à-vis Notified AS 11

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- (i) **Forward Exchange Contracts and other similar Financial Instruments:** Ind AS 21 excludes from its scope forward exchange contracts and other similar financial instruments, which are treated in accordance with Ind AS 109. The existing AS 11 does not such exclude accounting for such contracts.
- (ii) **Exchange Differences arising on Translation of Certain Long-term Monetary Items from Foreign Currency to Functional Currency:** Existing AS 11, gives an option to recognise exchange differences arising on translation of certain long-term monetary items from foreign currency to functional currency directly in equity, to be transferred to profit or loss over the life of the relevant liability/asset if such items are not related to acquisition of fixed assets. Where such items are related to acquisition of fixed assets, the foreign exchange differences can be recognised as part of the cost of the asset.

Ind AS 21 does not give the above option. However, Ind AS 21 does not apply to long-term foreign currency monetary items recognised in the financial statements before the beginning of the first Ind AS financial reporting period as per the previous GAAP, i.e. AS 11. However, as provided in Ind AS 101, such an entity may continue to apply the accounting policy so opted for such long-term foreign currency monetary items as per the previous GAAP.

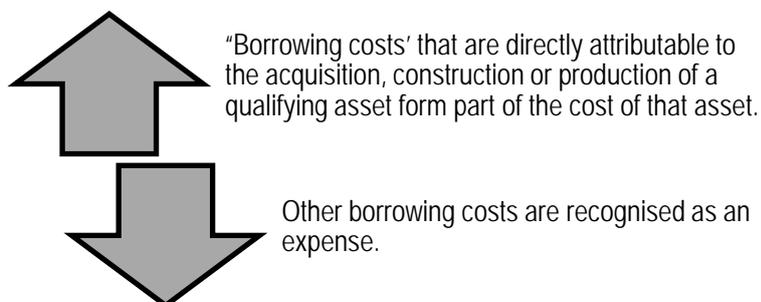
- (iii) **Approach for Translation:** The existing AS 11 is based on integral foreign operations and non-integral foreign operations approach for accounting for a foreign operation, whereas Ind AS 21 is based on the functional currency approach. However, in Ind AS 21 the factors to be considered in determining an entity's functional currency are similar to the indicators in existing AS 11 to determine the foreign operations as non-integral foreign operations. As a result, despite the difference in the term, there are no substantive differences in respect of accounting of a foreign operation.
- (iv) **Presentation Currency:** As per Ind AS 21, presentation currency can be different from local currency and it gives detailed guidance in this regard, whereas the existing AS 11 does not explicitly state so.

## 8.14 Ind AS 23: Borrowing Costs

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### 8.14.1 Core Principle

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**8.14.2 Scope**

- An entity shall apply this Standard in accounting for borrowing costs.
- The Standard does not deal with the actual or imputed cost of equity, including preferred capital **not classified as a liability (Irredeemable Preferred Capital)**.

An entity is **not required** to apply the Standard to borrowing costs directly attributable to the acquisition, construction or production of:

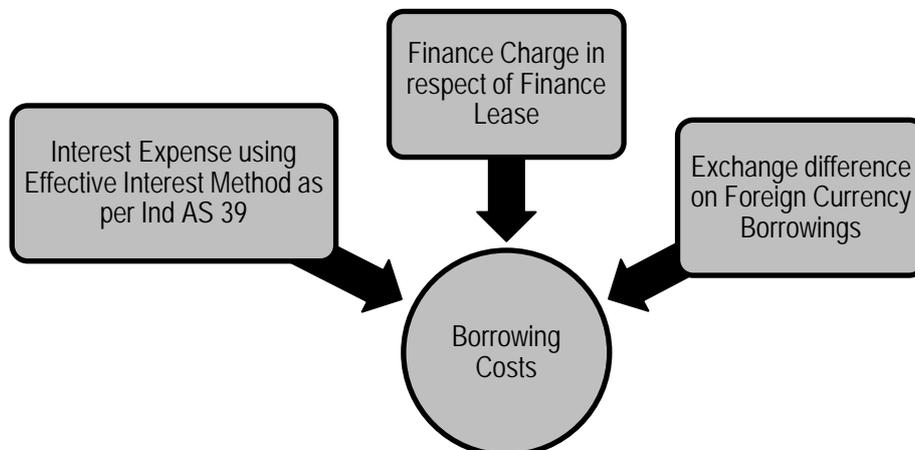
- A qualifying asset measured at fair value {For example: A biological asset}
- Inventories that are manufactured, or otherwise produced, in large quantities on a repetitive basis

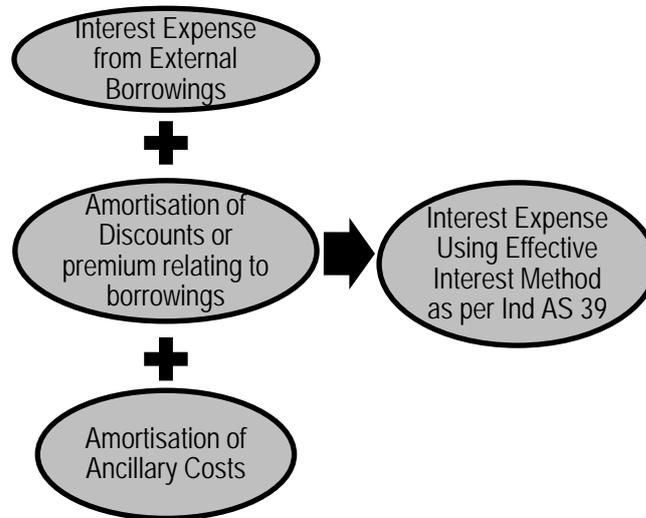
**8.14.3 Borrowing Costs**

Borrowing costs are **interest and other costs** that an entity incurs in connection with the borrowing of funds.

Borrowing costs may include:

1. interest expense calculated using the effective interest method as described in Ind AS 39 '*Financial Instruments: Recognition and Measurement*';
2. finance charges in respect of finance leases recognised in accordance with Ind AS 17 '*Leases*'; and
3. exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs.





#### 8.14.4 Exchange Difference

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With regard to exchange difference required to be treated as borrowing cost, the manner of arriving at the adjustments stated therein shall be as follows:

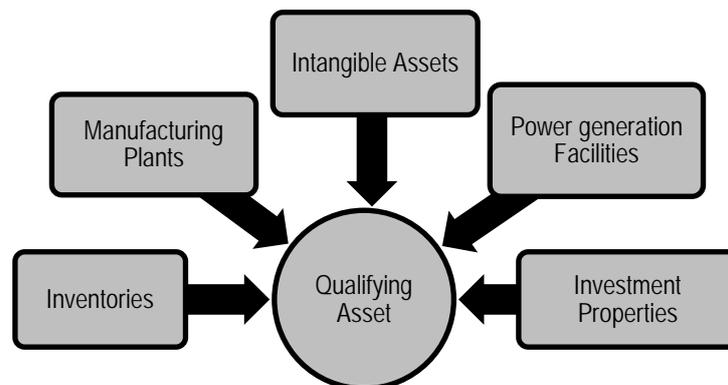
- (i) the adjustment should be of an amount which is equivalent to the extent to which the exchange loss does not exceed the difference between the cost of borrowing in functional currency when compared to the cost of borrowing in a foreign currency.
- (j) where there is an unrealised exchange loss which is treated as an adjustment to interest and subsequently there is a realised or unrealised gain in respect of the settlement or translation of the same borrowing, the gain to the extent of the loss previously recognised as an adjustment should also be recognised as an adjustment to interest.

#### 8.14.5 Qualifying Asset

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A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale.

Depending on the circumstances, any of the following may be qualifying assets:

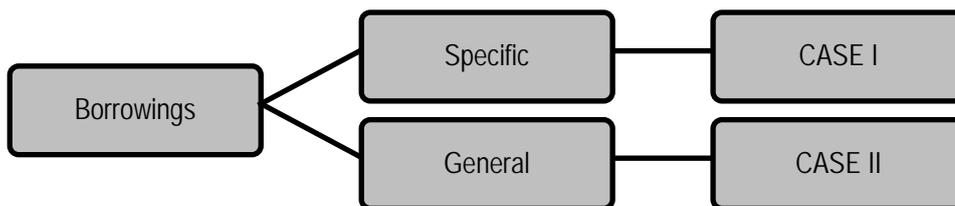


Financial assets, and inventories that are manufactured, or otherwise produced, over a short period of time, are not qualifying assets. Assets that are ready for their intended use or sale when acquired are not qualifying assets.

### 8.14.6 Recognition

**Principle 1:** An entity shall capitalise borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset.

**Principle 2:** An entity shall recognise other borrowing costs as an expense in the period in which it incurs them.



**CASE I:** To the extent that an entity borrows funds specifically for the purpose of obtaining a qualifying asset, the entity shall determine:

The amount of borrowing costs eligible for capitalisation as the actual borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of those borrowings

**CASE II:** To the extent that an entity borrows funds generally and uses them for the purpose of obtaining a qualifying asset, the entity shall determine the amount of borrowing costs eligible for capitalisation by applying a capitalisation rate to the expenditures on that asset.

The capitalisation rate shall be the weighted average of the borrowing costs applicable to the borrowings of the entity that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

The amount of borrowing costs that an entity capitalises during a period shall not exceed the amount of borrowing costs it incurred during that period.

**8.14.6.1 Commencement of Capitalisation:** An entity shall begin capitalising borrowing costs as part of the cost of a qualifying asset on the commencement date.

The commencement date for capitalisation is the date when the entity first meets ALL of the following conditions:

- (a) it incurs expenditures for the asset;
- (b) it incurs borrowing costs; and
- (c) it undertakes activities that are necessary to prepare the asset for its intended use or sale.

**8.14.6.2 Suspension of Capitalisation:** An entity shall suspend capitalisation of borrowing costs during extended periods in which it suspends active development of a qualifying asset.

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An entity may incur borrowing costs during an extended period in which it suspends the activities necessary to prepare an asset for its intended use or sale. Such costs are costs of holding partially completed assets and do not qualify for capitalisation.

### Exception:

1. An entity does not normally suspend capitalising borrowing costs during a period when it carries out substantial technical and administrative work.
2. An entity also does not suspend capitalising borrowing costs when a temporary delay is a necessary part of the process of getting an asset ready for its intended use or sale.

**For example:** Capitalisation continues during the extended period that high water levels delay construction of a bridge, if such high water levels are common during the construction period in the geographical region involved.

**8.14.6.3 Cessation of Capitalisation:** An entity shall cease capitalising borrowing costs when **substantially all the activities** necessary to prepare the qualifying asset for its intended use or sale are complete.

### 8.14.7 Disclosures

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An entity shall disclose

- (a) the amount of borrowing costs capitalised during the period; and
- (b) the capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation.

### 8.14.8 Major Change in Ind AS 23 vis-à-vis IAS\* 23 Not Resulting in Carve Out

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**Exchange Difference:** IAS 23 provides no guidance as to how the adjustment for exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs (as prescribed in paragraph 6(e)) is to be determined. Ind AS 23 provides guidance in this regard.

### 8.14.9 Major Changes in Ind AS 23 vis-à-vis Notified AS 16

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- (i) **Qualifying Asset measured at Fair Value:** Ind AS 23 does not require an entity to apply this standard to borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset measured at fair value, for example, a biological asset whereas the existing AS 16 does not provide for such scope relaxation.
- (ii) **Applicability to Inventories:** Ind AS 23 excludes the application of this Standard to borrowing costs directly attributable to the acquisition, construction or production of inventories that are manufactured, or otherwise produced, in large quantities on a repetitive basis whereas existing AS 16 does not provide for such scope relaxation and is applicable

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\* The term 'IFRS' includes not only the International Financial Reporting Standards (IFRSs) issued by the IASB, it also includes the International Accounting Standards (IASs), IFRICs and SICs.

to borrowing costs related to all inventories that require substantial period of time to bring them in saleable condition.

(iii) **Inclusion as Borrowing Costs:** As per existing AS 16, *Borrowing Costs*, inter alia, include the following:

- interest and commitment charges on bank borrowings and other short-term and long-term borrowings;
- amortisation of discounts or premiums relating to borrowings;
- amortisation of ancillary costs incurred in connection with the arrangement of borrowings;

Ind AS 23 requires to calculate the interest expense using the effective interest rate method as described in Ind AS 109. Certain items therein have been deleted, as some of those components of borrowing costs are considered as the components of interest expense calculated using the effective interest rate method.

(iv) **Explanation of Substantial Period of Time:** Existing AS 16 gives explanation for meaning of 'substantial period of time' appearing in the definition of the term 'qualifying asset'. This explanation is not included in Ind AS 23.

(v) **Reporting in Hyperinflationary Economies:** Ind AS 23 provides that when Ind AS 29, '*Financial Reporting in Hyperinflationary Economies*', is applied, part of the borrowing costs that compensates for inflation should be expensed as required by that Standard (and not capitalized in respect of qualifying assets). The existing AS 16 does not contain a similar clarification because at present, in India, there is no Standard on '*Financial Reporting in Hyperinflationary Economies*'.

(vi) **Borrowings of the Parent and its Subsidiaries for Computing Weighted Average:** Ind AS 23 specifically provides that in some circumstances, it is appropriate to include all borrowings of the parent and its subsidiaries when computing a weighted average of the borrowing costs while in other circumstances, it is appropriate for each subsidiary to use a weighted average of the borrowing costs applicable to its own borrowings. This specific provision is not there in the existing AS 16.

(vii) **Disclosure of Capitalisation Rate:** Ind AS 23 requires disclosure of capitalization rate used to determine the amount of borrowing costs eligible for capitalization. The existing AS 16 does not have this disclosure requirement.

## 8.15 Ind AS 24: Related Party Disclosures

### 8.15.1 Objective

The objective of this Standard is to ensure that an entity's financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and profit or loss may have been affected by the existence of related parties and by transactions and outstanding balances, including commitments, with such parties.

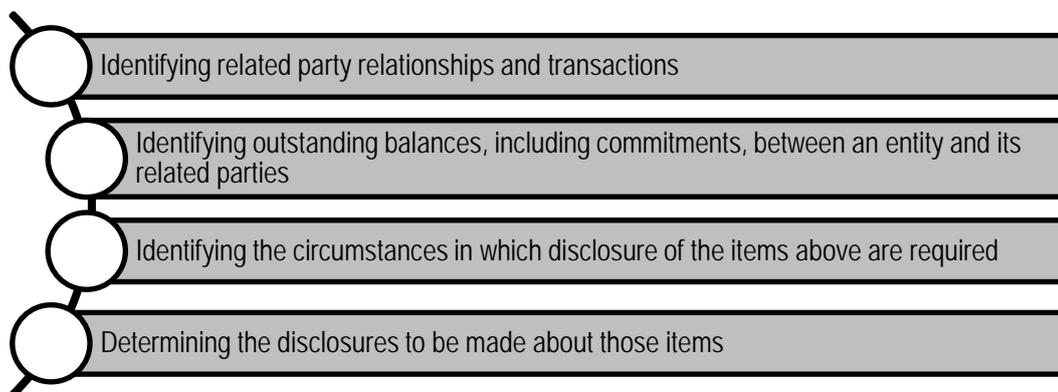
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### 8.15.2 Scope

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This Standard shall be applied in:



This Standard requires disclosure of:

- related party relationships,
- transactions and
- outstanding balances, including commitments,

In the consolidated and separate financial statements of:

- a parent,
- or investors with joint control of, or significant influence over, an investee

Presented in accordance with Indian Accounting Standard (Ind AS) 110 or 27 'Consolidated' and 'Separate Financial Statements'. This Standard also applies to individual financial statements.

This Standard shall not be applied:

- in circumstances where providing such disclosures would conflict with the reporting entity's duties of confidentiality as specifically required in terms of a statute or by any regulator or similar competent authority.
- In case a statute or a regulator or a similar competent authority governing an entity prohibits the entity to disclose certain information which is required to be disclosed as per this Standard, disclosure of such information is not warranted. For example, banks are obliged by law to maintain confidentiality in respect of their customers' transactions and this Standard would not override the obligation to preserve the confidentiality of customers' dealings.

### 8.15.3 Definition of Related Party and Related Party Transactions

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**8.15.3.1** A **related party** is a person or entity that is related to the entity that is preparing its financial statements (in this Standard referred to as the 'reporting entity').

- (a) A person or a close member of that person's family is related to a reporting entity if that person:
- (i) has control or joint control of the reporting entity;
  - (ii) has significant influence over the reporting entity; or
  - (iii) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.

Where,

**Close members of the family of a person** are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity including:

- (a) that person's children, spouse or domestic partner, brother, sister, father and mother;
- (b) children of that person's spouse or domestic partner; and
- (c) dependants of that person or that person's spouse or domestic partner.

The terms '**Control**' and '**Investment entity**', '**Joint Control**' and '**Significant Influence**' are defined in Ind AS 110, Ind AS 111 and Ind AS 28 respectively and are used in this standard with the meanings specified in those Ind AS's.

**Key management personnel** are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity.

- (b) An entity is related to a reporting entity if any of the following conditions applies:
- (i) The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
  - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
  - (iii) Both entities are joint ventures of the same third party.
  - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
  - (v) The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.
  - (vi) The entity is controlled or jointly controlled by a person identified in (a).
  - (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
  - (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the reporting entity or to the parent of the reporting entity.

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The following are not related parties:

- (a) two entities simply because they have a director or other member of key management personnel in common or because a member of key management personnel of one entity has significant influence over the other entity.
- (b) Two joint venturers simply because they share joint control of a joint venture.
- (c)
  - (i) providers of finance,
  - (ii) trade unions,
  - (iii) public utilities, and
  - (iv) departments and agencies of a **government** that does not control, jointly control or significantly influence the reporting entity, simply by virtue of their normal dealings with an entity (even though they may affect the freedom of action of an entity or participate in its decision-making process).
- (c) a customer, supplier, franchisor, distributor or general agent with whom an entity transacts a significant volume of business, simply by virtue of the resulting economic dependence.

**8.15.3.2 A related party transaction** is a transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged.

### 8.15.4 Disclosures

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Relationships between a parent and its subsidiaries shall be disclosed irrespective of whether there have been transactions between them. An entity shall disclose the name of its parent and, if different, the ultimate controlling party. If neither the entity's parent nor the ultimate controlling party produces consolidated financial statements available for public use, the name of the next most senior parent that does so shall also be disclosed.

An entity shall disclose key management personnel compensation in total and for each of the following categories:

- (a) short-term employee benefits;
- (b) post-employment benefits;
- (c) other long-term benefits;
- (d) termination benefits; and
- (e) share-based payment.

If an entity has had related party transactions during the periods covered by the financial statements, it shall disclose the nature of the related party relationship as well as information about those transactions and outstanding balances, including commitments, necessary for users to understand the potential effect of the relationship on the financial statements. These disclosure requirements are in addition to those in paragraph 17 of the Standard. At a minimum, disclosures shall include:

- (a) the amount of the transactions;

- (b) the amount of outstanding balances, including commitments, and:
  - (i) their terms and conditions, including whether they are secured, and the nature of the consideration to be provided in settlement; and
  - (ii) details of any guarantees given or received;
- (c) provisions for doubtful debts related to the amount of outstanding balances; and
- (d) the expense recognised during the period in respect of bad or doubtful debts due from related parties. (paragraph 18 of the Standard)

The Standard requires that the disclosures, as per paragraph 18 of the Standard, shall be made separately for each of the following categories:

- (a) the parent;
- (b) entities with joint control of, or significant influence over, the entity;
- (c) subsidiaries;
- (d) associates;
- (e) joint ventures in which the entity is a joint venturer;
- (f) key management personnel of the entity or its parent; and
- (g) other related parties.

Items of a similar nature may be disclosed in aggregate except when separate disclosure is necessary for an understanding of the effects of related party transactions on the financial statements of the entity.

Disclosure of details of particular transactions with individual related parties would frequently be too voluminous to be easily understood. Accordingly, items of a similar nature may be disclosed in aggregate by type of related party. However, this is not done in such a way as to obscure the importance of significant transactions. Hence, purchases or sales of goods are not aggregated with purchases or sales of fixed assets. Nor a material related party transaction with an individual party is clubbed in an aggregated disclosure.

A reporting entity is exempt from the disclosure requirements of paragraph 18 of the Standard in relation to related party transactions and outstanding balances, including commitments, with:

- (a) a government that has control or joint control of, or significant influence over, the reporting entity; and
- (b) another entity that is a related party because the same government has control or joint control of, or significant influence over, both the reporting entity and the other entity. (paragraph 25 of the Standard)

If a reporting entity applies the exemption in paragraph 25 of the Standard, it shall disclose the following about the transactions and related outstanding balances referred to in paragraph 25 of the Standard:

- (a) the name of the government and the nature of its relationship with the reporting entity (ie control, joint control or significant influence);

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- (b) the following information in sufficient detail to enable users of the entity's financial statements to understand the effect of related party transactions on its financial statements:
- (i) the nature and amount of each individually significant transaction; and
  - (ii) for other transactions that are collectively, but not individually, significant, a qualitative or quantitative indication of their extent. Types of transactions include those listed in paragraph 21 of the Standard.

### 8.15.5 Major Changes in Ind AS 24 vis-à-vis IAS\* 24 Not Resulting in Carve Outs

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1. **Confidentially:** In Ind AS 24, disclosures which conflict with confidentiality requirements of statute/regulations are not required to be made since Accounting Standards cannot override legal/regulatory requirements.
2. **Additional Clarificatory Guidance Regarding Aggregation of Transactions:** Paragraph 24A (reproduced below) has been included in the Ind AS 24. It provides additional clarificatory guidance regarding aggregation of transactions for disclosure.

“24A Disclosure of details of particular transactions with individual related parties would frequently be too voluminous to be easily understood. Accordingly, items of a similar nature may be disclosed in aggregate by type of related party. However, this is not done in such a way as to obscure the importance of significant transactions. Hence, purchases or sales of goods are not aggregated with purchases or sales of fixed assets. Nor a material related party transaction with an individual party is clubbed in an aggregated disclosure.”
3. **Modification of Paragraph 14:** Paragraph 14 of Ind AS 24 has been modified to explain the rationale for disclosing related party relationship when control exists.
4. **Management Contracts Including for Deputation or Employees:** In Ind AS 24, '(k) management contracts including for deputation or employees' has been added in the example of transactions that are disclosed if they are with related party.
5. **Definition of Close Members of the Family of a Person:** 'Definition of close members of the family of a person' has been amended to include brother, sister, father and mother in the category of family members who may be expected to influence, or be influenced.

### 8.15.6 Major Changes in Ind AS 24 vis-à-vis Notified AS 18

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- (i) **Definition of Relative:** Existing AS 18 uses the term “relatives of an individual”, whereas Ind AS 24 uses the term “a close member of the family of a person”.
- Existing AS 18 covers the spouse, son, daughter, brother, sister, father and mother who may be expected to influence, or be influenced by, that individual in his/her dealings with the reporting enterprise.

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\* The term 'IFRS' includes not only the International Financial Reporting Standards (IFRSs) issued by the IASB, it also includes the International Accounting Standards (IASs), IFRICs and SICs.

However, definition of close members of family as per Ind AS 24 includes those family members, who may be expected to influence, or be influenced by, that person in their dealings with the entity, including:

- (a) that person's children, spouse or domestic partner, brother, sister, father and mother;
- (b) children of that person's spouse or domestic partner; and
- (c) dependants of that person or that person's spouse or domestic partner.

Hence, the definition as per Ind AS 24 is much wider.

- (ii) **State Controlled Enterprise:** Existing AS 18 defines state-controlled enterprise as "an enterprise which is under the control of the Central Government and/or any State Government(s)". However, in Ind AS 24, there is extended coverage of Government Enterprises, as it defines a government-related entity as "an entity that is controlled, jointly controlled or significantly influenced by a government." Further, "Government refers to government, government agencies and similar bodies whether local, national or international."
- (iii) **Key Management Personnel:** Existing AS 18 covers key management personnel (KMP) of the entity only, whereas, Ind AS 24 covers KMP of the parent as well. Ind AS 24 also covers the entity, or any member of a group of which it is a part, providing key management personnel services to the reporting entity or to the parent of the reporting entity
- (iv) **Related Parties in case of Joint Venture:** Under Ind AS 24 there is extended coverage in case of joint ventures. Two entities are related to each other in both their financial statements, if they are either co-venturers or one is a venturer and the other is an associate. Whereas as per existing AS 18, co-venturers or co-associates are not related to each other.
- (v) **Effect of influences which do not lead to transactions:** Existing AS 18 mentions that where there is an inherent difficulty for management to determine the effect of influences which do not lead to transactions, disclosure of such effects is not required whereas Ind AS 24 does not specifically mention this.
- (vi) **Post-employment Benefits:** Existing AS 18 does not specifically cover entities that are post-employment benefit plans, as related parties. However, Ind AS 24 specifically includes post-employment benefit plans for the benefit of employees of an entity or its related entity as related parties.
- (vii) **Next Most Senior Parent:** Ind AS 24 requires an additional disclosure as to the name of the next most senior parent which produces consolidated financial statements for public use, whereas the existing AS 18 has no such requirement.
- (viii) **Disclosure for Compensation:** Ind AS 24 requires extended disclosures for compensation of KMP under different categories, whereas the existing AS 18 does not specifically require.
- (ix) **Disclosure of 'Amount of the Transactions' vs 'Volume of the Transactions':** Ind AS 24 requires "the amount of the transactions" need to be disclosed, whereas existing

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AS 18 gives an option to disclose the “Volume of the transactions either as an amount or as an appropriate proportion”.

- (x) **Government Related Entities:** Ind AS 24 requires disclosures of certain information by the government related entities, whereas the existing AS 18 presently exempts the disclosure of such information.
- (xi) **Clarification of Control, Substantial Interest and Significant Influence:** Existing AS 18 includes definition and clarificatory text, primarily with regard to control, substantial interest (including 20% threshold), significant influence (including 20% threshold). However, Ind AS 24 neither defines these terms nor it includes such clarificatory text and allows respective standards to deal with the same.

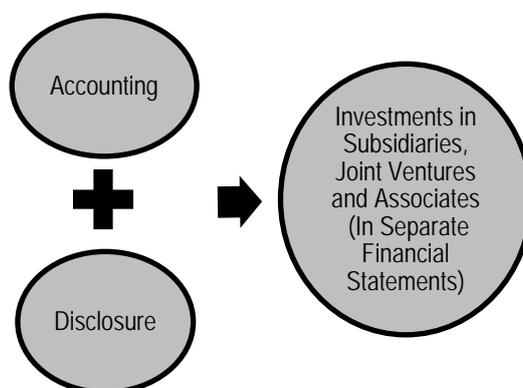
## 8.16 Ind AS 27: Separate Financial Statements

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### 8.16.1 Objective

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The objective of this Standard is to prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements.



### 8.16.2 Scope

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- This Standard shall be applied in accounting for investments in subsidiaries, joint ventures and associates when an entity elects, or is required by law, to present separate financial statements.
- This Standard does not mandate which entities produce separate financial statements. It applies when an entity prepares separate financial statements shall comply with Indian Accounting Standards.

### 8.16.3 Separate and Consolidated Financial Statements

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**Consolidated financial statements** are the financial statements of a group in which the assets, liabilities, equity, income, expenses and cash flows of the parent and its subsidiaries are presented as those of a single economic entity.

**Separate financial statements** are those presented by a parent (i.e. an investor with control of a subsidiary) or an investor with joint control of, or significant influence over, an investee, in which the investments are accounted for at cost or in accordance with Ind AS 109, '*Financial Instruments*'.

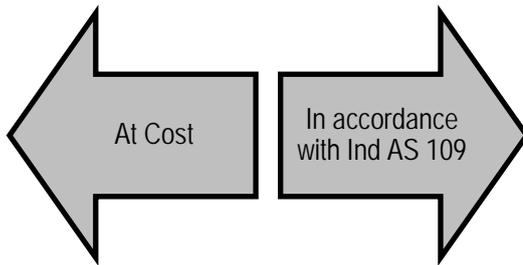
#### 8.16.4 Preparation of Separate Financial Statements

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Separate financial statements shall be prepared in accordance with all applicable Ind AS.

When an entity prepares separate financial statements, it shall account for investments in subsidiaries, joint ventures and associates either:

- (a) at cost, or
- (b) in accordance with Ind AS 109, *Financial Instruments*.



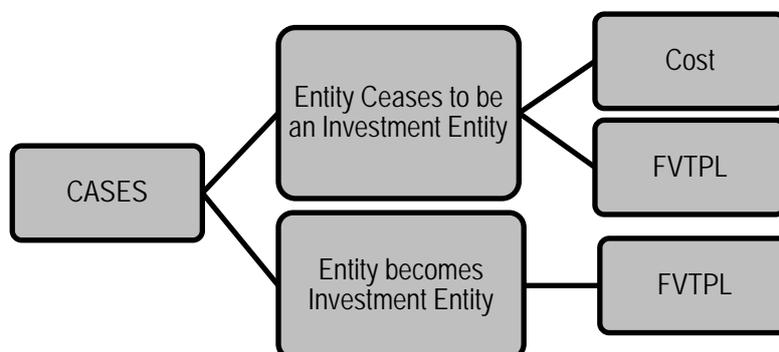
The entity shall apply the same accounting for each category of investments. Investments accounted for at cost shall be accounted for in accordance with Ind AS 105, {Non-current Assets Held for Sale and Discontinued Operations}, when they are classified as held for sale (or included in a disposal group that is classified as held for sale). The measurement of investments accounted for in accordance with Ind AS 109 is not changed in such circumstances.

If an entity elects, in accordance with Ind AS 28, to measure its investments in associates or joint ventures at fair value through profit or loss in accordance with Ind AS 109, it shall also account for those investments in the same way in its separate financial statements.

If a parent is required, in accordance with Ind AS 110, to measure its investment in a subsidiary at fair value through profit or loss in accordance with Ind AS 109, it shall also account for its investment in a subsidiary in the same way in its separate financial statements.

8.16.5 When a Parent Ceases to be an Investment Entity, or Becomes an Investment Entity

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When a parent ceases to be an investment entity, or becomes an investment entity, it shall account for the change from the date when the change in status occurred, as follows:

- (a) when an entity ceases to be an investment entity, the entity shall, either:
  - (i) Account for an investment in a subsidiary at cost.  
The fair value of the subsidiary at the date of the change of status shall be used as the deemed cost at that date; or
  - (ii) Continue to account for an investment in a subsidiary in accordance with Ind AS 109.
- (b) when an entity becomes an investment entity, it shall account for an investment in a subsidiary at fair value through profit or loss in accordance with Ind AS 109.

The difference between the previous carrying amount of the subsidiary and its fair value at the date of the change of status of the investor shall be recognised as a gain or loss in profit or loss. The cumulative amount of any fair value adjustment previously recognised in other comprehensive income in respect of those subsidiaries shall be treated as if the investment entity had disposed of those subsidiaries at the date of change in status.

**8.16.6 Dividend**

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An entity shall recognise a dividend from a subsidiary, a joint venture or an associate in profit or loss in its separate financial statements when its right to receive the dividend is established.

**8.16.7 Major Changes in Ind AS 27 vis-à-vis IAS\* 27 Not Resulting in Carve Outs**

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1. **Separate Financial Statements:** IAS 27 requires to disclose the reason for preparing separate financial statements if not required by law. In India, since the Companies Act

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\* The term 'IFRS' includes not only the International Financial Reporting Standards (IFRSs) issued by the IASB, it also includes the International Accounting Standards (IASs), IFRICs and SICs.

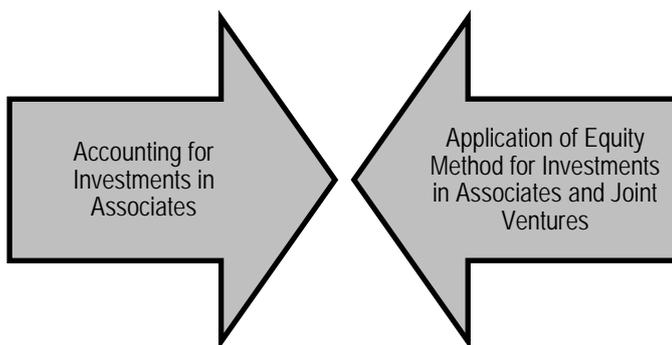
mandates preparation of separate financial statements, such requirement has been removed in Ind AS 27.

2. **Option to use Equity Method:** IAS 27 allows the entities to use the equity method to account for investment in subsidiaries, joint ventures and associates in their Separate Financial Statements (SFS). This option is not given in Ind AS 27, as the equity method is not a measurement basis like cost and fair value but is a manner of consolidation and therefore would lead to inconsistent accounting conceptually.

## 8.17 Ind AS 28: Investments in Associates and Joint Ventures

### 8.17.1 Objective

The objective of this Standard is to prescribe the accounting for investments in associates and to set out the requirements for the application of the equity method when accounting for investments in associates and joint ventures.



### 8.17.2 Scope

This Standard shall be applied by all entities that are investors with joint control of, or significant influence over, an investee.

### 8.17.3 Definitions

An **associate** is an entity over which the investor has *significant influence*.

**Significant influence** is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control of those policies.

#### Significant Influence

- If an entity holds, directly or indirectly (e.g. through subsidiaries), 20 per cent or more of the voting power of the investee, it is presumed that the entity has significant influence, unless it can be clearly demonstrated that this is not the case.
- A substantial or majority ownership by another investor does not necessarily preclude an entity from having significant influence.

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The existence of significant influence by an entity is usually evidenced in one or more of the following ways:

- Representation on the board of directors or equivalent governing body of the investee
- Participation in policy-making processes, including participation in decisions about dividends or other distributions
- Material transactions between the entity and its investee
- Interchange of managerial personnel
- Provision of essential technical information

A **joint venture** is a *joint arrangement* whereby the parties that have *joint control* of the arrangement have rights to the net assets of the arrangement.

**Joint control** is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

A **joint arrangement** is an arrangement of which two or more parties have joint control.

Ind AS 111, *Joint Arrangements*, establishes principles for the financial reporting of parties to joint arrangements. As per the Standard, an entity shall determine the type of joint arrangement in which it is involved. The classification of a joint arrangement as a joint operation or a joint venture depends upon the rights and obligations of the parties to the arrangement. The Standard requires that a joint venturer shall recognise its interest in a joint venture as an investment and shall account for that investment using the equity method in accordance with Ind AS 28 unless the entity is exempted from applying the equity method as specified in the standard.

### 8.17.4 Equity Method

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The equity method is a method of accounting whereby the investment is initially recognised at cost and adjusted thereafter for the post-acquisition change in the investor's share of the investee's net assets.

**8.17.4.1 Application of the Equity Method:** An investment is accounted for using the equity method from the date on which it becomes an associate or a joint venture.

The investor's profit or loss includes its share of the investee's profit or loss and the investor's other comprehensive income includes its share of the investee's other comprehensive income.

Distributions received from an investee reduce the carrying amount of the investment. Adjustments to the carrying amount may also be necessary for changes in the investor's proportionate interest in the investee arising from changes in the investee are other comprehensive income. Such changes include those arising from the revaluation of property, plant and equipment and from foreign exchange translation differences. The investor's share

of those changes is recognised in the investor's other comprehensive income (Ind AS 1, *Presentation of Financial Statements*).

If an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate, the entity continues to apply the equity method and does not re-measure the retained interest.

**8.17.4.2 Equity Method Procedures:** Many of the procedures that are appropriate for the application of the equity method are similar to the consolidation procedures described in Ind AS 110.

*A group's share in an associate or a joint venture is the aggregate of the holdings in that associate or joint venture by the parent and its subsidiaries. The holdings of the group's other associates or joint ventures are ignored for this purpose. When an associate or a joint venture has subsidiaries, associates or joint ventures, the profit or loss, other comprehensive income and net assets taken into account in applying the equity method are those recognised in the associate's or joint venture's financial statements (including the associate's or joint venture's share of the profit or loss, other comprehensive income and net assets of its associates and joint ventures), after any adjustments necessary to give effect to uniform accounting policies.*

#### Goodwill/Capital Reserve

On acquisition of the investment, any difference between the cost of the investment and the entity's share of the net fair value of the investee's identifiable assets and liabilities is accounted for as follows:

- (i) Goodwill relating to an associate or a joint venture is included in the carrying amount of the investment.

Amortisation of that goodwill is not permitted.

- (ii) Any excess of the entity's share of the net fair value of the investee's identifiable assets and liabilities over the cost of the investment is recognised directly in equity as capital reserve in the period in which the investment is acquired.

**8.17.4.3 Changes in Ownership Interest:** If an entity's ownership interest in an associate or a joint venture is reduced, but the entity continues to apply the equity method, the entity shall reclassify to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be required to be reclassified to profit or loss on the disposal of the related assets or liabilities.

**8.17.4.4 Exemptions from Applying the Equity Method:** An entity need not apply the equity method to its investment in an associate or a joint venture if the entity is a parent that is exempt from preparing consolidated financial statements by the scope exception of Ind AS 110 or if all the following apply:

## 2.108 Financial Reporting

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- (a) The entity is a wholly-owned subsidiary, or is a partially-owned subsidiary of another entity and its other owners, including those not otherwise entitled to vote, have been informed about, and do not object to, the entity not applying the equity method.
- (b) The entity's debt or equity instruments are not traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets).
- (c) The entity did not file, nor is it in the process of filing, its financial statements with a securities commission or other regulatory organisation, for the purpose of issuing any class of instruments in a public market.
- (d) *The ultimate or any intermediate parent of the entity produces financial statements available for public use that comply with Ind AS, in which subsidiaries are consolidated or are measured at fair value through profit or loss in accordance with Ind AS 110.*

The Standard also provides exemptions from applying the equity method when the investment in an associate or a joint venture is held by, or is held indirectly through, an entity that is a venture capital organisation, or a mutual fund, unit trust and similar entities including investment-linked insurance funds. Those investments may be measured at fair value through profit or loss in accordance with Ind AS 109,

**8.17.4.5 Discontinuing the use of the Equity Method:** An entity shall discontinue the use of the equity method from the date when its investment ceases to be an associate or a joint venture as follows:

- (a) If the investment becomes a subsidiary, the entity shall account for its investment in accordance with Ind AS 103, Business Combinations, and Ind AS 110.
- (b) If the retained interest in the former associate or joint venture is a financial asset, the entity shall measure the retained interest at fair value. The fair value of the retained interest shall be regarded as its fair value on initial recognition as a financial asset in accordance with Ind AS 109. The entity shall recognise in profit or loss any difference between:
  - (i) the fair value of any retained interest and any proceeds from disposing of a part interest in the associate or joint venture; and
  - (ii) the carrying amount of the investment at the date the equity method was discontinued.

When an entity discontinues the use of the equity method, the entity shall account for all amounts previously recognised in other comprehensive income in relation to that investment on the same basis as would have been required if the investee had directly disposed of the related assets or liabilities.

### 8.17.5 Financial Statements

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- The most recent available financial statements of the associate or joint venture are used by the entity in applying the equity method.
- When the end of the reporting period of the entity is different from that of the associate or joint venture, the associate or joint venture prepares, for the use of the entity, financial

statements as of the same date as the financial statements of the entity unless it is impracticable to do so.

- When, the financial statements of an associate or a joint venture used in applying the equity method are prepared as of a date different from that used by the entity, adjustments shall be made for the effects of significant transactions or events that occur between that date and the date of the entity's financial statements. In any case, the difference between the end of the reporting period of the associate or joint venture and that of the entity shall be no more than three months.
- The entity's financial statements shall be prepared using uniform accounting policies for like transactions and events in similar circumstances unless, in case of an associate, it is impracticable to do so.

### Separate Financial Statements

An investment in an associate or a joint venture shall be accounted for in the entity's separate financial statements in accordance with Ind AS 27.

#### 8.17.6 Impairment Losses

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The entity applies the impairment requirements in Ind AS 109 to its other interests in the associate or joint venture that are in the scope of Ind AS 109 and that do not constitute a part of the net investment.

Because goodwill that forms part of the carrying amount of the net investment in an associate or a joint venture is not separately recognised, it is not tested for impairment separately by applying the requirements for impairment testing goodwill in Ind AS 36, 'Impairment of Assets'.

Instead, the entire carrying amount of the investment is tested for impairment in accordance with Ind AS 36 as a single asset, by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount, whenever there is an indication that the net investment may be impaired.

#### 8.17.7 Major Change in Ind AS 28 vis-à-vis IAS\* 28 Resulting in Carve Out

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**As per IFRS:** IAS 28 requires that for the purpose of applying equity method of accounting in the preparation of investor's financial statements, uniform accounting policies should be used. In other words, if the associate's accounting policies are different from those of the investor, the investor should change the financial statements of the associate by using same accounting policies.

**Carve out 1:** In Ind AS 28, the phrase, 'unless impracticable to do so' has been added in the relevant requirements, i.e., paragraph 35.

**Reasons:** Certain associates, e.g., regional rural banks (RRBs), being associates of nationalized banks, are not in a position to use the Ind AS as these may be too advanced for

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\* The term 'IFRS' includes not only the International Financial Reporting Standards (IFRSs) issued by the IASB, it also includes the International Accounting Standards (IASs), IFRICs and SICs.

the RRBs. Accordingly, the above-stated words have been included to exempt such associates.

**Carve out 2:** Further, in IAS 28, Capital Reserve when Investors share in Net Assets exceeds Cost of Investment is recognised in profit or loss while in Ind AS 28, Paragraph 32 (b) has been modified on the lines of Ind AS 103, '*Business Combinations*', to transfer excess of the investor's share of the net fair value of the investee's identifiable assets and liabilities over the cost of investment in capital reserve.

### 8.17.8 Major Changes in Ind AS 28 vis-à-vis Notified AS 23

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- (i) **Definition of Significant Influence:** In the existing AS 23, 'Significant Influence' has been defined as 'power to participate in the financial and/or operating policy decisions of the investee but is not control over those policies'. In Ind AS 28, the same has been defined as 'power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies'. Ind AS 28 defines joint control also.
- (ii) **Potential Equity Shares:** For considering share ownership for the purpose of significant influence, potential equity shares of the investee held by investor are not taken into account as per the existing AS 23. As per Ind AS 28, existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether an entity has significant influence or not.
- (iii) **Equity Method:** Existing AS 23 requires application of the equity method only when the entity has subsidiaries and prepares Consolidated Financial Statements. Ind AS 28 requires application of equity method in financial statements other than separate financial statements even if the investor does not have any subsidiary.
- (iv) **Exemption:** One of the exemptions from applying equity method in the existing AS 23 is where the associate operates under severe long-term restrictions that significantly impair its ability to transfer funds to the investee. No such exemption is provided in Ind AS 28.
- (v) **Explanation regarding the term 'Near Future':** An explanation has been given in existing AS 23 regarding the term 'near future' used in another exemption from applying equity method, i.e., where the investment is acquired and held exclusively with a view to its subsequent disposal in the near future. This explanation has not been given in the Ind AS 28 as such situations are covered by Ind AS 105, '*Non-current Assets Held for Sale and Discontinued Operations*'.
- (vi) **Measurement of Investment:** Ind AS 28 now permits an entity that has an investment in an associate, a portion of which is held indirectly through venture capital organisations, or a mutual fund, unit trust and similar entities including investment-linked insurance funds, to elect to measure that portion of the investment in the associate at fair value through profit or loss in accordance with Ind AS 109 regardless of whether these entities have significant influence over that portion of the investment.
- (vii) **Investment Classified as Held for Sale:** Ind AS 28 requires a portion of an investment in an associate or a joint venture to be classified as held for sale if the disposal of that portion of the interest would fulfill the criteria to be classified as held for sale in accordance with Ind AS 105. AS 23 does not specifically deal with this aspect.

- (vii) **Application of Equity Method in Separate Financial Statements:** As per the existing AS 23, in separate financial statements, investment in an associate is not accounted for as per the equity method, the same is accounted for in accordance with existing AS 13, 'Accounting for Investments'. As per Ind AS 28, the same is to be accounted for at cost or in accordance with Ind AS 109, 'Financial Instruments'.
- (viii) **Difference in Reporting Dates:** The existing AS 23 permits the use of financial statements of the associate drawn upto a date different from the date of financial statements of the investor when it is impracticable to draw the financial statements of the associate upto the date of the financial statements of the investor. There is no limit on the length of difference in the reporting dates of the investor and the associate. As per Ind AS 28, length of difference in the reporting dates of the associate or joint venture should not be more than three months unless.
- (ix) **Accounting Policies:** Both the existing AS 23 and Ind AS 28 require that similar accounting policies should be used for preparation of investor's financial statements and in case an associate uses different accounting policies for like transactions, appropriate adjustments shall be made to the accounting policies of the associate. The existing AS 23 provides exemption to this that if it is not possible to make adjustments to the accounting policies of the associate, the fact shall be disclosed along with a brief description of the differences between the accounting policies. Ind AS 28 provides that the entity's financial statements shall be prepared using uniform accounting policies for like transactions and events in similar circumstances unless, in case of an associate, it is impracticable to do so.
- (x) **Share in Losses:** As per existing AS 23, investor's share of losses in the associate is recognised to the extent of carrying amount of investment in the associate. As per Ind AS 28, carrying amount of investment in the associate or joint venture determined using the equity method together with any long term interests that, in substance form part of the entity's net investment in the associate or joint venture shall be considered for recognising entity's share of losses in the associate or joint venture.
- (xi) **Impairment Loss:** With regard to impairment, the existing AS 23 requires that the carrying amount of investment in an associate should be reduced to recognise a decline, other than temporary, in the value of the investment. Ind AS 28 requires that after application of equity method, including recognising the associate's or joint venture's losses, the requirements of Ind AS 109 shall be applied to determine whether it is necessary to recognise any additional impairment loss.

## 8.18 Ind AS 29 : Financial Reporting in Hyperinflationary Economies

### 8.18.1 Scope

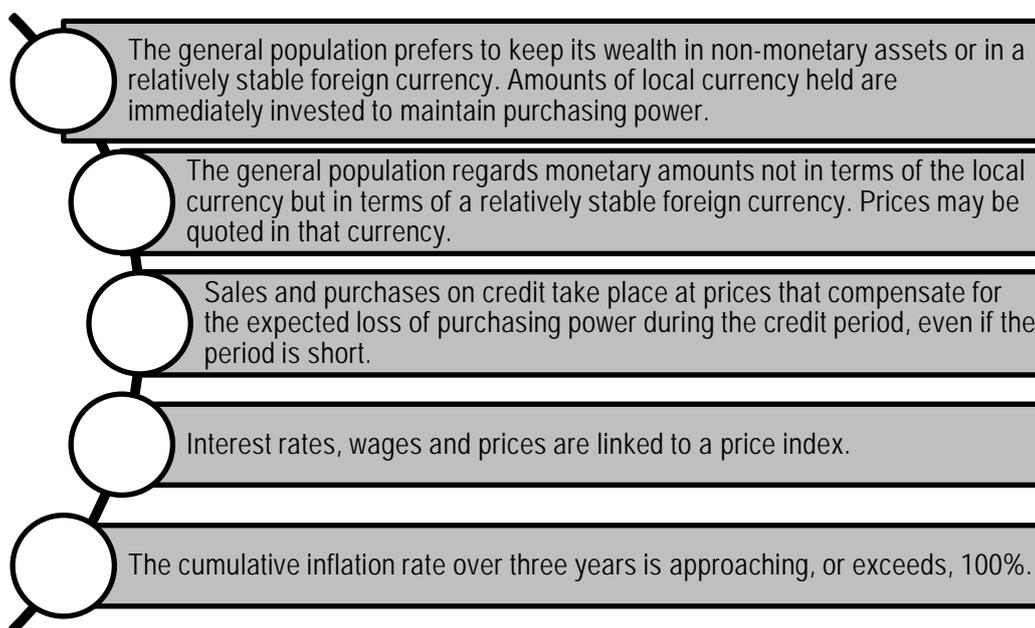
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This Standard shall be applied to the financial statements, including the consolidated financial statements, of any entity whose functional currency is the currency of a hyperinflationary economy.

## 2.112 Financial Reporting

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The Standard does not establish an absolute rate at which hyperinflation is deemed to arise. It is a matter of judgement when restatement of financial statements in accordance with this Standard becomes necessary. Hyperinflation is indicated by characteristics of the economic environment of a country which include, but are not limited to, the following:

- 
- The general population prefers to keep its wealth in non-monetary assets or in a relatively stable foreign currency. Amounts of local currency held are immediately invested to maintain purchasing power.
  - The general population regards monetary amounts not in terms of the local currency but in terms of a relatively stable foreign currency. Prices may be quoted in that currency.
  - Sales and purchases on credit take place at prices that compensate for the expected loss of purchasing power during the credit period, even if the period is short.
  - Interest rates, wages and prices are linked to a price index.
  - The cumulative inflation rate over three years is approaching, or exceeds, 100%.

1. It is preferable that all entities that report in the currency of the same hyperinflationary economy apply this Standard from the same date.
2. This Standard applies to the financial statements of any entity from the beginning of the reporting period in which it identifies the existence of hyperinflation in the country in whose currency it reports.

### 8.18.2 Restatement of Financial Statements

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Entities that prepare financial statements on the historical cost basis of accounting do so without regard either to:

- Changes in the general level of prices or
- Increases in specific prices of recognised assets or liabilities.

The Exceptions to this are those assets and liabilities that the entity is required, or chooses, to measure at fair value.

For example, property, plant and equipment may be revalued to fair value and biological assets are generally required to be measured at fair value.

Some entities, however, present financial statements that are based on a current cost approach that reflects the effects of changes in the specific prices of assets held.

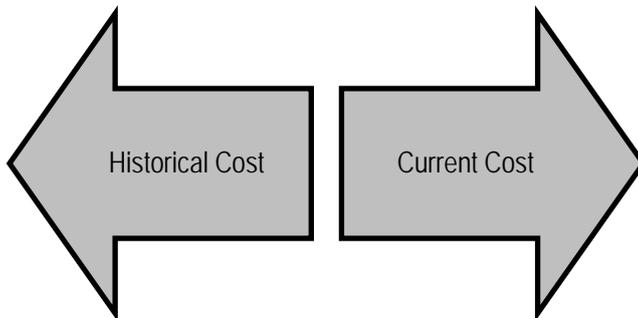
The financial statements of an entity whose functional currency is the currency of a hyperinflationary economy, whether they are based on a historical cost approach or a current cost approach, shall be stated in terms of the measuring unit current at the end of the reporting period.

The corresponding figures for the previous period required by Ind AS 1, Presentation of Financial Statements, and any information in respect of earlier periods shall also be stated in terms of the measuring unit current at the end of the reporting period.

The gain or loss on the net monetary position shall be included in profit or loss and separately disclosed.

The restatement of financial statements in accordance with this Standard requires the application of certain procedures as well as judgement. The consistent application of these procedures and judgements from period to period is more important than the precise accuracy of the resulting amounts included in the restated financial statements.

### 8.18.3 Approaches for Preparation of Financial Statements



#### 8.18.3.1 Historical Cost Financial Statements

##### Balance Sheet

- Balance sheet amounts not already expressed in terms of the measuring unit current at the end of the reporting period are restated by applying a general price index.
- Monetary items are not restated because they are already expressed in terms of the monetary unit current at the end of the reporting period. Monetary items are money held and items to be received or paid in money.
- Assets and liabilities linked by agreement to changes in prices, such as index linked bonds and loans, are adjusted in accordance with the agreement in order to ascertain the amount outstanding at the end of the reporting period. These items are carried at this adjusted amount in the restated balance sheet.
- All other assets and liabilities are non-monetary. Some non-monetary items are carried at amounts current at the end of the reporting period, such as net realisable value and fair value, so they are not restated. All other non-monetary assets and liabilities are restated.

## 2.114 Financial Reporting

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- The restated amount of a non-monetary item is reduced, in accordance with appropriate Ind AS, when it exceeds its recoverable amount. For example, restated amounts of property, plant and equipment, goodwill, patents and trademarks are reduced to recoverable amount and restated amounts of inventories are reduced to net realisable value.

### Statement of Profit and Loss

- This Standard requires that all items in the statement of profit and loss are expressed in terms of the measuring unit current at the end of the reporting period.
- Therefore, all amounts need to be restated by applying the change in the general price index from the dates when the items of income and expenses were initially recorded in the financial statements.

### Gain or Loss on Net Monetary Position

In a period of inflation, an entity holding an excess of monetary assets over monetary liabilities loses purchasing power and an entity with an excess of monetary liabilities over monetary assets gains purchasing power to the extent the assets and liabilities are not linked to a price level.

- This gain or loss on the net monetary position may be derived as the difference resulting from the restatement of non-monetary assets, owners' equity and items in the statement of profit and loss and the adjustment of index linked assets and liabilities.
- The gain or loss may be estimated by applying the change in a general price index to the weighted average for the period of the difference between monetary assets and monetary liabilities.
- The gain or loss on the net monetary position is included in profit or loss.
- The adjustment to those assets and liabilities linked by agreement to changes in prices is offset against the gain or loss on net monetary position.
- Other income and expense items, such as interest income and expense, and foreign exchange differences related to invested or borrowed funds, are also associated with the net monetary position. Although such items are separately disclosed, it may be helpful if they are presented together with the gain or loss on net monetary position in the statement of profit and loss.

### 8.18.3.2 Current Cost Financial Statements

#### Balance Sheet

- Items stated at current cost are not restated because they are already expressed in terms of the measuring unit current at the end of the reporting period.
- Other items in the balance sheet are restated in accordance with same principles as Historical Cost Financial Statements.

### Statement of Profit and Loss

- The current cost statement of profit and loss, before restatement, generally reports costs current at the time at which the underlying transactions or events occurred.
- Cost of sales and depreciation are recorded at current costs at the time of consumption.
- Sales and other expenses are recorded at their money amounts when they occurred.
- Therefore, all amounts need to be restated into the measuring unit current at the end of the reporting period by applying a general price index.

### Gain or Loss on Net Monetary Position

The gain or loss on the net monetary position is accounted for in accordance with same principles as Historical Cost Financial Statements.

#### 8.18.4 Taxes

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The restatement of financial statements in accordance with this Standard may give rise to differences between the carrying amount of individual assets and liabilities in the balance sheet and their tax bases. These differences are accounted for in accordance with Ind AS 12, Income Taxes.

#### 8.18.5 Statement of Cash Flows

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This Standard requires that all items in the statement of cash flows are expressed in terms of the measuring unit current at the end of the reporting period.

#### 8.18.6 Corresponding Figures

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Corresponding figures for the previous reporting period, whether they were based on a historical cost approach or a current cost approach, are restated by applying a general price index so that the comparative financial statements are presented in terms of the measuring unit current at the end of the reporting period. Information that is disclosed in respect of earlier periods is also expressed in terms of the measuring unit current at the end of the reporting period.

#### 8.18.7 Consolidated Financial Statements

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- A parent that reports in the currency of a hyperinflationary economy may have subsidiaries that also report in the currencies of hyperinflationary economies. The financial statements of any such subsidiary need to be restated by applying a general price index of the country in whose currency it reports before they are included in the consolidated financial statements issued by its parent. Where such a subsidiary is a foreign subsidiary, its restated financial statements are translated at closing rates.
- The financial statements of subsidiaries that do not report in the currencies of hyperinflationary economies are dealt with in accordance with Ind AS 21.
- If financial statements with different ends of the reporting periods are consolidated, all items, whether non-monetary or monetary, need to be restated into the measuring unit current at the date of the consolidated financial statements.

## 2.116 Financial Reporting

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### 8.18.8 Selection and Use of the General Price Index

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The restatement of financial statements in accordance with this Standard requires the use of a general price index that reflects changes in general purchasing power. It is preferable that all entities that report in the currency of the same economy use the same index.

### 8.18.9 Economies Ceasing to be Hyperinflationary

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When an economy ceases to be hyperinflationary and an entity discontinues the preparation and presentation of financial statements prepared in accordance with this Standard, it shall treat the amounts expressed in the measuring unit current at the end of the previous reporting period as the basis for the carrying amounts in its subsequent financial statements.

Appendix A of Ind AS 29 provides guidance on how to apply the requirements of Ind AS 29 in a reporting period in which an entity identifies the existence of hyperinflation in the economy of its functional currency, when that economy was not hyperinflationary in the prior period, and the entity therefore restates its financial statements in accordance with Ind AS 29. The Appendix prescribes that in the reporting period in which an entity identifies the existence of hyperinflation in the economy of its functional currency, not having been hyperinflationary in the prior period, the entity shall apply the requirements of Ind AS 29 as if the economy had always been hyperinflationary. At the end of the reporting period, deferred tax items are recognised and measured in accordance with Ind AS 12.

### 8.18.10 Major Change in Ind AS 29 vis-à-vis IAS 29 Not Resulting in Carve Out

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*Disclosure:* Ind AS 29 requires an additional disclosure regarding the duration of the hyperinflationary situation existing in the economy as compared to IAS 29.

## 8.19 Ind AS 32 : Financial Instruments: Presentation

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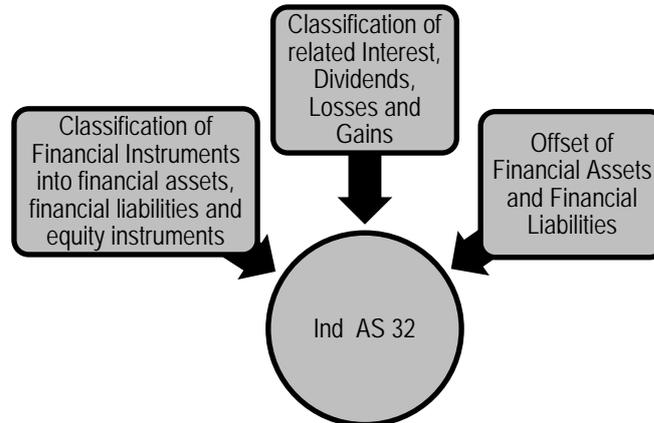
### 8.19.1 Objective

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The objective of this Standard is to establish principles for presenting financial instruments as liabilities or equity and for offsetting financial assets and financial liabilities.

It applies to

1. The classification of financial instruments, from the perspective of the issuer, into financial assets, financial liabilities and equity instruments;
2. The classification of related interest, dividends, losses and gains; and
3. The circumstances in which financial assets and financial liabilities should be offset.



### 8.19.2 Scope

This Standard shall be applied by all entities to all types of financial instruments except:

- (a) interests in subsidiaries, associates or joint ventures that are accounted for in accordance with:
- Ind AS 110 *"Consolidated Financial Statements"*
  - Ind AS 27 *"Separate Financial Statements"* or
  - Ind AS 28 *"Investments in Associates and Joint Ventures"*.

Entities shall also apply this Standard to all derivatives linked to interests in subsidiaries, associates or joint ventures.

- (b) employers' rights and obligations under employee benefit plans, to which Ind AS 19, *'Employee Benefits'*, applies.
- (c) insurance contracts as defined in Ind AS 104, *'Insurance Contracts'*.

However, this Standard applies to derivatives that are embedded in insurance contracts if Ind AS 109 requires the entity to account for them separately. Moreover, an issuer shall apply this Standard to financial guarantee contracts if the issuer applies Ind AS 109 in recognising and measuring the contracts.

- (d) financial instruments that are within the scope of Ind AS 104 because they contain a discretionary participation feature. Furthermore, this Standard applies to derivatives that are embedded in these instruments (Ind AS 109).
- (e) financial instruments, contracts and obligations under share-based payment transactions to which Ind AS 102, *'Share-based Payment'*, applies, except for:
- (i) contracts within the scope of this Standard, to which this Standard applies,
  - (ii) to treasury shares purchased, sold, issued or cancelled in connection with employee share option plans, employee share purchase plans, and all other share-based payment arrangements.

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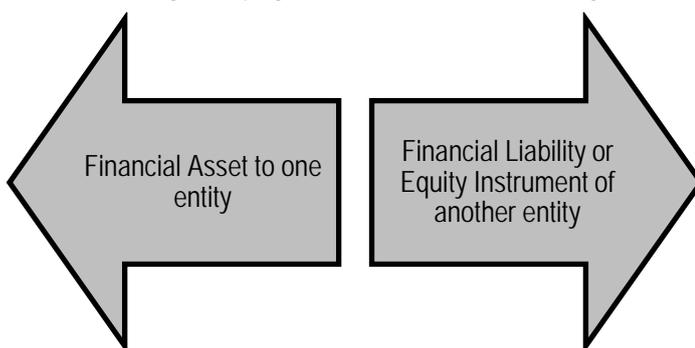
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This Standard shall be applied to those contracts to buy or sell a non-financial item that can be settled net in cash or another financial instrument, or by exchanging financial instruments, as if the contracts were financial instruments, with the exception of contracts that were entered into and continue to be held for the purpose of the receipt or delivery of a non-financial item in accordance with the entity's expected purchase, sale or usage requirements. However, this Standard shall be applied to those contracts that an entity designates as measured at fair value through profit or loss in accordance with Ind AS 109, '*Financial Instruments*'.

### 8.19.3 Financial Instrument

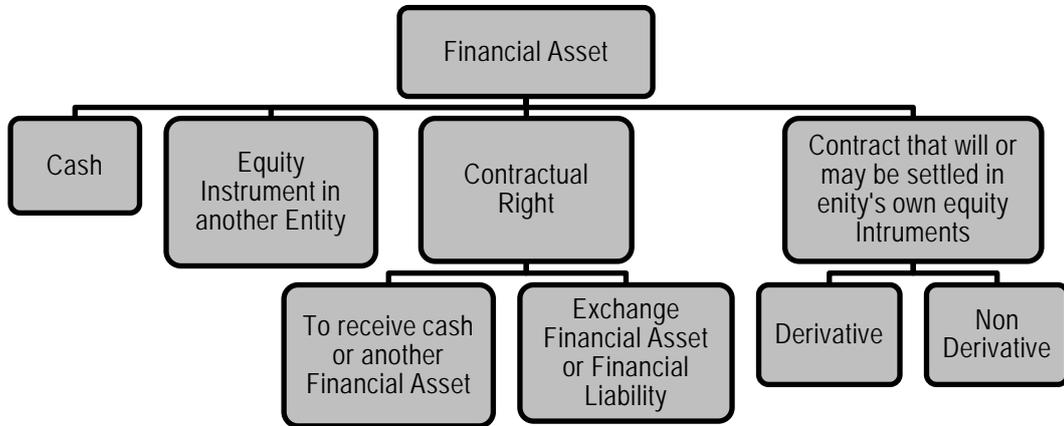
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A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.



**8.19.3.1 Financial Asset:** A financial asset is any asset that is:

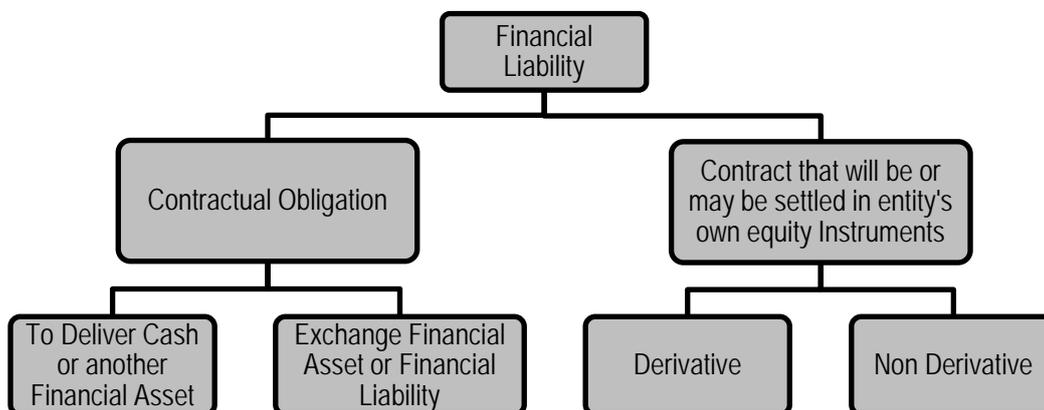
- (a) cash;
- (b) an equity instrument of another entity;
- (c) a contractual right:
  - (i) to receive cash or another financial asset from another entity; or
  - (ii) to exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity; or
- (d) a contract that will or may be settled in the entity's own equity instruments and is:
  - (i) a non-derivative for which the entity is or may be obliged to receive a variable number of the entity's own equity instruments; or
  - (ii) a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments.



**8.19.3.2 Financial Liability:** A financial liability is any liability that is:

- (a) a contractual obligation:
  - (i) to deliver cash or another financial asset to another entity; or
  - (ii) to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity; or
- (b) a contract that will or may be settled in the entity's own equity instruments and is:
  - (i) a non-derivative for which the entity is or may be obliged to deliver a variable number of the entity's own equity instruments; or
  - (ii) a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments. For this purpose, rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency are equity instruments if the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments.

The equity conversion option embedded in a convertible bond denominated in foreign currency to acquire a fixed number of the entity's own equity instruments is an equity instrument if the exercise price is fixed in any currency.



**8.19.3.3 Equity Instrument:** An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

**8.19.3.4 Puttable Financial Instruments:** As an exception, puttable instruments are classified as an equity instrument even if they meet the definition of financial liability. A puttable instrument is a financial instrument that gives the holder of the instrument the right to put the instrument back to the issuer for cash or another financial asset or is automatically put back to the issuer on the occurrence of an uncertain future event or the death or retirement of the instrument holder.

#### 8.19.4 Presentation

**Liabilities and equity:** The issuer of a financial instrument shall classify the instrument, or its component parts, on initial recognition as a financial liability, a financial asset or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial liability, a financial asset and an equity instrument.

The instrument is an equity instrument if, and only if, **both conditions (a) and (b) below are met.**

- (a) The instrument includes no contractual obligation:
  - (i) to deliver cash or another financial asset to another entity; or
  - (ii) to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the issuer.
- (b) In case of settlement by the issuer's own equity instruments, it should be fixed to fixed contracts (no. of equity instruments and the price per unit of equity instruments is fixed).

Apart from the aforesaid, the equity conversion option embedded in a convertible bond denominated in foreign currency to acquire a fixed number of the entity's own equity instruments is an equity instrument if the exercise price is fixed in any currency.

A contractual obligation, including one arising from a derivative financial instrument, that will or may result in the future receipt or delivery of the issuer's own equity instruments, but does not

meet conditions (a) and (b) above, is not an equity instrument. As an exception, an instrument that meets the definition of a financial liability is classified as an equity instrument if it has all the features and meets the conditions in paragraphs 16A and 16B or paragraphs 16C and 16D.

### 8.19.5 Specific Situations

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**8.19.5.1 Contingent settlement provisions** A financial instrument may require the entity to deliver cash or another financial asset, or otherwise to settle it in such a way that it would be a financial liability, in the event of the occurrence or non-occurrence of uncertain future events (or on the outcome of uncertain circumstances) that are beyond the control of both the issuer and the holder of the instrument, such as a change in a stock market index, consumer price index, interest rate or taxation requirements, or the issuer's future revenues, net income or debt-to-equity ratio.

The issuer of such an instrument does not have the unconditional right to avoid delivering cash or another financial asset (or otherwise to settle it in such a way that it would be a financial liability). Therefore, it is a financial liability of the issuer unless:

- (i) the part of the contingent settlement provision that could require settlement in cash or another financial asset (or otherwise in such a way that it would be a financial liability) is not genuine;
- (ii) the issuer can be required to settle the obligation in cash or another financial asset (or otherwise to settle it in such a way that it would be a financial liability) only in the event of liquidation of the issuer; or
- (iii) the instrument has all the features and meets the conditions in paragraphs 16A and 16B.

**8.19.5.2 Settlement options** In case a derivative financial instruments provides an option to one party to choose between various modes of settlement (settlement net in cash or by exchanging shares for cash), such derivative instrument should be a financial asset or a financial liability unless all of the settlement alternatives would result in it being an equity instrument.

**8.19.5.3 Compound Financial Instruments:** It may be possible that a non-derivative financial instrument may contain both component of liability and component of equity as well. Such components shall be classified separately as financial liabilities or equity instruments. Example, bonds with a option to convert into equity.

The sum of the carrying amounts assigned to the liability and equity components on initial recognition is always equal to the fair value that would be ascribed to the instrument as a whole.

No gain or loss arises from initially recognising the components of the instrument separately.

**8.19.5.4 Treasury Shares:** If an entity reacquires its own equity instruments, those instruments ('treasury shares') shall be deducted from equity. No gain or loss shall be recognised in profit or loss on the purchase, sale, issue or cancellation of an entity's own equity instruments. Such treasury shares may be acquired and held by the entity or by other members of the consolidated group. Consideration paid or received shall be recognised directly in equity.

**8.19.5.5 Interest, Dividends, Losses and Gains:** Interest, dividends, losses and gains relating to a financial instrument or a component that is a financial liability shall be recognised as income

## 2.122 Financial Reporting

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or expense in profit or loss. Distributions to holders of an equity instrument shall be recognised by the entity directly in equity.

Transaction costs of an equity transaction shall be accounted for as a deduction from equity. Income tax relating to distributions to holders of an equity instrument and to transaction costs of an equity transaction shall be accounted for in accordance with Ind AS 12, 'Income Taxes'.

Changes in the fair value of an equity instrument are not recognised in the financial statements.

**8.19.5.6 Offsetting a Financial Asset and a Financial Liability:** A financial asset and a financial liability shall be offset and the net amount presented in the balance sheet when, and only when, an entity:

- (i) currently has a legally enforceable right to set off the recognised amounts; and
- (ii) intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

In accounting for a transfer of a financial asset that does not qualify for derecognition, the entity shall not offset the transferred asset and the associated liability.

An entity that undertakes a number of financial instrument transactions with a single counterparty may enter into a 'master netting arrangement' with that counterparty. Such an agreement provides for a single net settlement of all financial instruments covered by the agreement in the event of default on, or termination of, any one contract.

**8.19.5.7 Consolidated Financial Statements:** An entity in its consolidated financial statements, when classifying a financial instrument (or a component of it) should consider all terms and conditions agreed between members of the group and the holders of the instrument in determining whether the group as a whole has an obligation to deliver cash or another financial asset in respect of the instrument or to settle it in a manner that results in liability classification.

### 8.19.6 Major Changes in Ind AS 32 vis-à-vis IAS\* 32

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#### 8.19.6.1 Resulting in Carve out/carve in

**As per IFRS:** As per accounting treatment prescribed under IAS 32, equity conversion option in case of foreign currency denominated convertible bonds is considered a derivative liability which is embedded in the bond. Gains or losses arising on account of change in fair value of the derivative need to be recognised in the statement of profit and loss as per IAS 32.

**Carve out:** In Ind AS 32, an exception has been included to the definition of 'financial liability' in paragraph 11 (b) (ii), whereby conversion option in a convertible bond denominated in foreign currency to acquire a fixed number of entity's own equity instruments is classified as an equity instrument if the exercise price is fixed in any currency.

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\* The term 'IFRS' includes not only the International Financial Reporting Standards (IFRSs) issued by the IASB, it also includes the International Accounting Standards (IASs), IFRICs and SICs.

**Reasons:** This treatment as per IAS 32 is not appropriate in instruments, such as, FCCBs since the number of shares convertible on the exercise of the option remains fixed and the amount at which the option is to be exercised in terms of foreign currency is also fixed; merely the difference in the currency should not affect the nature of derivative, i.e., the option. Further, the fair value of the option is based on the fair value of the share prices of the company. If there is decrease in the share price, the fair value of derivative liability would also decrease which would result in recognition of gain in the statement of profit and loss. This would bring unintended volatility in the statement of profit and loss due to volatility in share prices. This will also not give a true and fair view of the liability as in this situation, when the share prices fall, the option will not be exercised. However, it has been considered that if such option is classified as equity, fair value changes would not be required to be recognised. Accordingly, the exception has been made in definition of financial liability in Ind AS 32.

#### 8.19.6.2 Not Resulting in Carve out

**Presentation of Dividends:** IAS 32 requires presentation of dividends classified as an expense in the separate income statement, where separate income statement is presented. This requirement is not provided in Ind AS 32 consequential to the removal of option regarding two statement approach in Ind AS 1. Ind AS 1 requires that the components of profit or loss and components of other comprehensive income shall be presented as a part of the statement of profit and loss.

## 8.20 Ind AS 33 : Earnings Per Share

### 8.20.1 Objective

The objective of this Standard is to prescribe principles for the determination and presentation of Earnings per share, so as to improve performance comparisons between different entities in the same reporting period and between different reporting periods for the same entity.

Even though earnings per share data have limitations because of different accounting policies that may be used for determining 'earnings', a consistently determined denominator enhances financial reporting.

The focus of this Standard is on the denominator of the earnings per share calculation.

### 8.20.2 Scope

This Indian Accounting Standard shall apply to companies that have issued ordinary shares to which Indian Accounting Standards (Ind AS) notified under the Companies Act apply.

An entity that discloses earnings per share shall calculate and disclose earnings per share in accordance with this Standard.

When an entity presents both consolidated financial statements and separate financial statements prepared in accordance with Ind AS 110, '*Consolidated Financial Statements*', and Ind AS 27, '*Separate Financial Statements*', respectively, the disclosures required by this Standard shall be presented both in the consolidated financial statements and separate financial statements.

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1. In consolidated financial statements such disclosures shall be based on consolidated information and in separate financial statements such disclosures shall be based on information given in separate financial statements.
2. An entity shall not present in consolidated financial statements, earnings per share based on the information given in separate financial statements and shall not present in separate financial statements, earnings per share based on the information given in consolidated financial statements.

### 8.20.3 Measurement

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**8.20.3.1 Basic Earnings Per Share:** An ordinary share is an equity instrument that is subordinate to all other classes of equity instruments.

A potential ordinary share is a financial instrument or other contract that may entitle its holder to ordinary shares.

Examples of potential ordinary shares are:

- (a) financial liabilities or equity instruments, including preference shares, that are convertible into ordinary shares;
- (b) options and warrants;
- (c) shares that would be issued upon the satisfaction of conditions resulting from contractual arrangements, such as the purchase of a business or other assets.

An entity shall calculate basic earnings per share amounts for profit or loss attributable to ordinary equity holders of the parent entity and, if presented, profit or loss from continuing operations attributable to those equity holders.

**Basic earnings per share shall be calculated by:**

$$\frac{\text{Profit or loss attributable to ordinary equity holders of the parent entity}}{\text{Weighted average number of ordinary shares outstanding during the period}}$$

For the purpose of calculating basic earnings per share, the amounts attributable to ordinary equity holders of the parent entity in respect of:

- (a) profit or loss from continuing operations attributable to the parent entity; and
- (b) profit or loss attributable to the parent entity

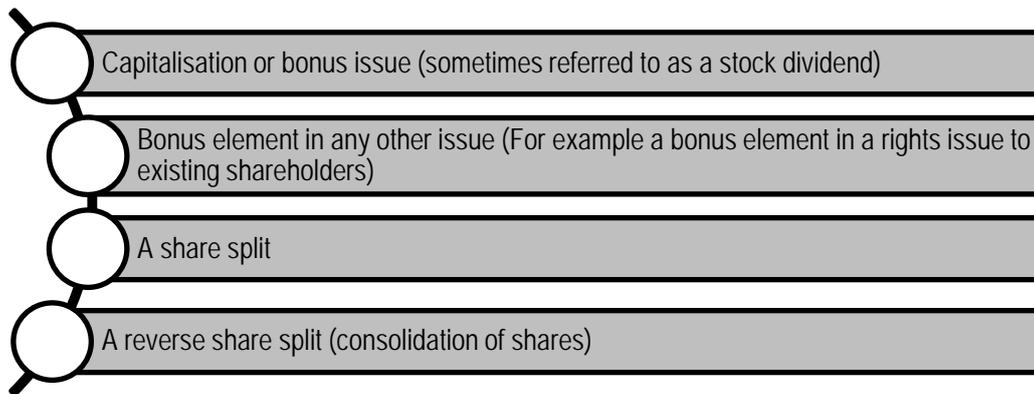
adjusted for the after-tax amounts of preference dividends, differences arising on the settlement of preference shares, and other similar effects of preference shares classified as equity.

Where any item of income or expense which is otherwise required to be recognised in profit or loss in accordance with Indian Accounting Standards is debited or credited to securities premium account/other reserves, the amount in respect thereof shall be deducted from profit or loss from continuing operations for the purpose of calculating basic earnings per share.

For the purpose of calculating basic earnings per share, the number of ordinary shares shall be the weighted average number of ordinary shares outstanding during the period.

The weighted average number of ordinary shares outstanding during the period and for all periods presented shall be adjusted for events, other than the conversion of potential ordinary shares that have changed the number of ordinary shares outstanding without a corresponding change in resources.

Ordinary shares may be issued, or the number of ordinary shares outstanding may be reduced, without a corresponding change in resources. Examples include:



**8.20.3.2 Diluted Earnings Per Share:** An entity shall calculate diluted earnings per share amounts for profit or loss attributable to ordinary equity holders of the parent entity and, if presented, profit or loss from continuing operations attributable to those equity holders.

For the purpose of calculating diluted earnings per share, an entity shall **ADJUST** profit or loss attributable to ordinary equity holders of the parent entity, and the weighted average number of shares outstanding, for the effects of all dilutive potential ordinary shares.

**Diluted EPS shall be calculated by:**

$$\frac{\text{Adjusted Profit/loss attributable to ordinary Equity holders of the parent entity}}{\text{Adjusted Weighted average number of ordinary shares outstanding during the period}}$$

For the purpose of calculating diluted earnings per share, an entity shall adjust profit or loss attributable to ordinary equity holders of the parent entity, as calculated in accordance with Basic EPS, by the after-tax effect of:

- (a) any dividends or other items related to dilutive potential ordinary shares deducted in arriving at profit or loss attributable to ordinary equity holders of the parent entity;
- (b) any interest recognised in the period related to dilutive potential ordinary shares; and
- (c) any other changes in income or expense that would result from the conversion of the dilutive potential ordinary shares.

For the purpose of calculating diluted earnings per share, the number of ordinary shares shall be the weighted average number of ordinary shares plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

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Potential ordinary shares shall be treated as dilutive when, and only when, their conversion to ordinary shares would decrease earnings per share or increase loss per share from continuing operations.

### 8.20.4 Presentation

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An entity shall present in the statement of profit and loss basic and diluted earnings per share for profit or loss from continuing operations attributable to the ordinary equity holders of the parent entity and for profit or loss attributable to the ordinary equity holders of the parent entity for the period for each class of ordinary shares that has a different right to share in profit for the period.

An entity shall present basic and diluted earnings per share with equal prominence for all periods presented.

An entity that reports a discontinued operation shall disclose the basic and diluted amounts per share for the discontinued operation either in the statement of profit and loss or in the notes.

- (a) An entity that reports a discontinued operation shall disclose the basic and diluted amounts per share for the discontinued operation either in the statement of profit and loss or in the notes.
- (b) An entity shall present basic and diluted earnings per share, even if the amounts are negative (i.e. a loss per share).

### 8.20.5 Retrospective Adjustments

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If the number of ordinary or potential ordinary shares outstanding increases as a result of a capitalisation, bonus issue or share split, or decreases as a result of a reverse share split, the calculation of basic and diluted earnings per share for all periods presented shall be adjusted retrospectively. If these changes occur after the reporting period but before the financial statements are approved for issue, the per share calculations for those and any prior period financial statements presented shall be based on the new number of shares.

### 8.20.6 Major Changes in Ind AS 33 vis-à-vis IAS\* 33 Not Resulting in Carve Outs

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1. **Consolidated Financial Statements and Separate Financial Statements:** IAS 33 provides that when an entity presents both consolidated financial statements and separate financial statements, it may give EPS related information in consolidated financial statements only, whereas, Ind AS 33 requires EPS related information to be disclosed both in consolidated financial statements and separate financial statements.
2. **Applicability of the Standard:** Paragraph 2 of IAS 33 requires that the entire standard applies to:
  - (a) the separate or individual financial statements of an entity:

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\* The term 'IFRS' includes not only the International Financial Reporting Standards (IFRSs) issued by the IASB, it also includes the International Accounting Standards (IASs), IFRICs and SICs.

- (i) whose ordinary shares or potential ordinary shares are traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets) or
  - (ii) that files, or is in the process of filing, its financial statements with a Securities Regulator or other regulatory organisation for the purpose of issuing ordinary shares in a public market; and
- (b) the consolidated financial statements of a group with a parent:
- (i) whose ordinary shares or potential ordinary shares are traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets) or
  - (ii) that files, or is in the process of filing, its financial statements with a Securities Regulator or other regulatory organisation for the purpose of issuing ordinary shares in a public market.

It also requires that an entity that discloses earnings per share shall calculate and disclose earnings per share in accordance with this Standard.

The above requirements have been deleted in the Ind AS as the applicability or exemptions to the Ind AS are governed by the Companies Act and the Rules made there under.

3. **Usage of Information:** Paragraph 4 has been modified in Ind AS 33 to clarify that an entity shall not present in separate financial statements, earnings per share based on the information given in consolidated financial statements, besides requiring as in IAS 33, that earnings per share based on the information given in separate financial statements shall not be presented in the consolidated financial statements.
4. **Adjustment of Securities Premium:** In Ind AS 33, a paragraph has been added after paragraph 12 on the following lines -  

“Where any item of income or expense which is otherwise required to be recognized in profit or loss in accordance with Indian Accounting Standards is debited or credited to securities premium account/other reserves, the amount in respect thereof shall be deducted from profit or loss from continuing operations for the purpose of calculating basic earnings per share.”
5. **Amortisation of Discount or Premium:** In Ind AS 33 paragraph 15 has been amended by adding the phrase, ‘irrespective of whether such discount or premium is debited or credited to securities premium account’ to further clarify that such discount or premium shall also be amortised to retained earnings.
6. **Disclosure of Amounts of per Share using a Reported Component:** IAS 33 requires disclosure of amounts of per share using a reported component, basic and diluted earnings per share and basic and diluted earnings per share for discontinued operations in the separate income statement, where separate income statement is presented. This requirement is not provided in Ind AS 33 consequential to the removal of option regarding two statement approach in Ind AS 1. Ind AS 1 requires that the components of profit or

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loss and components of other comprehensive income shall be presented as a part of the statement of profit and loss.

### 8.20.7 Major Changes in Ind AS 33 vis a vis Notified AS 20

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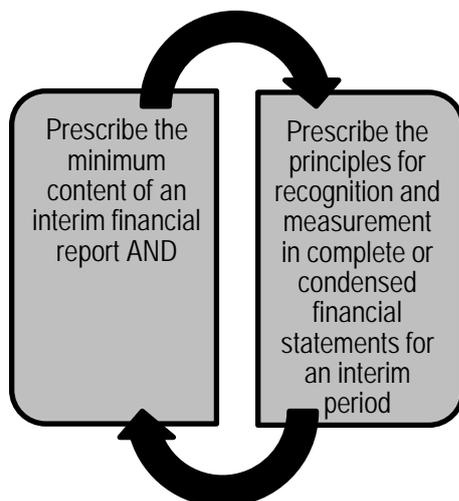
- (i) **Options held by the Entity on its Shares:** Existing AS 20 does not specifically deal with options held by the entity on its shares, e.g., purchased options, written put option etc. Ind AS 33 deals with the same.
- (ii) **Presentation of Basic and Diluted EPS from Continuing and Discontinued Operations:** Ind AS 33 requires presentation of basic and diluted EPS from continuing and discontinued operations separately. However, existing AS 20 does not require any such disclosure.
- (iii) **Disclosure of EPS with and without Extraordinary Items:** Existing AS 20 requires the disclosure of EPS with and without extraordinary items. Since as per Ind AS 1, 'Presentation of Financial Statements', no item can be presented as extraordinary item, Ind AS 33 does not require the aforesaid disclosure.

## 8.21 Ind AS 34 : Interim Financial Reporting

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### 8.21.1 Objective

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Timely and reliable interim financial reporting improves the ability of investors, creditors, and others to understand an entity's capacity to generate earnings and cash flows and its financial condition and liquidity.

### 8.21.2 Scope

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This Standard does not mandate which entities should be required to publish interim financial reports, how frequently, or how soon after the end of an interim period. However, governments, securities regulators, stock exchanges, and accountancy bodies often require entities whose debt or equity securities are publicly traded to publish interim financial reports.

This Standard applies if an entity is required or elects to publish an interim financial report in accordance with Indian Accounting Standards.

### 8.21.3 Interim Financial Report

**Interim financial report** means a financial report containing either a complete set of financial statements (as described in Ind AS 1, 'Presentation of Financial Statements'), or a set of condensed financial statements (as described in this Standard) for an interim period.

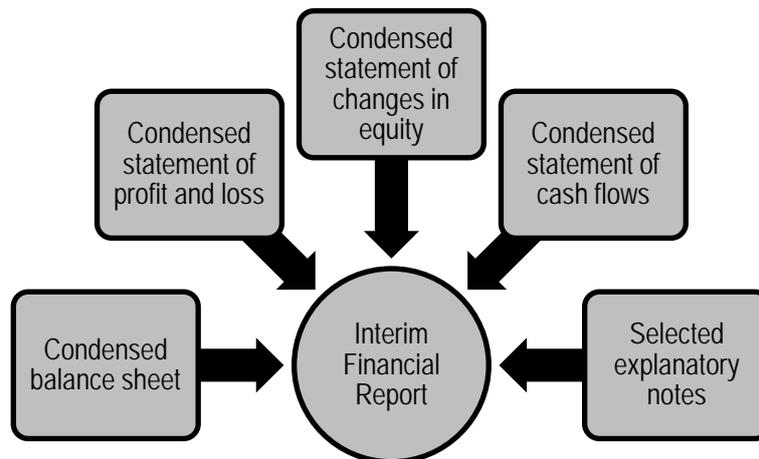
**Interim period** is a financial reporting period shorter than a full financial year.

### 8.21.4 Minimum Components of an Interim Financial Report

In the interest of timeliness and cost considerations and to avoid repetition of information previously reported, an entity may be required to or may elect to provide less information at interim dates as compared with its annual financial statements. This Standard defines the minimum content of an interim financial report as including condensed financial statements and selected explanatory notes. The interim financial report is intended to provide an update on the latest complete set of annual financial statements. Accordingly, it focuses on new activities, events, and circumstances and does not duplicate information previously reported.

Nothing in this Standard is intended to prohibit or discourage an entity from publishing a complete set of financial statements (as described in Ind AS 1) in its interim financial report, rather than condensed financial statements and selected explanatory notes. If an entity publishes a complete set of financial statements in its interim financial report, the form and content of those statements shall conform to the requirements of Ind AS 1 for a complete set of financial statements.

An interim financial report shall include, at a minimum, the following components:



### Form and Content of Interim Financial Statements

**Situation I:** if an entity publishes a complete set of financial statements in its interim financial report, the form and content of those statements shall conform to the requirements of Ind AS 1 for a complete set of financial statements.

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**Situation II:** If an entity publishes a set of condensed financial statements in its interim financial report, those condensed statements shall include, at a minimum:

- Each of the headings and subtotals that were included in its most recent annual financial statements
- The selected explanatory notes as required by this Standard
- Additional line items or notes shall be included if their omission would make the condensed interim financial statements misleading
- In the statement that presents the components of profit or loss for an interim period, an entity shall present basic and diluted earnings per share for that period when the entity is within the scope of Ind AS 33, 'Earnings per Share'.

### 8.21.5 Significant Events and Transactions

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The following is a list of events and transactions for which disclosures would be required if they are significant (the list is not exhaustive):

- (a) the write-down of inventories to net realisable value and the reversal of such a write-down;
- (b) recognition of a loss from the impairment of financial assets, property, plant and equipment, intangible assets, or other assets, and the reversal of such an impairment loss;

In addition to disclosing significant events and transactions in accordance with paragraphs 15–15C, an entity shall include the following information, in the notes to its interim financial statements or elsewhere in the interim financial report. The following disclosures shall be given either in the interim financial statements or incorporated by cross-reference from the interim financial statements to some other statement (such as management commentary or risk report) that is available to users of the financial statements on the same terms as the interim financial statements and at the same time. If users of the financial statements do not have access to the information incorporated by cross-reference on the same terms and at the same time, the interim financial report is incomplete. The information shall normally be reported on a financial year-to-date basis.

- (c) the reversal of any provisions for the costs of restructuring;
- (d) acquisitions and disposals of items of property, plant and equipment;
- (e) commitments for the purchase of property, plant and equipment;
- (f) litigation settlements;
- (g) corrections of prior period errors;
- (h) changes in the business or economic circumstances that affect the fair value of the entity's financial assets and financial liabilities, whether those assets or liabilities are recognised at fair value or amortised cost;
- (i) any loan default or breach of a loan agreement that has not been remedied on or before the end of the reporting period;
- (j) related party transactions;

- (k) transfers between levels of the fair value hierarchy used in measuring the fair value of financial instruments;
- (l) changes in the classification of financial assets as a result of a change in the purpose or use of those assets; and
- (m) changes in contingent liabilities or contingent assets.

#### **8.21.6 Interim Reporting Periods**

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Interim reports shall include interim financial statements (condensed or complete) for periods as follows:

- (a) Balance sheet as of the end of the current interim period and a comparative balance sheet as of the end of the immediately preceding financial year.
- (b) Statements of profit and loss for the current interim period and cumulatively for the current financial year to date, with comparative statements of profit and loss for the comparable interim periods (current and year-to-date) of the immediately preceding financial year.
- (c) Statement of changes in equity cumulatively for the current financial year to date, with a comparative statement for the comparable year-to-date period of the immediately preceding financial year.
- (d) Statement of cash flows cumulatively for the current financial year to date, with a comparative statement for the comparable year-to-date period of the immediately preceding financial year.
- (e) For an entity whose business is highly seasonal, financial information for the twelve months up to the end of the interim period and comparative information for the prior twelve-month period may be useful.

#### **8.21.7 Recognition and Measurement**

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In deciding how to recognise, measure, classify, or disclose an item for interim financial reporting purposes, materiality shall be assessed in relation to the interim period financial data. In making assessments of materiality, it shall be recognised that interim measurements may rely on estimates to a greater extent than measurements of annual financial data.

The measurement procedures to be followed in an interim financial report shall be designed to ensure that the resulting information is reliable and that all material financial information that is relevant to an understanding of the financial position or performance of the entity is appropriately disclosed. While measurements in both annual and interim financial reports are often based on reasonable estimates, the preparation of interim financial reports generally will require a greater use of estimation methods than annual financial reports.

**8.21.7.1 Same Accounting Policies as Annual:** An entity shall apply the same accounting policies in its interim financial statements as are applied in its annual financial statements, except for accounting policy changes made after the date of the most recent annual financial statements that are to be reflected in the next annual financial statements. However, the frequency of an entity's reporting (annual, half-yearly, or quarterly) shall not affect the

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measurement of its annual results. To achieve that objective, measurements for interim reporting purposes shall be made on a year-to-date basis.

**8.21.7.2 Revenues received Seasonally, Cyclically, or Occasionally:** Revenues that are received seasonally, cyclically, or occasionally within a financial year shall not be anticipated or deferred as of an interim date if anticipation or deferral would not be appropriate at the end of the entity's financial year.

**8.21.7.3 Costs incurred unevenly during the financial year:** Costs that are incurred unevenly during an entity's financial year shall be anticipated or deferred for interim reporting purposes if, and only if, it is also appropriate to anticipate or defer that type of cost at the end of the financial year.

**8.21.7.4 Use of Estimates:** The measurement procedures to be followed in an interim financial report shall be designed to ensure that the resulting information is reliable and that all material financial information that is relevant to an understanding of the financial position or performance of the entity is appropriately disclosed. While measurements in both annual and interim financial reports are often based on reasonable estimates, the preparation of interim financial reports generally will require a greater use of estimation methods than annual financial reports.

### 8.21.8 Restatement of Previously Reported Interim Periods

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A change in accounting policy, other than one for which the transition is specified by a new Ind AS, shall be reflected by:

- (a) restating the financial statements of prior interim periods of the current financial year and the comparable interim periods of any prior financial years that will be restated in the annual financial statements in accordance with Ind AS 8; or
- (b) when it is impracticable to determine the cumulative effect at the beginning of the financial year of applying a new accounting policy to all prior periods, adjusting the financial statements of prior interim periods of the current financial year, and comparable interim periods of prior financial years to apply the new accounting policy prospectively from the earliest date practicable.

There is an issue that whether an entity reverse impairment losses recognised in an interim period on goodwill if a loss would not have been recognised, or a smaller loss would have been recognised, had an impairment assessment been made only at the end of a subsequent reporting period. Appendix A of Ind AS 34 prescribes that an entity shall not reverse an impairment loss recognised in a previous interim period in respect of goodwill. Further this Appendix also prescribes that an entity shall not extend this accounting principle by analogy to other areas of potential conflict between Ind AS 34 and other Indian Accounting Standards.

### 8.21.9 Major Changes in Ind AS 34 vis-à-vis IAS\* 34 Not Resulting in Carve Outs

- (i) **Addition of a footnote regarding Unaudited Financial Results:** A footnote has been added to paragraph 1 of Ind AS 34, 'Interim Financial Reporting' that Unaudited Financial Results required to be prepared and presented under Clause 41 of Listing Agreement with stock exchanges is not an 'Interim Financial Report' as defined in paragraph 4 of this Standard.
- (ii) **Single Statement Approach:** IAS 34 provides option either to follow single statement approach or to follow two statement approaches. Ind AS 34 allows only single statement approach on the lines of Ind AS 1, 'Presentation of Financial Statements', which also allows only single statement approach.

### 8.21.10 Major Differences between Ind AS 34 vis a vis Notified AS 25

- (i) **Scope:** Under the existing AS 25, if an entity is required or elects to prepare and present an interim financial report, it should comply with that standard. Ind AS 34 applies only if an entity is required or elects to prepare and present an interim financial report in accordance with Accounting Standards. Consequently, it is specifically stated in Ind AS 34 that the fact that an entity may not have provided interim financial reports during a particular financial year or may have provided interim financial reports that do not comply with Ind AS 34 does not prevent the entity's annual financial statements from conforming to Ind AS if they otherwise do so.
- (ii) **Complete set of Financial Statements:** In Ind AS 34, the term 'complete set of financial statements' appearing in the definition of interim financial report has been expanded as compared to AS 25. Accordingly, the said term (as described in Ind AS 1, 'Presentation of Financial Statements') includes balance sheet as at the beginning of the preceding period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements and comparative information in respect of the preceding period as specified in paragraphs 38 and 38A of Ind AS 1.
- (iii) **Contents of Interim Report:** As per the existing standard, the contents of an interim financial report include, at a minimum, a condensed balance sheet, a condensed statement of profit and loss, a condensed cash flow statement and selected explanatory notes. Ind AS 34 requires, in addition to the above, a condensed statement of changes in equity.
- (iv) **Reversal of Impairment Loss:** Ind AS 34 prohibits reversal of impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost. There is no such specific prohibition in the existing standard. Ind AS 34 includes Appendix A which addresses the interaction between the requirements of Ind AS 34 and the recognition of impairment losses on goodwill in Ind

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\* The term 'IFRS' includes not only the International Financial Reporting Standards (IFRSs) issued by the IASB, it also includes the International Accounting Standards (IASs), IFRICs and SICs.

AS 36 and certain financial assets in Ind AS 109, and the effect of that interaction on subsequent interim and annual financial statements.

- (v) ***Inclusion of the Parent's Separate Statements and The Consolidated Financial Statements in the Entity's Interim Report:*** Under the existing standard, if an entity's annual financial report included the consolidated financial statements in addition to the separate financial statements, the interim financial report should include both the consolidated financial statements and separate financial statements, complete or condensed. Ind AS 34 states that it neither requires nor prohibits the inclusion of the parent's separate statements in the entity's interim report prepared on a consolidated basis.
- (vi) ***Accounting Policies:*** The existing standard requires the Notes to interim financial statements, (if material and not disclosed elsewhere in the interim financial report), to contain a statement that the same accounting policies are followed in the interim financial statements as those followed in the most recent annual financial statements or, in case of change in those policies, a description of the nature and effect of the change. Ind AS 34 additionally requires the above information in respect of methods of computation followed.
- (vii) ***Dividends:*** The existing standard requires furnishing information, in interim financial report, of dividends, aggregate or per share (in absolute or percentage terms), for equity and other shares. Ind AS 34 requires furnishing of information, in interim financial report, on dividends paid, aggregate or per share separately for equity and other shares.
- (viii) ***Contingent Liabilities and Contingent Assets:*** While the existing standard requires furnishing of information on contingent liabilities only, Ind AS 34 requires furnishing of information on both contingent liabilities and contingent assets, if they are significant.
- (ix) ***Extraordinary Items:*** In comparison to AS 25, reference to extraordinary items (in the context of materiality) is deleted in Ind AS 34 in line with the Ind AS 1.
- (x) ***Interim Financial Statements prepared on Complete Basis:*** Ind AS 34 requires that, where an interim financial report has been prepared in accordance with the requirements of Ind AS 34, that fact should be disclosed. Further, an interim financial report should not be described as complying with Ind AS unless it complies with all of the requirements of Ind AS. (The latter statement is applicable when interim financial statements are prepared on complete basis instead of 'condensed basis'). The existing standard does not contain these requirements.
- (xi) ***Change in Accounting Policy:*** Under the existing standard, a change in accounting policy, other than the one for which the transitional provisions are specified by a new Standard, should be reflected by restating the financial statements of prior interim periods of the current financial year. Ind AS 34 additionally requires restatement of the comparable interim periods of prior financial years that will be restated in annual financial statements in accordance with Ind AS 8, subject to specific provisions when such restatement is impracticable.

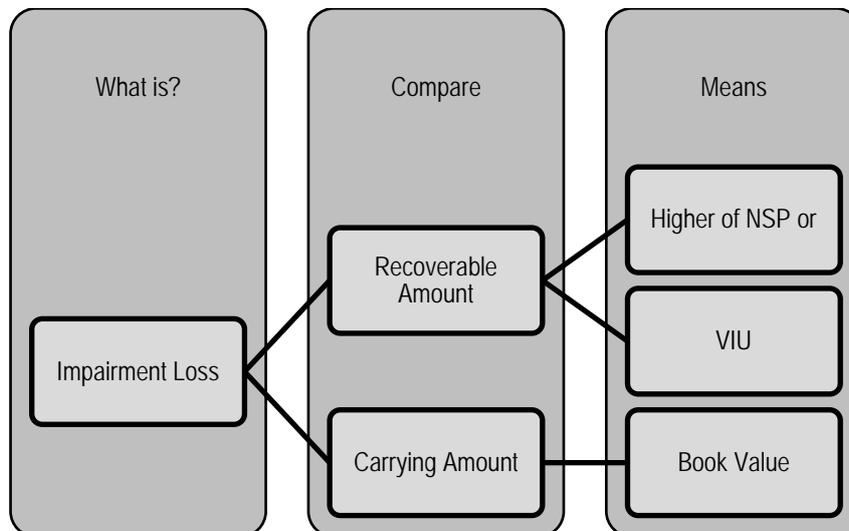
(xii) **Impact of Convergence:** Convergence of all other standards with IFRS also has impact on interim financial reporting. For example, treatment of constructive obligation in Ind AS 37, etc. will have impact in interim financial reporting which could be different in the context of relevant existing standards. There are other consequential impacts also. For example, existing AS 20 requires EPS with and without extraordinary items. Since the concept of extraordinary items is no longer valid in the context of Ind AS 1 the question of EPS with and without extraordinary items does not arise in the context of Ind AS 33. This changed requirement of Ind AS 33 is equally applicable to interim financial reporting under Ind AS 34.

(xiii) **Transitional Provision:** Under the existing standard, when an interim financial report is presented for the first time in accordance with that Standard, an entity need not present, in respect of all the interim periods of the current financial year, comparative statements of profit and loss for the comparable interim periods (current and year-to-date) of the immediately preceding financial year and comparative cash flow statement for the comparable year-to-date period of the immediately preceding financial year. Ind AS 34 does not have this transitional provision.

**8.22 Ind AS 36 : Impairment of Assets**

**8.22.1 Objective**

The objective of this Standard is to prescribe the procedures that an entity applies to ensure that its assets are carried at no more than their recoverable amount. An asset is carried at more than its recoverable amount if its carrying amount exceeds the amount to be recovered through use or sale of the asset. If this is the case, the asset is described as impaired and the Standard requires the entity to recognise an impairment loss. The Standard also specifies when an entity should reverse an impairment loss and prescribes disclosures.



### 8.22.2 Scope

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This Standard shall be applied in accounting for the impairment of all assets, other than:

1. • Inventories; Ind AS 2
2. • Assets arising from construction contracts; Ind AS 11
3. • Deferred Tax Assets; Ind AS 12
4. • Assets arising from Employee Benefits; Ind AS 19
5. • Financial assets that are within the scope of Ind AS 109
6. • Biological assets related to agricultural activity that are measured at fair value less costs to sell; Ind AS 41
7. • Deferred acquisition costs, and intangible assets, arising from an insurer's contractual rights under insurance contracts within the scope of Ind AS 104
8. • Non-current assets (or disposal groups) classified as held for sale in accordance with Ind AS 105

This Standard applies to financial assets classified as:

1. Subsidiaries, as defined in Ind AS 110 Consolidated Financial Statements
2. Associates, as defined in Ind AS 28 Investments in Associates and Joint Ventures
3. Joint ventures, as defined in Ind AS 111 Joint Arrangements.

### 8.22.3 Identifying an Asset that may be Impaired

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An entity shall assess at the end of each reporting period whether there is any indication that an asset may be impaired. If any such indication exists, the entity shall estimate the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, an entity shall also:

- (a) test an intangible asset with an indefinite useful life or an intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test may be performed at any time during an annual period, provided it is performed at the same time every year. Different intangible assets may be tested for impairment at different times.

However, if such an intangible asset was initially recognised during the current annual period, that intangible asset shall be tested for impairment before the end of the current annual period.

- (b) test goodwill acquired in a business combination for impairment annually.

In assessing whether there is any indication that an asset may be impaired, an entity shall consider, as a minimum, the following indications:

**External Sources of Information**

- (a) there are observable indications that the asset's value has declined during the period significantly more than would be expected as a result of the passage of time or normal use.
- (b) significant changes with an adverse effect on the entity have taken place during the period, or will take place in the near future, in the technological, market, economic or legal environment in which the entity operates or in the market to which an asset is dedicated.
- (c) market interest rates or other market rates of return on investments have increased during the period, and those increases are likely to affect the discount rate used in calculating an asset's value in use and decrease the asset's recoverable amount materially.
- (d) the carrying amount of the net assets of the entity is more than its market capitalisation.

**Internal Sources of Information**

- (a) evidence is available of obsolescence or physical damage of an asset.
- (b) significant changes with an adverse effect on the entity have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, an asset is used or is expected to be used. These changes include the asset becoming idle, plans to discontinue or restructure the operation to which an asset belongs, plans to dispose of an asset before the previously expected date, and reassessing the useful life of an asset as finite rather than indefinite.
- (c) evidence is available from internal reporting that indicates that the economic performance of an asset is, or will be, worse than expected.
- (d) for an investment in a subsidiary, joint venture or associate, the investor recognises a dividend from the investment and evidence is available that:
  - (i) the carrying amount of the investment in the separate financial statements exceeds the carrying amounts in the consolidated financial statements of the investee's net assets, including associated goodwill; or
  - (ii) the dividend exceeds the total comprehensive income of the subsidiary, joint venture or associate in the period the dividend is declared.

**8.22.4 Recognising and Measuring an Impairment Loss**

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If, and only if, the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset shall be reduced to its recoverable amount. That reduction is an impairment loss.

An impairment loss shall be recognised immediately in profit or loss, unless the asset is carried at revalued amount in accordance with another Standard (for example, in accordance with the revaluation model in Ind AS 16). Any impairment loss of a revalued asset shall be treated as a revaluation decrease in accordance with that other Standard.

When the amount estimated for an impairment loss is greater than the carrying amount of the asset to which it relates, an entity shall recognise a liability if, and only if, that is required by another Standard.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the asset shall be adjusted in future periods to allocate the asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

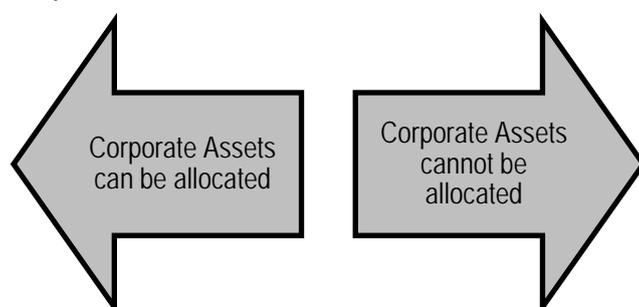
If there is an indication that an asset may be impaired, recoverable amount shall be estimated for individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the entity shall determine the recoverable amount of the cash generating unit to which the asset belongs (the asset's cash generating unit).

#### 8.22.5 Cash Generating Unit

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A *cash-generating unit* is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

##### Corporate Assets



Corporate assets include group or divisional assets such as the building of a headquarters or a division of the entity, EDP equipment or a research centre.

Because corporate assets do not generate separate cash inflows, the recoverable amount of an individual corporate asset cannot be determined unless management has decided to dispose of the asset. As a consequence, if there is an indication that a corporate asset may be impaired, recoverable amount is determined for the cash-generating unit or group of cash-generating units to which the corporate asset belongs, and is compared with the carrying amount of this cash-generating unit or group of cash-generating units.

In testing a cash-generating unit for impairment, an entity shall identify all the corporate assets that relate to the cash-generating unit under review. If a portion of the carrying amount of a corporate asset:

- (a) can be allocated on a reasonable and consistent basis to that unit, the entity shall compare the carrying amount of the unit, including the portion of the carrying amount of the corporate asset allocated to the unit, with its recoverable amount. Any impairment loss shall be recognised.
- (b) cannot be allocated on a reasonable and consistent basis to that unit, the entity shall:

- (i) compare the carrying amount of the unit, excluding the corporate asset, with its recoverable amount and recognise any impairment loss;
- (ii) identify the smallest group of cash-generating units that includes the cash-generating unit under review and to which a portion of the carrying amount of the corporate asset can be allocated on a reasonable and consistent basis; and
- (iii) compare the carrying amount of that group of cash-generating units, including the portion of the carrying amount of the corporate asset allocated to that group of units, with the recoverable amount of the group of units. Any impairment loss shall be recognised.

**8.22.5.1 Measuring Cash Generating Unit:** The *recoverable amount* of an asset or a cash-generating unit is the higher of its fair value less costs of disposal and its value in use.

It is not always necessary to determine both an asset's fair value less costs of disposal and its value in use. If either of these amounts exceeds the asset's carrying amount, the asset is not impaired and it is not necessary to estimate the other amount.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Costs of disposal are incremental costs directly attributable to the disposal of an asset or cash-generating unit, excluding finance costs and income tax expense.

Value in use is the present value of the future cash flows expected to be derived from an asset or cash-generating unit.

The following elements shall be reflected in the calculation of an asset's value in use:

- (a) an estimate of the future cash flows the entity expects to derive from the asset;
- (b) expectations about possible variations in the amount or timing of those future cash flows;
- (c) the time value of money, represented by the current market risk-free rate of interest;
- (d) the price for bearing the uncertainty inherent in the asset; and
- (e) other factors, such as illiquidity, that market participants would reflect in pricing the future cash flows the entity expects to derive from the asset.

Estimates of future cash flows shall include:

- (a) projections of cash inflows from the continuing use of the asset;
- (b) projections of cash outflows that are necessarily incurred to generate the cash inflows from continuing use of the asset (including cash outflows to prepare the asset for use) and can be directly attributed, or allocated on a reasonable and consistent basis, to the asset; and
- (c) net cash flows, if any, to be received (or paid) for the disposal of the asset at the end of its useful life.

Future cash flows shall be estimated for the asset in its current condition. Estimates of future cash flows shall not include estimated future cash inflows or outflows that are expected to arise from:

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- (a) a future restructuring to which an entity is not yet committed; or
- (b) improving or enhancing the asset's performance.

Estimates of future cash flows shall not include:

- (a) cash inflows or outflows from financing activities; or
- (b) income tax receipts or payments.

**8.22.5.2 Impairment Loss for a Cash Generating Unit:** An impairment loss shall be recognised for a cash-generating unit (the smallest group of cash-generating units to which goodwill or a corporate asset has been allocated) if, and only if, the recoverable amount of the unit (group of units) is less than the carrying amount of the unit (group of units). The impairment loss shall be allocated to reduce the carrying amount of the assets of the unit (group of units) in the following order:

- (a) first, to reduce the carrying amount of any goodwill allocated to the cash-generating unit (group of units); and
- (b) then, to the other assets of the unit (group of units) pro rata on the basis of the carrying amount of each asset in the unit (group of units).

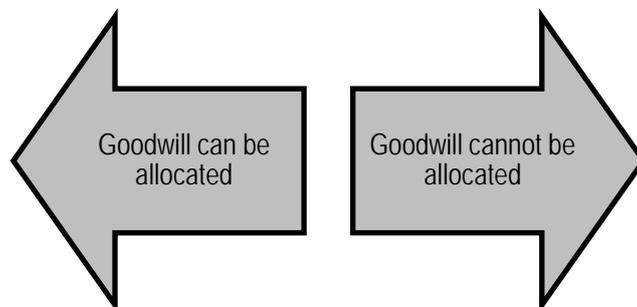
These reductions in carrying amounts shall be treated as impairment losses on individual assets.

In allocating an impairment loss, an entity shall not reduce the carrying amount of an asset below the highest of:

- (a) its fair value less costs of disposal (if measurable);
- (b) its value in use (if determinable); and
- (c) zero.

The amount of the impairment loss that would otherwise have been allocated to the asset shall be allocated pro rata to the other assets of the unit (group of units).

### 8.22.5.3 Allocating goodwill to cash generating units



For the purpose of impairment testing, goodwill acquired in a business combination shall, from the acquisition date, be allocated to each of the acquirer's cash-generating units, or groups of cash-generating units, that is expected to benefit from the synergies of the combination,

irrespective of whether other assets or liabilities of the acquiree are assigned to those units or groups of units. Each **unit or group of units to which the goodwill is so allocated** shall:

- (a) represent the lowest level within the entity at which the goodwill is monitored for internal management purposes; and
- (b) not be larger than an operating segment as defined by Ind AS 108, 'Operating Segments', before aggregation.

If goodwill has been allocated to a cash-generating unit and the entity disposes of an operation within that unit, the goodwill associated with the operation disposed of shall be:

- (a) included in the carrying amount of the operation when determining the gain or loss on disposal; and
- (b) measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit retained, unless the entity can demonstrate that some other method better reflects the goodwill associated with the operation disposed of.

When, goodwill relates to a cash-generating unit but **has not been allocated to that unit**, the unit shall be tested for impairment, whenever there is an indication that the unit may be impaired, by comparing the unit's carrying amount, excluding any goodwill, with its recoverable amount.

#### **8.22.6 Reversing an Impairment Loss**

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An entity shall assess at the end of each reporting period whether there is any indication that an impairment loss recognised in prior periods for an asset other than goodwill may no longer exist or may have decreased. If any such indication exists, the entity shall estimate the recoverable amount of that asset.

In assessing whether there is any indication that an impairment loss recognised in prior periods for an asset other than goodwill may no longer exist or may have decreased, an entity shall consider, as a minimum, the following indications:

##### **External Sources of Information**

- (a) there are observable indications that the asset's value has increased significantly during the period.
- (b) significant changes with a favourable effect on the entity have taken place during the period, or will take place in the near future, in the technological, market, economic or legal environment in which the entity operates or in the market to which the asset is dedicated.
- (c) market interest rates or other market rates of return on investments have decreased during the period, and those decreases are likely to affect the discount rate used in calculating the asset's value in use and increase the asset's recoverable amount materially.

##### **Internal Sources of Information**

- (a) significant changes with a favourable effect on the entity have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, the asset is used or is expected to be used. These changes include costs incurred during the period to improve or enhance the asset's performance or restructure the operation to which the asset belongs.

- (b) evidence is available from internal reporting that indicates that the economic performance of the asset is, or will be, better than expected.

**8.22.6.1 Reversing an Impairment Loss for an Individual Asset:** The increased carrying amount of an asset other than goodwill attributable to a reversal of an impairment loss shall not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior years.

A reversal of an impairment loss for an asset other than goodwill shall be recognised immediately in profit or loss, unless the asset is carried at revalued amount in accordance with another Indian Accounting Standard (for example, the revaluation model in Ind AS 16). Any reversal of an impairment loss of a revalued asset shall be treated as a revaluation increase in accordance with that other Indian Accounting Standard.

**NOTE:** After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the asset shall be adjusted in future periods to allocate the asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

**8.22.6.2 Reversing an Impairment Loss for a Cash-generating Unit:** A reversal of an impairment loss for a cash-generating unit shall be allocated to the assets of the unit, except for goodwill, pro rata with the carrying amounts of those assets. These increases in carrying amounts shall be treated as reversals of impairment losses for individual assets.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset shall not be increased above the lower of:

- (a) its recoverable amount (if determinable); and  
(b) the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset shall be allocated pro rata to the other assets of the unit, except for goodwill.

**8.22.6.3 Reversing an impairment loss for goodwill:** An impairment loss recognised for goodwill shall not be reversed in a subsequent period.

#### **8.22.7 Major Change in Ind AS 36 vis-à-vis IAS\* 36 Not Resulting in Carve Out**

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**Impairment of Investment Property:** Paragraph 2(f) of IAS 36 provides that this standard is not applied to the accounting for impairment of investment property that is measured at fair value. Paragraph 2(f) is deleted in Ind AS 36 as Ind AS 40 requires cost model for measurement of investment property.

#### **8.22.8 Major Differences between Ind AS 36 vis a vis Notified AS 28**

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- (i) **Financial Assets:** Ind AS 36 applies to financial assets classified as subsidiaries, as defined in Ind AS 110, associates as defined in Ind AS 28, joint ventures as defined in Ind AS 111. The existing AS 28 does not apply to the above assets.

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\* The term 'IFRS' includes not only the International Financial Reporting Standards (IFRSs) issued by the IASB, it also includes the International Accounting Standards (IASs), IFRICs and SICs.

- (ii) **Biological Assets:** Ind AS 36 specifically excludes biological assets related to agricultural activity. Existing AS 28 does not specifically exclude biological assets.
- (iii) **Impairment Testing for an Intangible Asset with an Indefinite Useful Life:** Ind AS 36 requires annual impairment testing for an intangible asset with an indefinite useful life or not yet available for use and goodwill acquired in a business combination. The existing AS 28 does not require the annual impairment testing for the goodwill unless there is an indication of impairment.
- (iv) **Additional Guidance:** Ind AS 36 gives additional guidance on, *inter alia*, the following aspects compared to the existing AS 28:
- (a) estimating the value in use of an asset;
  - (b) for managements to assess the reasonableness of the assumptions on which cash flows are based; and
  - (c) using present value techniques in measuring an asset's value in use.
- (v) **Reversal of Goodwill:** The existing AS 28 requires that the impairment loss recognised for goodwill should be reversed in a subsequent period when it was caused by a specific external event of an exceptional nature that is not expected to recur and subsequent external events that have occurred that reverse the effect of that event whereas Ind AS 36 prohibits the recognition of reversals of impairment loss for goodwill.
- (vi) **Bottom up and Top Down Test:** In the existing AS 28, goodwill is allocated to CGUs only when the allocation can be done on a reasonable and consistent basis. If that requirement is not met for a specific CGU under review, the smallest CGU to which the carrying amount of goodwill can be allocated on a reasonable and consistent basis must be identified and the impairment test carried out at this level. Thus, when all or a portion of goodwill cannot be allocated reasonably and consistently to the CGU being tested for impairment, two levels of impairment tests are carried out, viz., bottom-up test and top-down test.
- In Ind AS 36, goodwill is allocated to cash-generating units (CGUs) or groups of CGUs that are expected to benefit from the synergies of the business combination from which it arose. There is no bottom-up or top-down approach for allocation of goodwill.
- (viii) **Disclosures:** Ind AS 36 requires certain extra disclosures as compared to the existing AS 28.

## 8.23 Ind AS 37: Provisions, Contingent Liabilities and Contingent Assets

### 8.23.1 Objective

The objective of this Standard is to ensure that

- appropriate recognition criteria and measurement bases are applied to provisions, contingent liabilities and contingent assets and
- that sufficient information is disclosed in the notes to enable users to understand their nature, timing and amount.

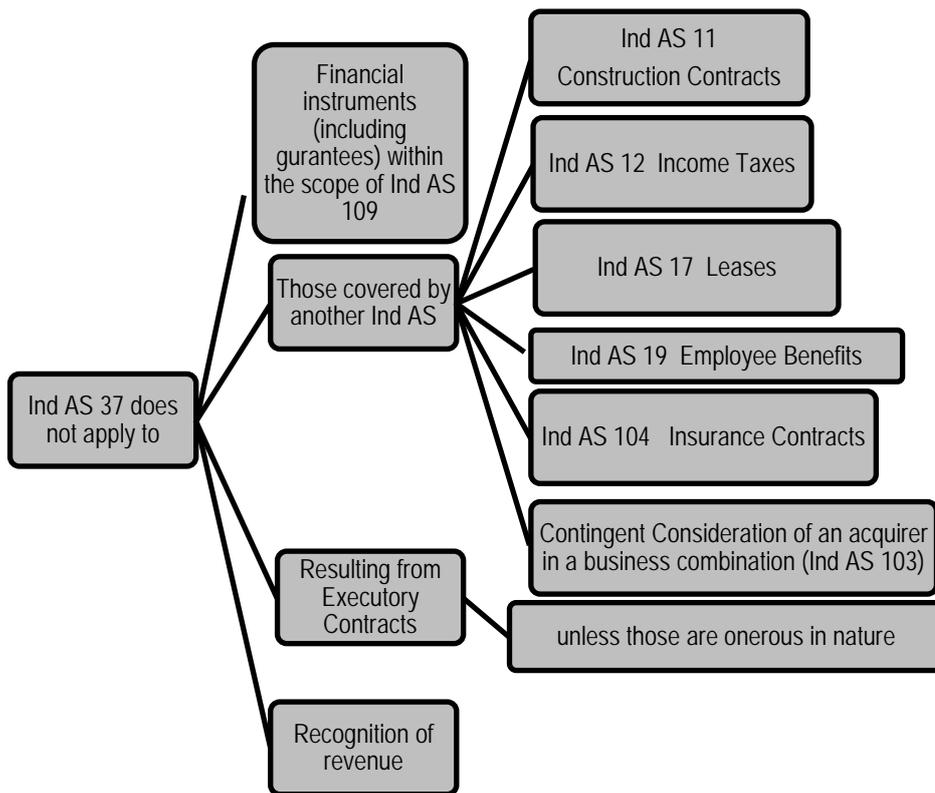
### 8.23.2 Scope

Executory contracts are contracts under which

- neither party has performed any of its obligations nor

- both parties have partially performed their obligations to an equal extent.  
This Standard does not apply to executory contracts unless they are onerous.

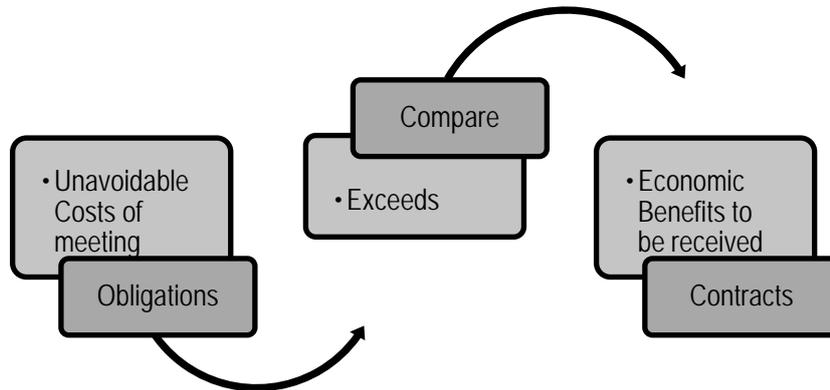
*Some amounts treated as provisions may relate to the recognition of revenue, for example, where an entity gives guarantees in exchange for fee. Ind AS 37 does not address the recognition of revenue. Ind AS 18, Revenue, identifies the circumstances in which revenue is recognised and provides practical guidance on the application of the recognition criteria. Ind AS 37 does not change the requirements of Ind AS 18.*



### 8.23.3 Onerous contracts

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An **onerous contract** is a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.



If an entity has a contract that is onerous, the present obligation under the contract shall be recognised and measured as a provision.

Many contracts (for example, some routine purchase orders) can be cancelled without paying compensation to the other party, and therefore there is no obligation.

The unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of

- the cost of fulfilling it and
- any compensation or penalties arising from failure to fulfil it.

Before a separate provision for an onerous contract is established, an entity recognises any impairment loss that has occurred on assets dedicated to that contract (Ind AS 36).

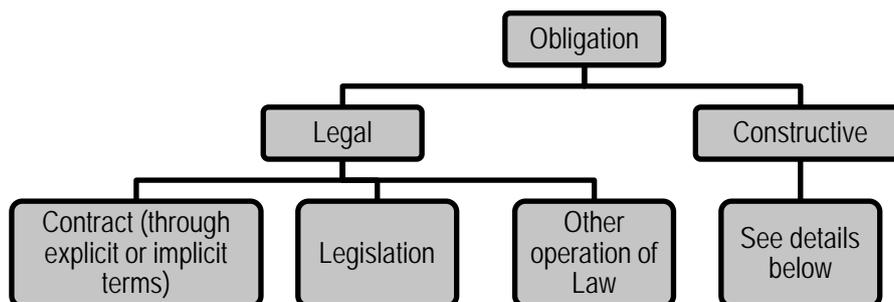
### 8.23.4 Provision

A **provision** is a liability of uncertain timing or amount.

A liability

- is a present obligation of the entity
- arising from past events,
- the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits.

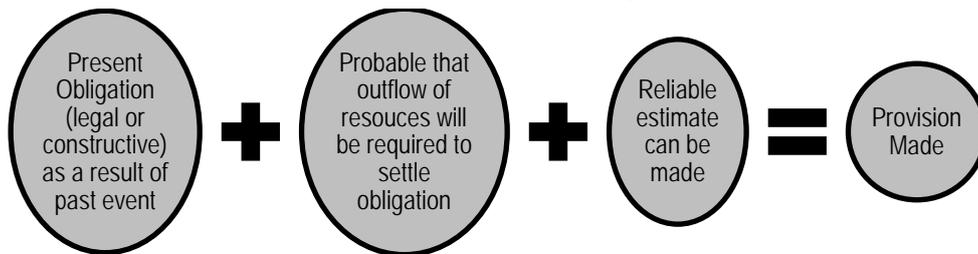
An obligating event is an event that creates a legal or constructive obligation that results in an entity having no realistic alternative to settling that obligation.



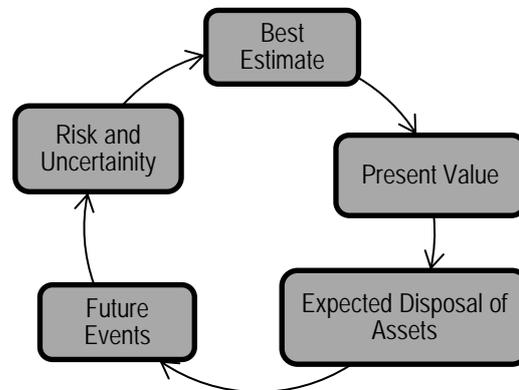
**8.23.4.1 Recognition Principle of Provision:** A provision shall be recognised when:

- (a) an entity has a present obligation (legal or constructive) that is a result of a past event;
- (b) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- (c) a reliable estimate can be made of the amount of the obligation.

If these conditions are not met, no provision shall be recognised.



**8.23.4.2 Measurement of Provision**



1. **Best estimate:** The amount recognised as a provision shall be the best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The best estimate of the expenditure required to settle the present obligation is the amount that an entity would rationally pay to settle the obligation at the end of the reporting period or to transfer it to a third party at that time.

Where the provision being measured involves a large population of items, the obligation is estimated by weighting all possible outcomes by their associated probabilities. Where a single obligation is being measured, the individual most likely outcome may be the best estimate of the liability. However, even in such a case, the entity considers other possible outcomes.

The estimates of outcome and financial effect are determined

- by the judgement of the management of the entity,
- supplemented by experience of similar transactions and,
- in some cases, reports from independent experts.

2. **Risks and uncertainties:** The risks and uncertainties that inevitably surround many events and circumstances shall be taken into account in reaching the best estimate of a provision.
  - ❖ Risk describes variability of outcome. A risk adjustment may increase the amount at which a liability is measured.
  - ❖ Disclosure of the uncertainties surrounding the amount of the expenditure is made under Ind AS 37.
3. **Present value:** Where the effect of the time value of money is material, the amount of a provision shall be the present value of the expenditures expected to be required to settle the obligation.
  - ❖ The discount rate (or rates) shall be a pre-tax rate (or rates) that reflect(s) current market assessments of the time value of money and the risks specific to the liability.
  - ❖ The discount rate(s) shall not reflect risks for which future cash flow estimates have been adjusted.
  - ❖ Government bond rate can be used as discount rate, as it is a risk-free pre-tax rate reflecting the time value of money.
  - ❖ Discount rate should also be reassessed at the end of each reporting period, including the interim reporting date, if any.
4. **Future events:** Future events that may affect the amount required to settle an obligation shall be reflected in the amount of a provision where there is sufficient objective evidence that they will occur.
5. **Expected disposal of assets:** Gains from the expected disposal of assets shall not be taken into account in measuring a provision. These are not recognised even if the expected disposal is closely linked to the event giving rise to the provision.

**Reimbursements:** Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement shall be recognised when, and only when, it is virtually certain that reimbursement will be received if the entity settles the obligation.

**8.23.4.4 Changes in Provisions:** Provisions shall be reviewed at the end of each reporting period and adjusted to reflect the current best estimate.

If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision shall be reversed.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as borrowing cost.

**8.23.4.5 Application of the Recognition and Measurement Rules: Future operating losses:** Provisions shall not be recognised for future operating losses.

Future operating losses do not meet the definition of a liability.

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An expectation of future operating losses is an indication that certain assets of the operation may be impaired. An entity tests these assets for impairment under Ind AS 36 '*Impairment of Assets*'.

### 8.23.5 Contingent Liability

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A contingent liability is

- a present obligation that arises from past events but is not recognised because:
  - ◆ It is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation.
  - ◆ The amount of the obligation cannot be measured with sufficient reliability.
- a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.

Where an entity is jointly and severally liable for an obligation, the part of the obligation that is expected to be met by other parties is treated as a contingent liability.

For the purpose of Ind AS 37, the word 'probable' is defined as 'more likely than not'. 'More likely than not' means that the probability that the event will occur is greater than the probability that it will not occur. A percentage of over 50% chance that the event will occur can be used for this purpose.

### 8.23.6 Contingent Assets

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A contingent asset

- is a possible asset
- that arises from past events and
- whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.

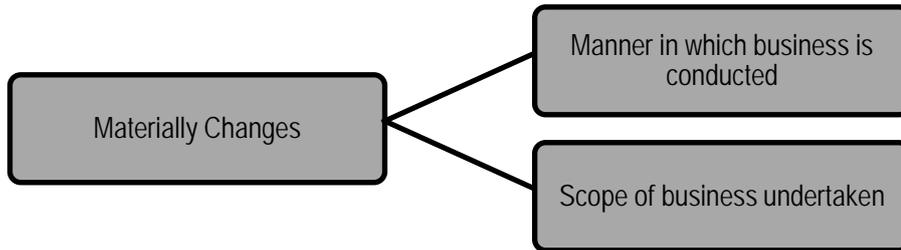
An example is a claim that an entity is pursuing through legal processes, where the outcome is uncertain.

An entity shall not recognise a contingent asset. Contingent assets are not recognised in financial statements since this may result in the recognition of income that may never be realised. However, when the realisation of income is virtually certain, then the related asset is not a contingent asset and its recognition is appropriate.

### 8.23.7 Restructuring

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A restructuring is a programme that is planned and controlled by management, and materially changes either:

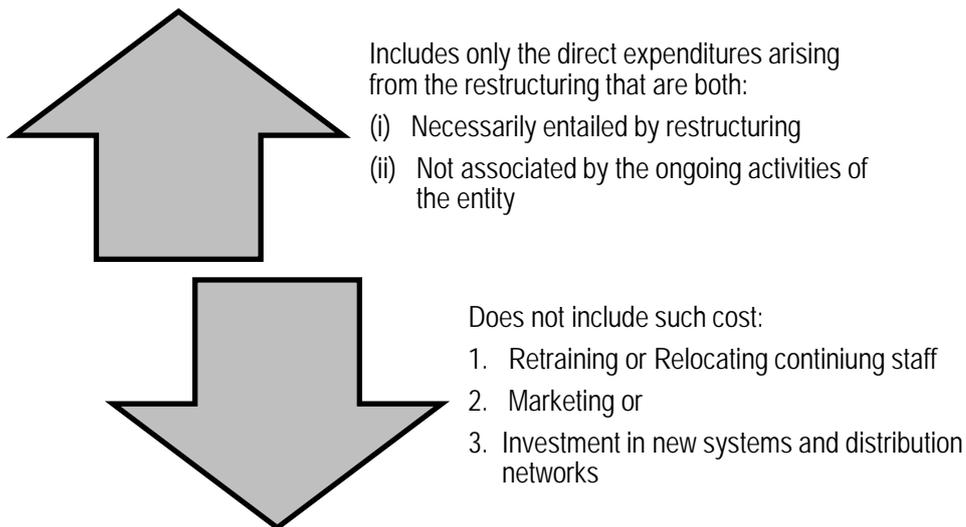


The following are examples of events that may fall under the definition of restructuring:

- (a) sale or termination of a line of business;
- (b) the closure of business locations in a country or region or the relocation of business activities from one country or region to another;
- (c) changes in management structure, for example, eliminating a layer of management; and
- (d) fundamental reorganisations that have a material effect on the nature and focus of the entity's operations.

A provision for restructuring costs is recognised only when the general recognition criteria for provisions discussed earlier are met. The standard further sets out how the general recognition criteria apply to restructurings.

**Restructuring cost provision** will include and exclude the following:



Appendix A of Ind AS 37 provides guidance on (a) how a contributor account for its interest in a fund and (b) when a contributor has an obligation to make additional contributions, for example, in the event of the bankruptcy of another contributor or if the value of the investment assets held by the fund decreases to an extent that they are insufficient to fulfil the fund's reimbursement obligations, how that obligation be accounted for. The Appendix prescribes that the contributor shall recognise its obligation to pay decommissioning costs as a liability and recognise its interest in the fund separately unless the contributor is not liable to pay decommissioning costs even if the fund fails to pay. When a contributor has an obligation to

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make potential additional contributions, this obligation is a contingent liability that is within the scope of Ind AS 37. The contributor shall recognise a liability only if it is probable that additional contributions will be made.

Appendix B of Ind AS 37 provides guidance on the recognition, in the financial statements of producers, of liabilities for waste management under the European Union's Directive on Waste Electrical and Electronic Equipment (WE&EE), in respect of sales of historical household equipment. This Appendix addresses neither new waste nor historical waste from sources other than private households. The liability for such waste management is adequately covered in Ind AS 37. However, if, in national legislation, new waste from private households is treated in a similar manner to historical waste from private households, the principles of this Appendix apply by reference to the hierarchy in paragraphs 10-12 of Ind AS 8. The Ind AS 8 hierarchy is also relevant for other regulations that impose obligations in a way that is similar to the cost attribution model specified in the EU Directive.

Appendix C to Ind AS 16 addresses the accounting for a liability to pay a levy if that liability is within the scope of Ind AS 37. It also addresses the accounting for a liability to pay a levy whose timing and amount is certain. The Appendix prescribes that obligating event that gives rise to a liability to pay a levy is the activity that triggers the payment of the levy, as identified by the legislation. An entity does not have a constructive obligation to pay a levy that will be triggered by operating in a future period as a result of the entity being economically compelled to continue to operate in that future period. The liability to pay a levy is recognised progressively if the obligating event occurs over a period of time

### 8.23.8 Major Differences between Ind AS 37 vis a vis Notified AS 29

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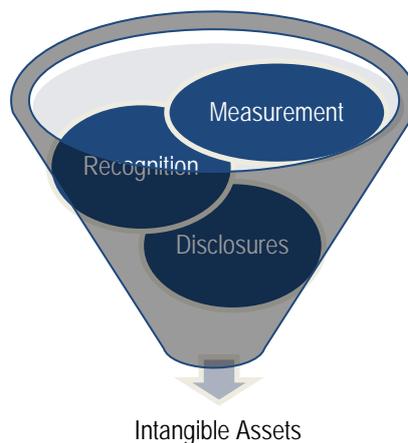
- (i) ***Constructive obligations and Change in the Definition of Provision and Obligating Event:*** Unlike the existing AS 29, Ind AS 37 requires creation of provisions in respect of constructive obligations also. [However, the existing standard requires creation of provisions arising out of normal business practices, custom and a desire to maintain good business relations or to act in an equitable manner]. This has resulted in some consequential changes also. For example, definitions of provision and obligating event have been revised in Ind AS 37, while the terms 'legal obligation' and 'constructive obligation' have been inserted and defined in Ind AS 37. Similarly, the portion of existing AS 29 pertaining to restructuring provisions has been revised in Ind AS 37.
- (ii) ***Discounting Provisions:*** *The existing AS 29 prohibits discounting the amounts of provisions except in case of decommissioning, restoration and similar liabilities that are recognised as cost of Property, Plant and Equipment. Ind AS 37 requires discounting the amounts of provisions, if effect of the time value of money is material.*
- (iii) ***Disclosure of Contingent Assets:*** The existing AS 29 notes the practice of disclosure of contingent assets in the report of the approving authority but prohibits disclosure of the same in the financial statements. Ind AS 37 requires disclosure of contingent assets in the financial statements when the inflow of economic benefits is probable. The disclosure, however, should avoid misleading indications of the likelihood of income arising.

- (iv) **Onerous Contracts:** Ind AS 37 makes it clear that before a separate provision for an onerous contract is established, an entity should recognise any impairment loss that has occurred on assets dedicated to that contract in accordance with Ind AS 36. There is no such specific provision in the existing standard.
- (v) **Future Operating Losses:** The existing AS 29 states that identifiable future operating losses up to the date of restructuring are not included in a provision. Ind AS 37 gives an exception to this principle viz. such losses related to an onerous contract.
- (vi) **Appendix:** Ind AS 37 gives guidance on:
- (a) Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
  - (b) Liabilities arising from Participating in a Specific Market — Waste Electrical and Electronic Equipment
  - (c) Levies (imposed by government).
- Existing AS 29 does not give such guidance.

## 8.24 Ind AS 38 : Intangible Assets

### 8.24.1 Objective

The objective of this Standard is to prescribe the accounting treatment for intangible assets that are not dealt with specifically in another Standard. This Standard requires an entity to recognise an intangible asset if, and only if, specified criteria are met. The Standard also specifies how to measure the carrying amount of intangible assets and requires specified disclosures about intangible assets.



### 8.24.2 Scope

This Standard shall be applied in accounting for intangible assets, **except**

1. • Intangible assets that are within the scope of another Standard (See below)
2. • Financial assets, as defined in Ind AS 32 'Financial Instruments: Presentation'
3. • The recognition and measurement of exploration and evaluation assets (Ind AS 106 'Exploration for and Evaluation of Mineral Resources')
4. • Expenditure on the development and extraction of minerals, oil, natural gas and similar non-regenerative resources

If another Standard prescribes the accounting for a specific type of intangible asset, an entity applies that Standard instead of this Standard. For example, this Standard **does not apply to**:

1. • Intangibles held for sale in ordinary course of business (Ind AS 2 and Ind AS 11)
2. • Deferred Tax Assets (Ind AS 12)
3. • Leases (Ind AS 17)
4. • Assets arising from Employee Benefits (Ind AS 19)
5. • Financial Assets (Ind AS 32)
6. • Goodwill acquired in business combination (Ind AS 103)
7. • Insurance Contracts (Ind AS 104)
8. • Non-current Assets held for sale (Ind AS 105)

**Caution:** In determining whether an asset that incorporates both intangible and tangible elements should be treated under Ind AS 16 'Property, Plant and Equipment' or as an intangible asset under this Standard, an entity uses judgement to assess which element is more significant.

For example, computer software for a computer-controlled machine tool that cannot operate without that specific software is an integral part of the related hardware and it is treated as property, plant and equipment. The same applies to the operating system of a computer. When the software is not an integral part of the related hardware, computer software is treated as an intangible asset.

1. This Standard applies to, among other things;
  - expenditure on advertising,

- training,
- start-up,
- research and development activities.

Research and development activities are directed to the development of knowledge. Therefore, although these activities may result in an asset with physical substance (e.g. a prototype), the physical element of the asset is secondary to its intangible component, i.e. the knowledge embodied in it.

2. In the case of a **finance lease**, the underlying asset may be either tangible or intangible. After initial recognition, a lessee accounts for an intangible asset held under a finance lease in accordance with this Standard. Rights under licensing agreements for items such as motion picture films, video recordings, plays, manuscripts, patents and copyrights are excluded from the scope of Ind AS 17 and are within the scope of this Standard.
3. Exclusions from the scope of a Standard may occur if activities or transactions are so specialised that they give rise to accounting issues that may need to be dealt with in a different way. Such issues arise in the accounting for expenditure on the exploration for, or development and extraction of, oil, gas and mineral deposits in extractive industries and in the case of insurance contracts. Therefore, this Standard does not apply to expenditure on such activities and contracts. However, this Standard applies to other intangible assets used (such as computer software), and other expenditure incurred (such as start-up costs), in extractive industries or by insurers.

#### **8.24.3 Intangible Asset**

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Intangible asset is an:

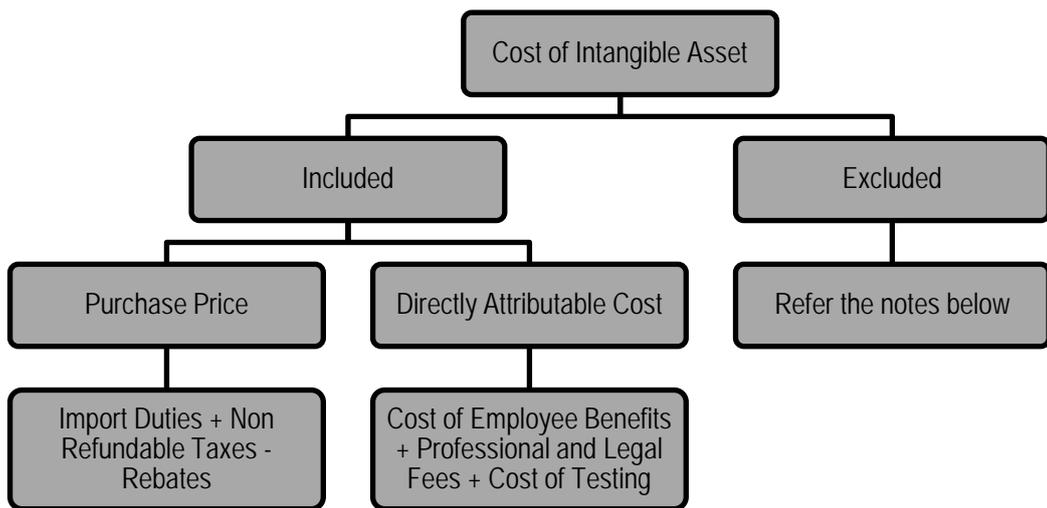
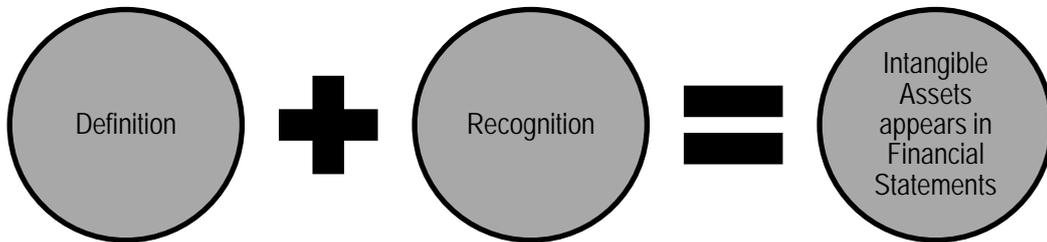
- Identifiable
- Non-monetary
- Asset
- Without physical substance.

#### **8.24.4 Recognition and Measurement**

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The recognition of an item as an intangible asset requires an entity to demonstrate that the item meets:

- (a) the **definition** of an intangible asset; and
- (b) the **recognition** criteria.



Examples of expenditures that are **not part** of the cost of an intangible asset are:

- (a) costs of introducing a new product or service (including costs of advertising and promotional activities);
- (b) costs of conducting business in a new location or with a new class of customer (including costs of staff training); and
- (c) administration and other general overhead costs.

**Deferred Payment**

- If payment for an intangible asset is deferred beyond normal credit terms, its cost is the cash price equivalent.
- The difference between this amount and the total payments is recognised as interest expense over the period of credit unless it is capitalised in accordance with Ind AS 23 Borrowing Costs.

**8.24.4.1 Separate Acquisition:** The cost of a separately acquired intangible asset would comprise:

- (a) its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates; and

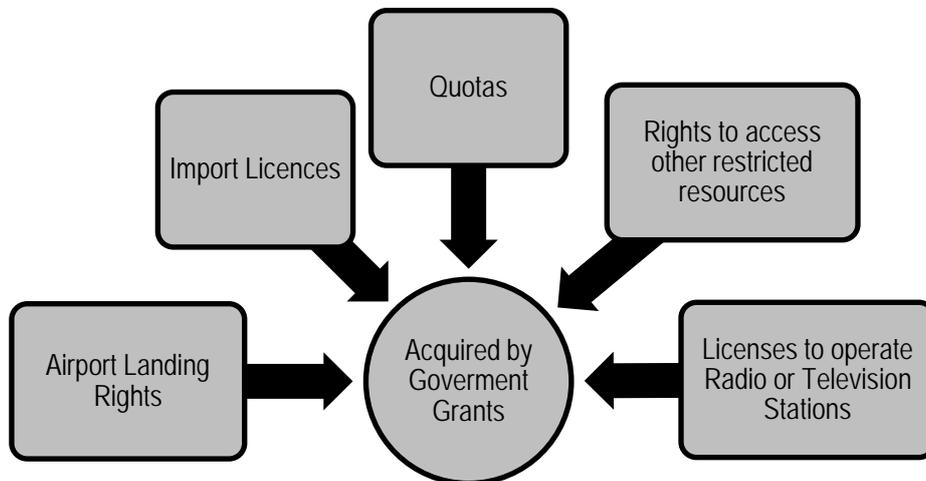
(b) any directly attributable cost of preparing the asset for its intended use.

**8.24.4.2 Acquisition as part of a Business Combination:** In accordance with Ind AS 103, 'Business Combinations', if an intangible asset is acquired in a business combination, the cost of that intangible asset is its fair value at the acquisition date. If an asset acquired in a business combination is separable or arises from contractual or other legal rights, sufficient information would exist to measure reliably the fair value of the asset.

In accordance with this Standard and Ind AS 103, an acquirer should recognise at the acquisition date, separately from goodwill, an intangible asset of the acquiree, if it meets the definition and recognition criteria for an intangible asset irrespective of whether the asset had been recognised by the acquiree before the business combination. This means that the acquirer recognises as an asset separately from goodwill an in-process research and development project of the acquiree if the project meets the definition of an intangible asset.

**8.22.4.3 Acquisition by way of a Government Grant:** In some cases, an intangible asset may be acquired free of charge, or for nominal consideration by way of a government grant.

This may happen when a government transfers or allocates to an entity intangible assets such as:



**Note:** In accordance with Ind AS 20 'Accounting for Government Grants and Disclosure of Government Assistance', an entity recognises both the intangible asset and the grant **initially at fair value**.

**8.24.4.4 Exchange of Assets:** One or more intangible assets may be acquired in exchange for:

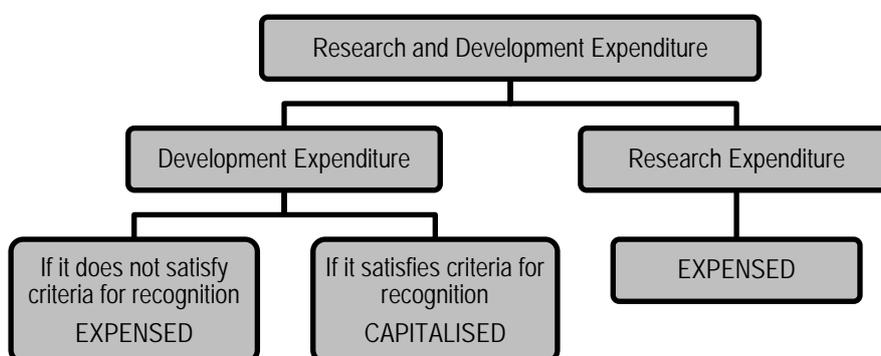
- A non-monetary asset or assets, or
- A combination of monetary and non-monetary assets.

The cost of such an intangible asset is measured at fair value unless:

- (a) the exchange transaction lacks commercial substance or

(b) the fair value of neither the asset received nor the asset given up is reliably measurable.

### 8.24.5 Subsequent Expenditure on an Acquired In-process Research and Development Project



### 8.24.6 Internally Generated Goodwill

Internally generated goodwill shall **not be** recognised as an asset.

Internally generated goodwill is not recognised as an asset because it is not an identifiable resource (i.e. it is neither separable nor does it arise from contractual or other legal rights) controlled by the entity that can be measured reliably at cost.

In some cases, expenditure is incurred to generate future economic benefits, but it does not result in the creation of an intangible asset that meets the recognition criteria in this Standard. Such expenditure is often described as contributing to internally generated goodwill.

Differences between the fair value of an entity and the carrying amount of its identifiable net assets at any time may capture a range of factors that affect the fair value of the entity. However, such differences do not represent the cost of intangible assets controlled by the entity.

**8.24.6.1 Internally Generated Intangible Assets -Requirements and Guidance:** To assess whether an internally generated intangible asset meets the criteria for recognition, an entity classifies the generation of the asset into:

- (a) a research phase; and
- (b) a development phase.

If an entity cannot distinguish the research phase from the development phase of an internal project to create an intangible asset, the entity treats the expenditure on that project as if it were incurred in the research phase only.

1. **Research Phase:** No intangible asset arising from research (or from the research phase of an internal project) shall be recognised.

Expenditure on research (or on the research phase of an internal project) shall be recognised as an expense when it is incurred.

2. **Development Phase:** An intangible asset arising from development (or from the development phase of an internal project) shall be recognised if, and only if, an entity can **demonstrate all** of the following:
- (a) the technical feasibility of completing the intangible asset so that it will be available for use or sale.
  - (b) its intention to complete the intangible asset and use or sell it.
  - (c) its ability to use or sell the intangible asset.
  - (d) how the intangible asset will generate probable future economic benefits. Among other things, the entity can demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset.
  - (e) the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset.
  - (f) its ability to measure reliably the expenditure attributable to the intangible asset during its development.

**8.24.6.2 Cost of an Internally Generated Intangible Asset:** The cost of an internally generated intangible asset is the sum of expenditure incurred from the date when the intangible asset first meets the recognition criteria and the condition relating to development phase.

Ind AS 38 prohibits reinstatement of expenditure previously recognised as an expense.

The cost of an internally generated intangible asset comprises **all directly attributable costs** necessary to create, produce, and prepare the asset to be capable of operating in the manner intended by management.

Examples of directly attributable costs are:

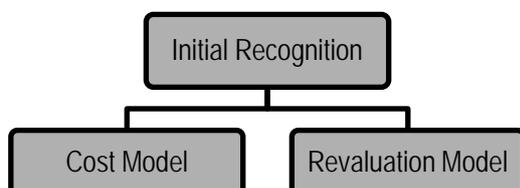
- Costs of materials and services used or consumed in generating the intangible asset
- Costs of employee benefits (as defined in Ind AS 19) arising from the generation of the intangible asset
- Fees to register a legal right
- Amortisation of patents and licences that are used to generate the intangible asset

Ind AS 23 specifies criteria for the recognition of interest as an element of the cost of an internally generated intangible asset.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance should not be recognised as intangible assets.

### 8.24.7 Measurement after Recognition

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An entity shall choose either the cost model or the revaluation model as its accounting policy.

If an intangible asset is accounted for using the revaluation model, all the other assets in its class shall also be accounted for using the same model, unless there is no active market for those assets.

1. **Cost Model:** After initial recognition, an intangible asset shall be carried at cost less any accumulated amortisation less any accumulated impairment losses
2. **Revaluation Model:** After initial recognition, an intangible asset shall be carried at a revalued amount, being fair value at the date of the revaluation less any subsequent accumulated amortisation less any subsequent accumulated impairment losses

**Treatment of Revaluation Gains and Losses:** If an intangible asset's carrying amount is increased as a result of a revaluation, the increase should be recognised in other comprehensive income and accumulated in equity under the heading of revaluation surplus. However, the increase should be recognised in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss.

If an intangible asset's carrying amount is decreased as a result of a revaluation, the decrease should be recognised in profit or loss. However, the decrease should be recognised in other comprehensive income to the extent of any credit balance in the revaluation surplus in respect of that asset.

### 8.24.8 Useful Life

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An entity shall assess whether the useful life of an intangible asset is:

- Finite {If finite, the length of, or number of production or similar units constituting, that useful life} OR
- Indefinite {An intangible asset shall be regarded by the entity as having an indefinite useful life when, based on an analysis of all of the relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the entity}

The accounting for an intangible asset is based on its useful life.

- An intangible asset with a finite useful life is amortised.
- An intangible asset with an indefinite useful life is not.

### 8.24.8.1 Intangible Assets with Finite Useful Lives

#### Amortisation

- The **depreciable amount** of an intangible asset with a finite useful life shall be allocated on a systematic basis over its useful life.
- Amortisation **shall begin** when the asset is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management.
- Amortisation **shall cease** at the earlier of the date that the asset is classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with Ind AS 105 and the date that the asset is derecognised.
- The **amortisation method** used shall reflect the pattern in which the asset's future economic benefits are expected to be consumed by the entity. If that pattern cannot be determined reliably, the straight-line method shall be used.
- The amortisation charge for each period shall be recognised in **profit or loss** unless this or another Standard permits or requires it to be included in the carrying amount of another asset.

**Residual Value:** The residual value of an intangible asset with a finite useful life shall be **assumed to be zero unless:**

- there is a commitment by a third party to purchase the asset at the end of its useful life; or
- there is an active market (as defined in Ind AS 113) for the asset and:
  - I. residual value can be determined by reference to that market; and
  - II. it is probable that such a market will exist at the end of the asset's useful life.

#### Review of Amortisation Period and Amortisation Method

- The amortisation period and the amortisation method for an intangible asset with a finite useful life shall be reviewed at least at each financial year-end.
- If the expected useful life of the asset is different from previous estimates, the amortisation period shall be changed accordingly. If there has been a change in the expected pattern of consumption of the future economic benefits embodied in the asset, the amortisation method shall be changed to reflect the changed pattern. Such changes shall be accounted for as changes in accounting estimates in accordance with Ind AS 8.
- During the life of an intangible asset, it may become apparent that the estimate of its useful life is inappropriate. For example, the recognition of an impairment loss may indicate that the amortisation period needs to be changed.
- Over time, the pattern of future economic benefits expected to flow to an entity from an intangible asset may change.

**8.24.8.2 Intangible Assets with Indefinite Useful Lives:** An intangible asset with an indefinite useful life shall not be amortised.

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In accordance with Ind AS 36, an entity is required to test an intangible asset with an indefinite useful life for impairment by comparing its recoverable amount with its carrying amount:

- Annually AND
- Whenever there is an indication that the intangible asset may be impaired

**8.24.8.3 Review of Useful Life Assessment:** The useful life of an intangible asset that is not being amortised should be reviewed each period to determine whether events and circumstances continue to support an indefinite useful life assessment for that asset. If they do not, the change in the useful life assessment from indefinite to finite should be accounted for as a change in an accounting estimate in accordance with Ind AS 8.

### 8.24.9 Retirements and Disposals

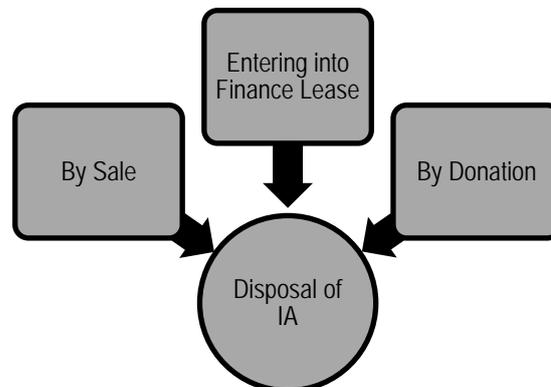
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An intangible asset shall be derecognised:

- On Disposal OR
- When no future economic benefits are expected from its use or disposal

- The gain or loss arising from derecognition of an intangible asset shall be determined as the difference between the net disposal proceeds, if any, and the carrying amount of the asset.
- It shall be recognised in profit or loss when the asset is derecognised (unless Ind AS 17 requires otherwise on a sale and leaseback).
- Gains shall not be classified as revenue.

The disposal of an intangible asset may occur in a variety of ways:



In determining the date of disposal of such an asset, an entity applies the criteria in Ind AS 18, Revenue, for recognising revenue from the sale of goods. Ind AS 17 applies to disposal by a sale and leaseback.

Appendix A of Ind AS 38 provides guidance on whether the web site is an internally generated intangible asset that is subject to the requirements of Ind AS 38; and the appropriate accounting treatment of such expenditure. The Appendix prescribes that an entity's own web site that arises from development and is for internal or external access is an internally generated intangible asset that is subject to the requirements of Ind AS 38. Any internal expenditure on the development and operation of an entity's own web site shall be accounted for in accordance with Ind AS 38. The nature of each activity for which expenditure is incurred (eg training employees and maintaining the web site) and the web site's stage of development or post-development shall be evaluated to determine the appropriate accounting treatment. A web site that is recognised as an intangible asset under this Appendix shall be measured after initial recognition by applying the requirements of paragraphs 72-87 of Ind AS 38. The best estimate of a web site's useful life should be short.

#### **8.24.10 Major Change in Ind AS 38 vis-à-vis IAS\* 38 Not Resulting in Carve Out**

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**Intangible Assets acquired by way of Government Grant:** With regard to the acquisition of an intangible asset by way of a government grant, IAS 38, Intangible Assets, provides the option to an entity to recognise both asset and grant initially at fair value or at a nominal amount plus any expenditure that is directly attributable to preparing the asset for its intended use. Ind AS 38 allows only fair value for recognising the intangible asset and grant in accordance with Ind AS 20.

#### **8.24.11 Major Changes in Ind AS 38 vis a vis Notified AS 26**

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- (i) **Exclusions:** The existing standard (paragraph 5), does not apply to accounting issues of specialised nature that arise in respect of accounting for discount or premium relating to borrowings and ancillary costs incurred in connection with the arrangement of borrowings, share issue expenses and discount allowed on the issue of shares. Ind AS 38 does not include any such exclusion specifically as these are covered by other accounting standards.

Ind AS 38 contains a scope exclusion with regard to the amortisation method for intangible assets arising from service concession arrangements in respect of toll roads recognised in the financial statements before the beginning of the first Ind AS financial reporting period as per the previous GAAP, i.e., Schedule II to the Companies Act, 2013.

- (ii) **Definition of Intangible Assets:** The existing standard defines an intangible asset as an identifiable non-monetary asset without physical substance held for use in the production or supply of goods or services, for rental to others, or for administrative purposes whereas in Ind AS 38, the requirement for the asset to be held for use in the production or supply

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\* The term 'IFRS' includes not only the International Financial Reporting Standards (IFRSs) issued by the IASB, it also includes the International Accounting Standards (IASs), IFRICs and SICs.

of goods or services, for rental to others, or for administrative purposes has been removed from the definition of an intangible asset.

- (iii) **Identifiability:** The existing standard does not define 'identifiability', but states that an intangible asset could be distinguished clearly from goodwill if the asset was separable, but that separability was not a necessary condition for identifiability. Ind AS 38 provides detailed guidance in respect of identifiability.
- (iv) **Separately Acquired Intangible Assets:** As per Ind AS 38, in the case of separately acquired intangibles, the criterion of probable inflow of expected future economic benefits is always considered satisfied, even if there is uncertainty about the timing or the amount of the inflow. However, there is no such provision in the existing standard.
- (v) **Revenue Based Amortisation Method:** In Ind AS 38 there is a rebuttable presumption that an amortisation method that is based on the revenue generated by an activity that includes the use of an intangible asset is inappropriate. Ind AS 38 allows use of revenue based method of amortisation of intangible asset, in a limited way. Existing AS 26 does not specifically deal with revenue based amortisation method.
- (vi) **Payment Deferred beyond Normal Credit Terms:** Under Ind AS 38, if payment for an intangible asset is deferred beyond normal credit terms, the difference between this amount and the total payments is recognised as interest expense over the period of credit unless it is capitalised as per Ind AS 23. However, there is no such provision in the existing standard.
- (vii) **Intangible Assets acquired in Business Combination:** Ind AS 38 deals in detail in respect of intangible assets acquired in a business combination. On the other hand, the existing standard refers only to intangible assets acquired in an amalgamation in the nature of purchase and does not refer to business combinations as a whole.
- (viii) **Subsequent Expenditure on in Process Research and Development Project:** The existing standard is silent regarding the treatment of subsequent expenditure on an in-process research and development project acquired in a business combination whereas Ind AS 38 gives guidance for the treatment of such expenditure
- (ix) **Intangible Assets Acquired in Exchange:** Ind AS 38 requires that if an intangible asset is acquired in exchange of a non-monetary asset, it should be recognised at the fair value of the asset given up unless (a) the exchange transaction lacks commercial substance or (b) the fair value of neither the asset received nor the asset given up is reliably measurable. However, the existing standard requires the principles of existing AS 10 to be followed which require that when an asset is acquired in exchange for another asset, its cost is usually determined by reference to the fair market value of the consideration given. It may be appropriate to consider also the fair market value of the asset acquired if this is more clearly evident. An alternative accounting treatment to record the asset acquired at the net book value of the asset given up; in each case an adjustment is made for any balancing receipt or payment of cash or other consideration also.
- (x) **Intangible Assets acquired Free of Charge or for a Nominal Consideration by way of Government Grant:** As per Ind AS 38, when intangible assets are acquired free of charge

or for nominal consideration by way of government grant, an entity should, in accordance with Ind AS 20, record both the grant and the intangible asset at fair value. As per the existing standard, intangible assets acquired free of charge or for nominal consideration by way of government grant is recognised at nominal value or at acquisition cost, as appropriate plus any expenditure that is attributable to making the asset ready for intended use.

- (xi) **Useful Life of an Intangible Asset:** The existing standard is based on the assumption that the useful life of an intangible asset is always finite, and includes a rebuttable presumption that the useful life cannot exceed ten years from the date the asset is available for use. That rebuttable presumption is not there in Ind AS 38. Ind AS 38 recognizes that the useful life of an intangible asset can even be indefinite subject to fulfillment of certain conditions, in which case it should not be amortised but should be tested for impairment.
- (xii) **Guidance on Certain Issues:** In Ind AS 38, guidance is available on cessation of capitalisation of expenditure, de-recognition of a part of an intangible asset and useful life of a reacquired right in a business combination. There is no such guidance in the existing standard on these aspects.
- (xiii) **Valuation Model as Accounting Policy:** Ind AS 38 permits an entity to choose either the cost model or the revaluation model as its accounting policy, whereas in the existing standard, revaluation model is not permitted.
- (xiv) **Intangible Assets recognised as an Expense:** Ind AS 38 provides more guidance on recognition of intangible items recognised as expense. Ind AS 38 clarifies that in respect of prepaid expenses, recognition of an asset would be permitted only upto the point at which the entity has the right to access the goods or upto the receipt of services. Further, unlike the existing standard, mail order catalogues have been specifically identified as a form of advertising and promotional activities which are required to be expensed.
- (xv) **Contractual or Legal Rights may be Shorter than Legal Life:** Ind AS 38 acknowledges that the useful life of an intangible asset arising from contractual or legal rights maybe shorter than the legal life. The existing standard does not include such a provision.
- (xvi) **Amortisation Lower than under SLM:** As per the existing standard, there will rarely, if ever, be persuasive evidence to support an amortisation method for intangible assets that results in a lower amount of accumulated amortisation than under straight-line method. Ind AS 38 does not contain any such provision.
- (xvii) **Subsequent Increase of Residual Value for Changes in Prices or Value:** Under Ind AS 38, the residual value is reviewed at least at each financial year-end. If it increases to an amount equal to or greater than the asset's carrying amount, amortisation charge is zero unless the residual value subsequently decreases to an amount below the asset's carrying amount. However, the existing standard specifically requires that the residual value is not subsequently increased for changes in prices or value.
- (xviii) **Change in Method of Amortization:** As per the existing standard, change in the method of amortisation is a change in accounting policy whereas as per Ind AS 38, this would be a change in accounting estimate.

(xix) **Annual Impairment Testing:** The existing standard also requires annual impairment testing of an intangible asset not yet available for use. There is no such requirement in Ind AS 38.

(xx) **Disclosures:** Ind AS 38 also requires certain additional disclosures as compared to existing AS 26.

(xxi) **Intangible Assets Retired from Use and Held for Sale:** Intangible assets retired from use and held for sale are covered by the existing standard. However, Ind AS 38 does not include such intangible assets since they would be covered by Ind AS 105.

## 8.25 Ind AS 40 : Investment Property

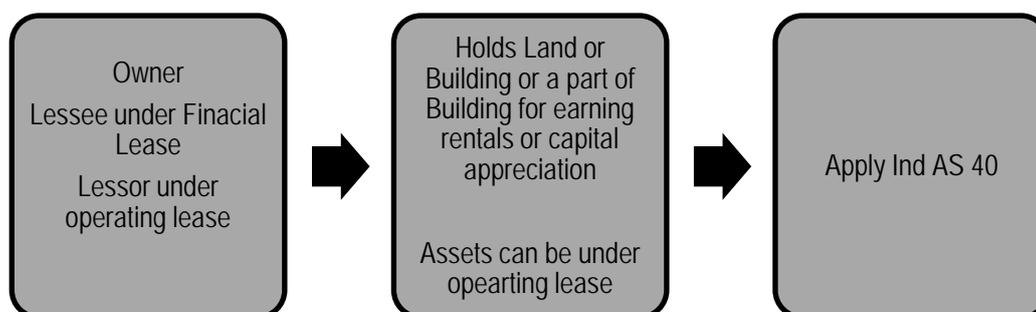
### 8.25.1 Objective

The objective of this Standard is to prescribe the accounting treatment for investment property and related disclosure requirements.

### 8.25.2 Scope

This Standard shall be applied in the recognition, measurement and disclosure of investment property.

Among other things, this Standard applies to



This Standard does not deal with matters covered in Ind AS 17 'Leases'.

This Standard does not apply to:

1. { • Biological assets related to agricultural activity (Ind AS 41)
2. { • Mineral rights and mineral reserves such as oil, natural gas and similar non-regenerative resources

### 8.25.3 Investment Property and Owner Occupied Property

*Investment property* is property (land or a building—or part of a building—or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both, rather than for:

- (a) use in the production or supply of goods or services or for administrative purposes; or
- (b) sale in the ordinary course of business.

*Owner-occupied property* is property held (by the owner or by the lessee under a finance lease) for use in the production or supply of goods or services or for administrative purposes.

**CASE STUDY**

S.No.	Property	Does it meet of definition Investment Property	Which Ind AS is Applicable
1.	Owned by a Company and leased out under an Operating Lease	Yes	Ind AS 40
2.	Held Under Finance Lease and Leased out under an Operating Lease	Yes	Ind AS 40
3.	Held under Finance Lease and Leased out under Finance Lease	No	Ind AS 17
4.	Property acquired with a view for development and resale	No	Ind AS 2
5.	Property developed on behalf of 3 <sup>rd</sup> party	No	Ind AS 11
6.	Property partly owner occupied and partly leased out under Operating Lease	Depends	Ind AS 16 Ind AS 40
7.	Land held for currently undetermined use	Yes	Ind AS 40
8.	Property occupied by Employees paying rent at less than market rate	No	Ind AS 16
9.	Investment Property held for sale	No	Ind AS 105
10.	Existing Investment Property that is being redeveloped for continued use as Investment Property	Yes	Ind AS 40

**8.25.4 Recognition**

Investment property shall be recognised as an asset **when, and only when:**

- (a) it is probable that the future economic benefits that are associated with the investment property will flow to the entity; and
- (b) the cost of the investment property can be measured reliably.

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An entity evaluates under this recognition principle all its investment property costs at the time they are incurred. These costs include

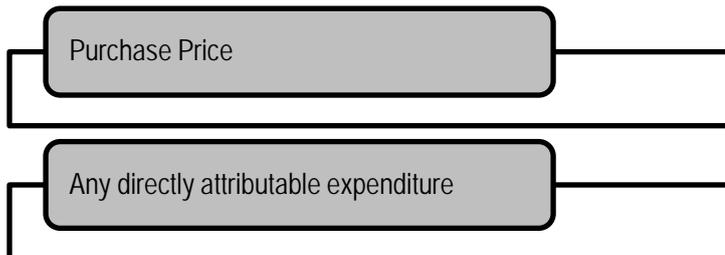
Costs incurred initially to acquire an investment property and Costs incurred subsequently to add to, replace part of, or service a property.	Under the recognition principle, an entity does not recognise in the carrying amount of an investment property the costs of the day-to-day servicing of such a property. Rather, these costs are recognised in profit or loss as incurred.*
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\*Costs of day-to-day servicing are primarily the cost of labour and consumables, and may include the cost of minor parts. The purpose of these expenditures is often described as for the 'repairs and maintenance' of the property.

### 8.25.5 Measurement at Recognition

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An investment property shall be measured initially at its cost. Transaction costs shall be included in the initial measurement.



Directly attributable expenditure includes, for example, professional fees for legal services, property transfer taxes and other transaction costs.

The cost of an investment property is **not increased by**:

- start-up costs (unless they are necessary to bring the property to the condition necessary for it to be capable of operating in the manner intended by management),
- operating losses incurred before the investment property achieves the planned level of occupancy, or
- abnormal amounts of wasted material, labour or other resources incurred in constructing or developing the property.

The initial cost of a property interest held under a lease and classified as an investment property shall be as prescribed for a finance lease by paragraph 20 of Ind AS 17, ie the asset shall be

recognised at the lower of the fair value of the property and the present value of the minimum lease payments. An equivalent amount shall be recognised as a liability in accordance with that same paragraph.

### 8.25.6 Measurement After Recognition

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**Accounting policy:** An entity shall adopt as its accounting policy the **cost model** to all of its investment property. However, the Standard requires all entities to measure the fair value of investment property, for the purpose of disclosure.

After initial recognition, an entity shall measure all of its investment properties in accordance with Ind AS 16's requirements for cost model, other than those that meet the criteria to be classified as held for sale (or are included in a disposal group that is classified as held for sale) in accordance with Ind AS 105, '*Non-current Assets Held for Sale and Discontinued Operations*'. Investment properties that meet the criteria to be classified as held for sale (or are included in a disposal group that is classified as held for sale) shall be measured in accordance with Ind AS 105.

### 8.25.7 Transfers

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Transfers to, or from, investment property shall be made when, and only when, there is a change in use, evidenced by:

- (a) commencement of owner-occupation, for a transfer from investment property to owner-occupied property;
- (b) commencement of development with a view to sale, for a transfer from investment property to inventories;
- (c) end of owner-occupation, for a transfer from owner-occupied property to investment property; or
- (d) commencement of an operating lease to another party, for a transfer from inventories to investment property.

#### CASE STUDY

S. No.	Property	Transfer from to
1.	Office space previously rented to a third party, now the entity would use for its own	Investment Property to Owner Occupied
2.	Real Estate Company had a building given on rent for residential purpose. After 8 years the Company decides to build Commercial complex to sell	Investment Property to Inventory
3.	Building used as corporate office was vacated for an office in a better location	Owner Occupied to Investment Property
4.	Real Estate Company decides not to sell a building and give it on operating lease to a third party	Inventory to Investment Property

### 8.25.8 Disposals

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1. An investment property shall be derecognised (eliminated from the balance sheet)
  - on disposal or
  - when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal.
2. The disposal of an investment property may be achieved
  - by sale or
  - by entering into a finance lease.

In determining the date of disposal for investment property, an entity applies the criteria in Ind AS 18 for recognising revenue from the sale of goods. Ind AS 17 applies to a disposal effected by entering into a finance lease and to a sale and leaseback.

Gains or losses arising from the retirement or disposal of investment property shall be determined as the difference between the net disposal proceeds and the carrying amount of the asset and shall be recognised in profit or loss (unless Ind AS 17 requires otherwise on a sale and leaseback) in the period of the retirement or disposal.

The consideration receivable on disposal of an investment property is recognized initially at fair value. In particular, if payment for an investment property is deferred, the consideration received is recognised initially at the cash price equivalent. The difference between the nominal amount of the consideration and the cash price equivalent is recognised as interest revenue in accordance with Ind AS 18 using the effective interest method.

### 8.25.9 Major Changes in Ind AS 40 vis-à-vis IAS\* 40 Not Resulting in Carve Outs

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1. **Valuation Models:** IAS 40 permits both cost model and fair value model (except in some situations) for measurement of investment properties after initial recognition. Ind AS 40 permits only the cost model. Fair value model is not permitted because the unrealised gain and losses would have been required to be recognised in the statement of profit and loss. The fair value of investment property in India is not reliable and also using fair value model may lead to recognition and distribution of unrealised gains.
2. **Operating Lease:** IAS 40 permits treatment of property interest held in an operating lease as investment property, if the definition of investment property is otherwise met and fair value model is applied. In such cases, the operating lease would be accounted as if it were a finance lease. Since Ind AS 40 prohibits the use of fair value model, this treatment is prohibited in Ind AS 40. Also the expression 'investment property under a finance or operating lease' appearing in IAS 40 has been modified as 'investment property under finance lease' in Ind AS 40.

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\* The term 'IFRS' includes not only the International Financial Reporting Standards (IFRSs) issued by the IASB, it also includes the International Accounting Standards (IASs), IFRICs and SICs.

**8.25.10 Major Changes in Ind AS 40 *vis-a-vis* Notified AS 13**

AS 13 provides limited guidance on investment properties, as per the existing standard enterprise holding investment properties should account for them as per cost model prescribed in AS 10, Property, Plant and Equipment. However, Ind AS 40 is a detailed standard dealing with various aspects of investment property accounting.

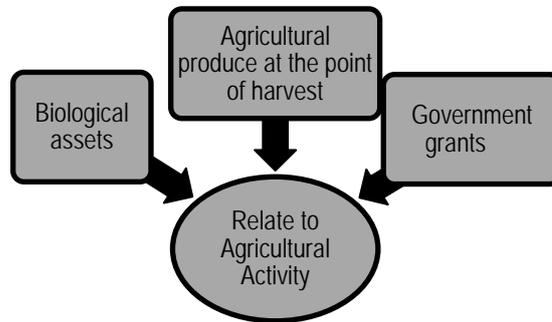
**8.26 Ind AS 41 : Agriculture**

**8.26.1 Objective**

The objective of Ind AS 41 is to prescribe the accounting treatment and disclosures related to agricultural activity.

**8.26.2 Scope**

This Standard shall be applied to account for the following when they relate to agricultural activity:



This Standard does not apply to:

1. • Land related to agricultural activity  
• Ind AS 16 'Property, Plant and Equipment' and Ind AS 40 'Investment Property'
2. • Bearer plants related to agricultural activity (Ind AS 16)  
• However, this Standard applies to the produce on those bearer plants
3. • Government grants related to bearer plants  
• Ind AS 20 'Accounting for Government Grants and Disclosure of Government Assistance'
4. • Intangible assets related to agricultural activity  
• Ind AS 38 'Intangible Assets'

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Table below provides examples of biological assets, agricultural produce, and products that are the result of processing after harvest:

Biological assets	Agricultural produce	Products that are the result of processing after harvest
Sheep	Wool	Yarn, carpet
Trees in a timber plantation	Felled Trees	Logs, lumber
Dairy Cattle	Milk	Cheese
Pigs	Carcass	Sausages, cured hams
Cotton plants	Harvested cotton	Thread, clothing
Sugarcane	Harvested cane	Sugar
Tobacco plants	Picked leaves	Cured tobacco
Tea bushes	Picked leaves	Tea
Grape vines	Picked grapes	Wine
Fruit trees	Picked fruit	Processed fruit
Oil palms	Picked fruit	Palm oil
Rubber trees	Harvested latex	Rubber products

Some plants, for example, tea bushes, grape vines, oil palms and rubber trees, usually meet the definition of a bearer plant and are within the scope of Ind AS 16.

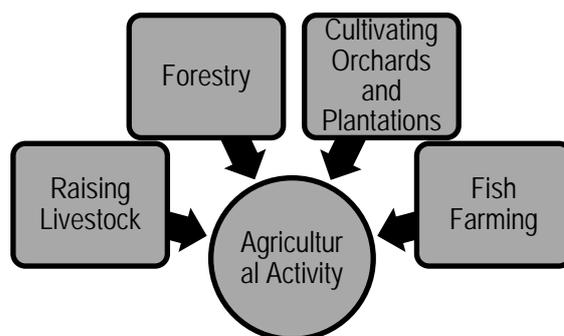
However, the produce growing on bearer plants, for example, tea leaves, grapes, oil palm fruit and latex, is within the scope of Ind AS 41.

### 8.26.3 Agriculture Related Definitions

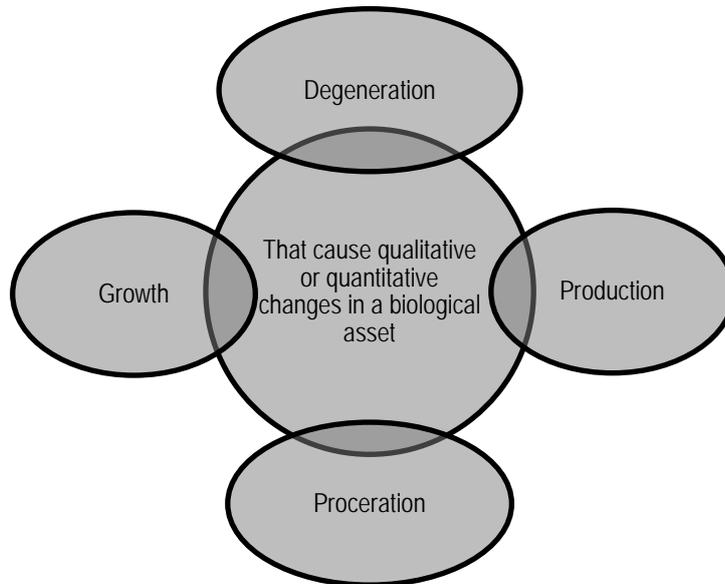
#### 1. Agricultural activity:

- Is the management by an entity of the biological transformation and harvest of biological asset.
- for sale or for conversion into agricultural produce or into additional biological assets.

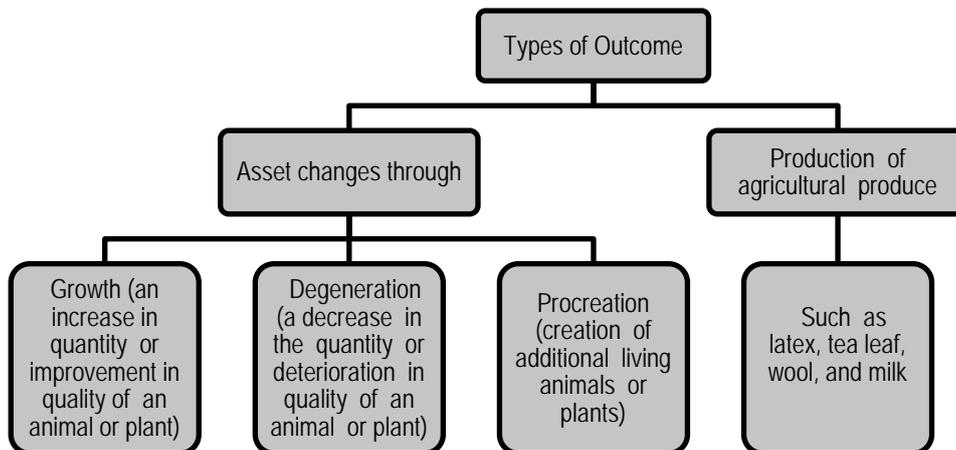
Agricultural activity covers a diverse range of activities.



Biological transformation comprises the processes of:



Biological transformation results in the following types of outcomes:



2. A **biological asset** is a:

- Living animal; Or
- Plant.

A group of biological assets is an aggregation of similar living animals or plants.

3. **Agricultural produce** is the harvested product of the entity's biological assets.

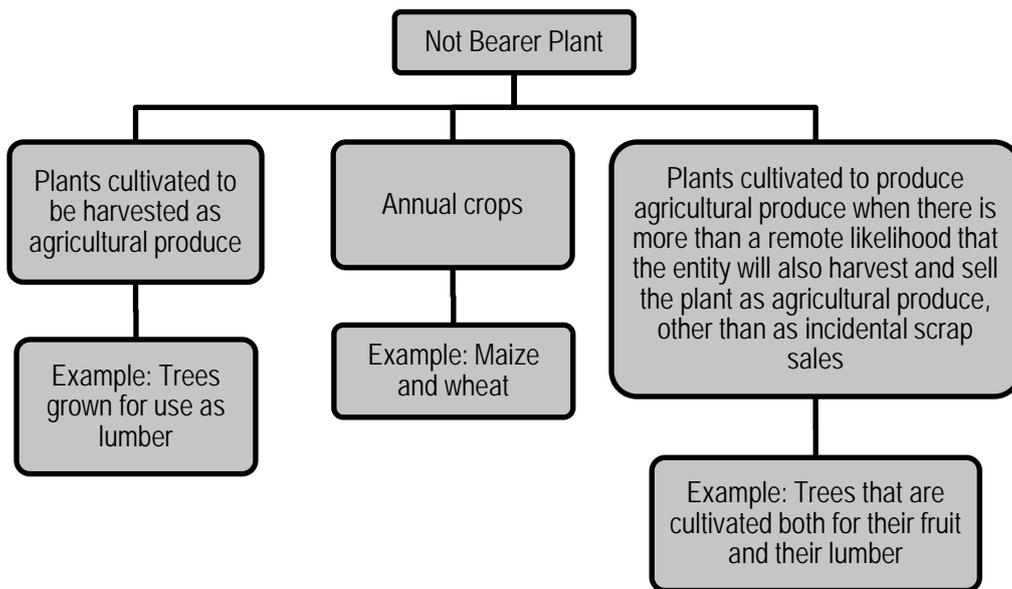
4. **Harvest** is the:

- Detachment of produce from a biological asset; Or
- The cessation of a biological asset's life processes.

5. A bearer plant is a living plant that:

- Is used in the production or supply of agricultural produce
- Is expected to bear produce for more than one period
- Has a remote likelihood of being sold as agricultural produce, except for incidental scrap sales

The following are NOT bearer plants:



When bearer plants are no longer used to bear produce they might be cut down and sold as scrap, for example, for use as firewood. Such incidental scrap sales would not prevent the plant from satisfying the definition of a bearer plant.

Produce growing on bearer plants is a biological asset.

#### 8.26.4 Recognition and Measurement

An entity shall recognise a biological asset or agricultural produce when, and only when:

- The entity controls the asset as a result of past events
- It is probable that future economic benefits associated with the asset will flow to the entity
- The fair value or cost of the asset can be measured reliably

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Costs to sell are the incremental costs directly attributable to the disposal of an asset, excluding finance costs and income taxes. Costs to sell exclude transport and other costs necessary to get the asset to a market.

A biological asset shall be measured on initial recognition and at the end of each reporting period at its fair value less costs to sell, except for the case described in paragraph 30 where the fair value cannot be measured reliably.

Agricultural produce harvested from an entity's biological assets shall be measured at its fair value less costs to sell at the point of harvest. Such measurement is the cost at that date when applying Ind AS 2 'Inventories' or another applicable Standard.

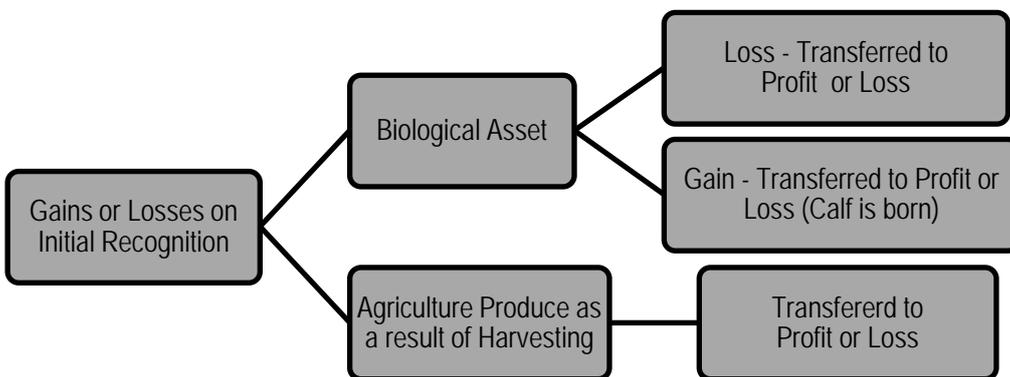
**8.26.4.1 Gains and Losses**

**On Biological Asset:** A gain or loss arising on initial recognition of a biological asset at fair value less costs to sell and from a change in fair value less costs to sell of a biological asset shall be included in profit or loss for the period in which it arises.

A loss may arise on initial recognition of a biological asset, because costs to sell are deducted in determining fair value less costs to sell of a biological asset.  
 A gain may arise on initial recognition of a biological asset, such as when a calf is born.

**On Agricultural Produce:** A gain or loss arising on initial recognition of agricultural produce at fair value less costs to sell shall be included in profit or loss for the period in which it arises.

A gain or loss may arise on initial recognition of agricultural produce as a result of harvesting.



**8.26.5 Government Grants**

An unconditional government grant related to a biological asset measured at its fair value less costs to sell shall be recognised in profit or loss when, and only when, the government grant becomes receivable.

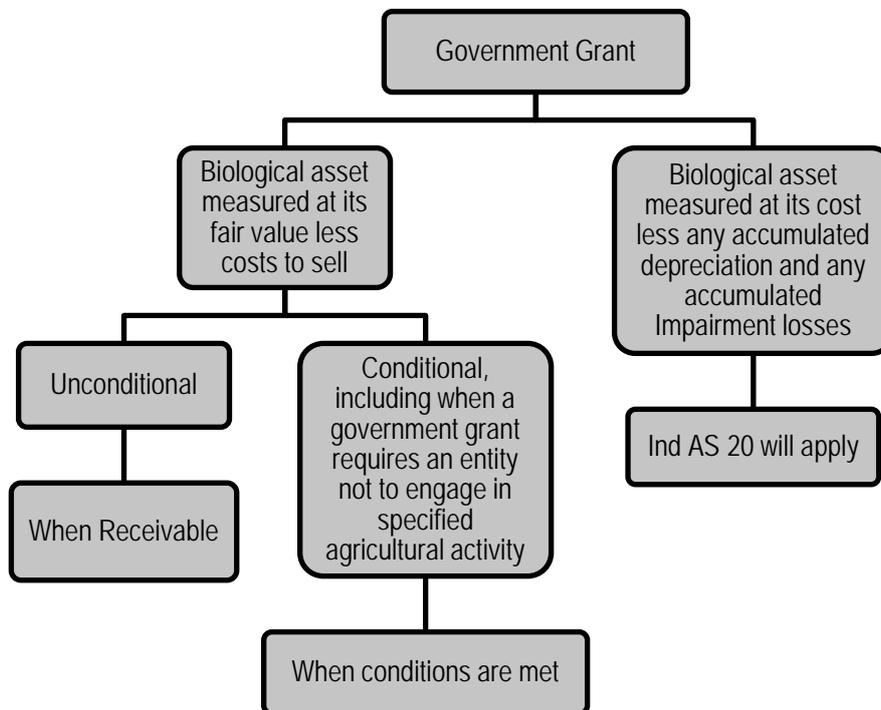
## 2.174 Financial Reporting

If a government grant related to a biological asset measured at its fair value less costs to sell is conditional, including when a government grant requires an entity not to engage in specified agricultural activity, an entity shall recognise the government grant in profit or loss when, and only when, the conditions attaching to the government grant are met.

**For example:** A grant may require an entity to farm in a particular location for five years and require the entity to return all of the grant if it farms for a period shorter than five years. In this case, the grant is not recognised in profit or loss until the five years have passed. However, if the terms of the grant allow part of it to be retained according to the time that has elapsed, the entity recognises that part in profit or loss as time passes.

If a government grant relates to a biological asset measured at its cost less any accumulated depreciation and any accumulated impairment losses, Ind AS 20 is applied.

This Standard requires a different treatment from Ind AS 20, if a government grant relates to a biological asset measured at its fair value less costs to sell or a government grant requires an entity not to engage in specified agricultural activity. Ind AS 20 is applied only to a government grant related to a biological asset measured at its cost less any accumulated depreciation and any accumulated impairment losses.

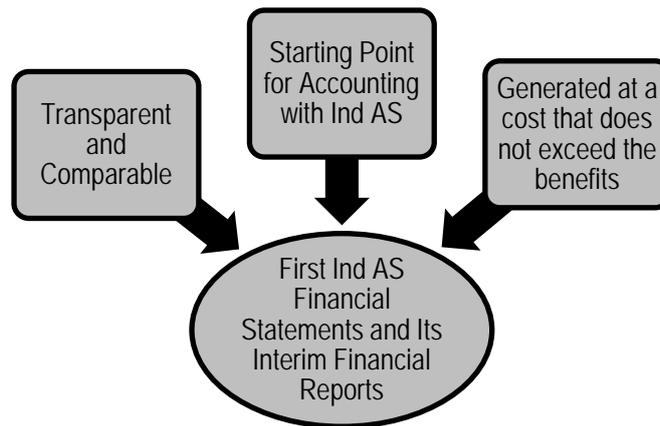


## 8.27 Ind AS 101: First time Adoption of Indian Accounting Standards

### 8.27.1 Objective

The objective of this Ind AS is to ensure that an entity's first Ind AS financial statements, and its interim financial reports for part of the period covered by those financial statements contain high quality information that:

- (a) is transparent for users and comparable over all periods presented;
- (b) provides a suitable starting point for accounting in accordance with Ind AS; and
- (c) can be generated at a cost that does not exceed the benefits.



### 8.27.2 Scope

An entity shall apply this Ind AS in:

- (a) its first Ind AS financial statements; and
- (b) each interim financial report, if any, that it presents in accordance with Ind AS 34, 'Interim Financial Reporting', for part of the period covered by its first Ind AS financial statements.

An entity's first Ind AS financial statements are the first annual financial statements in which the entity adopts Ind AS, in accordance with Ind AS notified under the Companies Act, 2013 and makes ***an explicit and unreserved statement*** in those financial statements of compliance with Ind AS.

### 8.27.3 Recognition and Measurement

**Opening Ind AS Balance Sheet:** An entity shall prepare and present an opening Ind AS Balance Sheet at the date of transition to Ind AS. This is the starting point for its accounting in accordance with Ind AS.

An entity shall, in its opening Ind AS Balance Sheet:

- (a) recognise all assets and liabilities whose recognition is required by Ind AS;
- (b) not recognise items as assets or liabilities if Ind AS do not permit such recognition;

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- (c) reclassify items that it recognised in accordance with previous GAAP as one type of asset, liability or component of equity, but are a different type of asset, liability or component of equity in accordance with Ind AS; and
- (d) apply Ind AS in measuring all recognised assets and liabilities.

**Accounting Policies:** An entity shall use the same accounting policies in its opening Ind AS Balance Sheet and throughout all periods presented in its first Ind AS financial statements. The accounting policies in opening Ind AS Balance Sheet may differ from those that it used for the same date using previous GAAP. The resulting adjustments arise from events and transactions before the date of transition to Ind AS shall be recognised directly in retained earnings.

Those accounting policies shall comply with each Ind AS effective at the end of its first Ind AS reporting period, subject to:

- Mandatory Exceptions
- Optional Exemptions

This Ind AS establishes two categories of exceptions to the principle that an entity's opening Ind AS Balance Sheet shall comply with each Ind AS:

- Ind AS 101 prohibit retrospective application of some specific aspects of other Ind AS.
- Ind AS 101 grant exemptions from some specific requirements of other Ind AS.

### 8.27.4 Exceptions to the Retrospective Application of Other Ind AS

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This Ind AS prohibits retrospective application of some aspects of other Ind AS. These exceptions are as under:

#### 8.27.4.1 Mandatory Exceptions

1. **Estimates:** An entity's estimates in accordance with Ind AS at the date of transition to Ind AS shall be consistent with estimates made for the same date in accordance with previous GAAP (after adjustments to reflect any difference in accounting policies), unless there is objective evidence that those estimates were in error.
2. **Derecognition of Financial Assets or Financial Liabilities:** A first-time adopter shall apply the derecognition requirements in Ind AS 109 prospectively for transactions occurring on or after the date of transition to Ind AS.
3. **Hedge Accounting:** An entity shall not reflect in its opening Ind AS Balance Sheet a hedging relationship of a type that does not qualify for hedge accounting in accordance with Ind AS 109.
4. **Non-controlling Interests:** A first-time adopter shall apply the following requirements of Ind AS 110 prospectively from the date of transition to Ind AS:
  - (a) Total comprehensive income is attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance;

- (b) Accounting for changes in the parent's ownership interest in a subsidiary that do not result in a loss of control; and
  - (c) Accounting for a loss of control over a subsidiary, and the related requirements of paragraph 8A of Ind AS 105, '*Non-current Assets Held for Sale and Discontinued Operations*'.
5. **Classification and Measurement of Financial Assets:** An entity shall assess whether a financial asset meets the conditions in paragraph 4.1.2 or the conditions in paragraph 4.1.2A of Ind AS 109 on the basis of the facts and circumstances that exist at the date of transition to Ind AS.
  6. **Impairment of Financial Assets:** An entity should seek to approximate the credit risk on initial recognition by considering all reasonable and supportable information that is available without undue cost or effort.

An entity is not required to undertake an exhaustive search for information when determining, at the date of transition to Ind AS, whether there have been significant increases in credit risk since initial recognition. If an entity is unable to make this determination without undue cost or effort paragraph B8G of this Ind AS applies.

7. **Embedded Derivatives:** A first-time adopter shall assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative on the basis of the conditions that existed at the later of the date it first became a party to the contract and the date of a reassessment.
8. **Government Loans:** A first-time adopter shall classify all government loans received as a financial liability or an equity instrument in accordance with Ind AS 32.

#### 8.27.4.2 Optional Exemptions

1. **Exemptions for Business Combinations:** A first-time adopter may elect not to apply Ind AS 103 retrospectively to past business combinations (business combinations that occurred before the date of transition to Ind AS).  
However, if a first-time adopter restates any business combination to comply with Ind AS 103, it shall restate all later business combinations and shall also apply Ind AS 110 from that same date.
2. **Share-based Payment Transactions:** A first-time adopter is encouraged, but not required, to apply Ind AS 102 '*Share-based Payment*' to equity instruments that vested before date of transition to Ind AS.
3. **Insurance Contracts:** An entity shall apply Ind AS 104 '*Insurance Contracts*' for annual periods beginning on or after date of transition to Ind AS. Earlier application is encouraged. If an entity applies this Ind AS 104 for an earlier period, it shall disclose that fact.
4. **Deemed Cost:** An entity may elect to measure an item of property, plant and equipment or an intangible asset at the date of transition to Ind AS at its fair value and use that fair value as its deemed cost at that date.

A first-time adopter may elect to use a previous GAAP revaluation of an item of property, plant and equipment or an intangible asset at, or before, the date of transition to Ind AS as deemed cost at the date of the revaluation, if the revaluation was, at the date of the revaluation, broadly comparable to:

- (a) fair value; or
  - (b) cost or depreciated cost in accordance with Ind AS, adjusted to reflect, for example, changes in a general or specific price index.
5. **Leases:** A first-time adopter may apply paragraphs 6-9 of the Appendix C of Ind AS 17 Determining whether an Arrangement contains a Lease to determine whether an arrangement existing at the date of transition to Ind AS contains a lease on the basis of facts and circumstances existing at the date of transition to Ind AS, except where the effect is expected to be not material.
6. **Cumulative Translation Differences:** Ind AS 21 requires an entity:
- (a) to recognise some translation differences in other comprehensive income and accumulate these in a separate component of equity; and
  - (b) on disposal of a foreign operation, to reclassify the cumulative translation difference for that foreign operation (including, if applicable, gains and losses on related hedges) from equity to profit or loss as part of the gain or loss on disposal.

However, a first-time adopter need not comply with these requirements for cumulative translation differences that existed at the date of transition to Ind AS. If a first-time adopter uses this exemption:

- (a) the cumulative translation differences for all foreign operations are deemed to be zero at the date of transition to Ind AS; and
  - (b) the gain or loss on a subsequent disposal of any foreign operation shall exclude translation differences that arose before the date of transition to Ind AS and shall include later translation differences.
7. **Long-term Foreign Currency Monetary Items;** A first-time adopter may continue the policy adopted for accounting for exchange differences arising from translation of long-term foreign currency monetary items recognised in the financial statements for the period ending immediately before the beginning of the first Ind AS financial reporting period as per the previous GAAP.
8. **Investments in Subsidiaries, Joint Ventures and Associates:** When an entity prepares separate financial statements, Ind AS 27 requires it to account for its investments in subsidiaries, joint ventures and associates either:
- (a) at cost; or
  - (b) in accordance with Ind AS 109.

If a first-time adopter measures such an investment at cost in accordance with Ind AS 27, it shall measure that investment at one of the following amounts in its separate opening Ind AS Balance Sheet:

- (a) cost determined in accordance with Ind AS 27; or
- (b) deemed cost. The deemed cost of such an investment shall be its:
  - (i) fair value at the entity's date of transition to Ind AS in its separate financial statements; or
  - (ii) previous GAAP carrying amount at that date.

A first-time adopter may choose either (i) or (ii) above to measure its investment in each subsidiary, joint venture or associate that it elects to measure using a deemed cost.

**9. *Assets and Liabilities of Subsidiaries, Associates and Joint ventures:*** If a subsidiary becomes a first-time adopter later than its parent, the subsidiary shall, in its financial statements, measure its assets and liabilities at either:

- (a) the carrying amounts that would be included in the parent's consolidated financial statements, based on the parent's date of transition to Ind AS, if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary (this election is not available to a subsidiary of an investment entity, as defined in Ind AS 110, that is required to be measured at fair value through profit or loss); or
- (b) the carrying amounts required by the rest of this Ind AS, based on the subsidiary's date of transition to Ind AS. These carrying amounts could differ from those described in (a):
  - (i) when the exemptions in this Ind AS result in measurements that depend on the date of transition to Ind AS.
  - (ii) when the accounting policies used in the subsidiary's financial statements differ from those in the consolidated financial statements. For example, the subsidiary may use as its accounting policy the cost model in Ind AS 16 '*Property, Plant and Equipment*', whereas the group may use the revaluation model.

A similar election is available to an associate or joint venture that becomes a first-time adopter later than an entity that has significant influence or joint control over it.

**10. *Compound Financial Instruments:*** Ind AS 32 '*Financial Instruments: Presentation*' requires an entity to split a compound financial instrument at inception into separate liability and equity components. If the liability component is no longer outstanding, retrospective application of Ind AS 32 involves separating two portions of equity. The first portion is in retained earnings and represents the cumulative interest accreted on the liability component. The other portion represents the original equity component.

However, in accordance with this Ind AS, a first-time adopter need not separate these two portions if the liability component is no longer outstanding at the date of transition to Ind AS.

11. **Designation of previously recognised Financial Instruments:** Ind AS 109 permits a financial liability (provided it meets certain criteria) to be designated as a financial liability at fair value through profit or loss. Despite this requirement an entity is permitted to designate, at the date of transition to Ind AS, any financial liability as at fair value through profit or loss provided the liability meets the criteria in paragraph 4.2.2 of Ind AS 109 at that date.
12. **Fair Value Measurement of Financial Assets or Financial Liabilities at Initial Recognition:** Despite the requirements of paragraphs 7 and 9 of this Ind AS, an entity may apply the requirements of Ind AS 109 prospectively to transactions entered into on or after the date of transition to Ind AS.
13. **Decommissioning Liabilities included in the Cost of Property, Plant and Equipment:** A first-time adopter need not comply with these requirements for changes in such liabilities that occurred before the date of transition to Ind AS. If a first-time adopter uses this exemption, it shall:
  - (a) measure the liability as at the date of transition to Ind AS in accordance with Ind AS 37;
  - (b) to the extent that the liability is within the scope of Appendix A of Ind AS 16, estimate the amount that would have been included in the cost of the related asset when the liability first arose, by discounting the liability to that date using its best estimate of the historical risk-adjusted discount rate(s) that would have applied for that liability over the intervening period; and
  - (c) calculate the accumulated depreciation on that amount, as at the date of transition to Ind AS, on the basis of the current estimate of the useful life of the asset, using the depreciation policy adopted by the entity in accordance with Ind AS.
14. **Financial assets or intangible assets accounted for in accordance with Appendix A, Service Concession Arrangements to Ind AS 11:** D22 A first-time adopter may apply the following provisions while applying the Appendix A to Ind AS 11:
  - (a) Subject to paragraph (ii), changes in accounting policies are accounted for in accordance with Ind AS 8, i.e. retrospectively, except for the policy adopted for amortization of intangible assets arising from service concession arrangements related to toll roads recognised in the financial statements for the period ending immediately before the beginning of the first Ind AS financial reporting period as per the previous GAAP.
  - (b) If, for any particular service arrangement, it is impracticable for an operator to apply this Appendix retrospectively at the date of transition to Ind AS, it shall:
    - (i) recognise financial assets and intangible assets that existed at the date of transition to Ind AS;
    - (ii) use the previous carrying amounts of those financial and intangible assets (however previously classified) as their carrying amounts as at that date; and

- (iii) test financial and intangible assets recognised at that date for impairment, unless this is not practicable, in which case the amounts shall be tested for impairment as at the start of the current period.
  - (c) There are two aspects to retrospective determination: reclassification and remeasurement. It will usually be practicable to determine retrospectively the appropriate classification of all amounts previously included in an operator's Balance Sheet, but that retrospective remeasurement of service arrangement assets might not always be practicable. However, the fact should be disclosed.
15. ***Extinguishing Financial Liabilities with Equity Instruments:*** A first-time adopter may apply the Appendix E of Ind AS 109 Extinguishing Financial Liabilities with Equity Instruments from the date of transition to Ind AS.
  16. ***Severe Hyperinflation:*** If an entity has a functional currency that was, or is, the currency of a hyperinflationary economy, it shall determine whether it was subject to severe hyperinflation before the date of transition to Ind AS. This applies to entities that are adopting Ind AS for the first time, as well as entities that have previously applied Ind AS.
  17. ***Joint Ventures - Transition from Proportionate Consolidation to the Equity Method:*** When changing from proportionate consolidation to the equity method, an entity shall recognise its investment in the joint venture at transition date to Ind AS. That initial investment shall be measured as the aggregate of the carrying amounts of the assets and liabilities that the entity had previously proportionately consolidated, including any goodwill arising from acquisition. If the goodwill previously belonged to a larger cash-generating unit, or to a group of cash-generating units, the entity shall allocate goodwill to the joint venture on the basis of the relative carrying amounts of the joint venture and the cash-generating unit or group of cash-generating units to which it belonged.
  18. ***Joint Operations—Transition from the Equity Method to Accounting for Assets and Liabilities:*** When changing from the equity method to accounting for assets and liabilities in respect of its interest in a joint operation, an entity shall, at the date of transition to Ind AS, derecognise the investment that was previously accounted for using the equity method and any other items that formed part of the entity's net investment in the arrangement in accordance with paragraph 38 of Ind AS 28 and recognise its share of each of the assets and the liabilities in respect of its interest in the joint operation, including any goodwill that might have formed part of the carrying amount of the investment.
  19. ***Transition Provisions in an Entity's Separate Financial Statements:*** An entity that, in accordance with paragraph 10 of Ind AS 27, was previously accounting in its separate financial statements for its interest in a joint operation as an investment at cost or in accordance with Ind AS 109 shall:
    - (a) derecognise the investment and recognise the assets and the liabilities in respect of its interest in the joint operation at the amounts determined.

- (b) provide a reconciliation between the investment derecognised, and the assets and liabilities recognised, together with any remaining difference adjusted in retained earnings, at the date of transition to Ind AS.
20. **Stripping Costs in the Production Phase of a Surface Mine:** A first-time adopter may apply the Appendix B of Ind AS 16 Stripping Costs in the Production Phase of a Surface Mine from the date of transition to Ind AS. As at transition date to Ind AS, any previously recognised asset balance that resulted from stripping activity undertaken during the production phase ('predecessor stripping asset') shall be reclassified as a part of an existing asset to which the stripping activity related, to the extent that there remains an identifiable component of the ore body with which the predecessor stripping asset can be associated. Such balances shall be depreciated or amortised over the remaining expected useful life of the identified component of the ore body to which each predecessor stripping asset balance relates. If there is no identifiable component of the ore body to which that predecessor stripping asset relates, it shall be recognised in opening retained earnings at the transition date to Ind AS.
21. **Designation of Contracts to Buy or Sell a Non-financial Item:** Ind AS 109 permits some contracts to buy or sell a non-financial item to be designated at inception as measured at fair value through profit or loss (Ind AS 109). Despite this requirement an entity is permitted to designate, at the date of transition to Ind AS, contracts that already exist on that date as measured at fair value through profit or loss but only if they meet the requirements of paragraph 2.5 of Ind AS 109 at that date and the entity designates all similar contracts.
22. **Non-current Assets Held for Sale and Discontinued Operations:** Ind AS 105 requires non-current assets (or disposal groups) that meet the criteria to be classified as held for sale, non-current assets (or disposal groups) that are held for distribution to owners and operations that meet the criteria to be classified as discontinued and carried at lower of its carrying amount and fair value less cost to sell on the initial date of such identification. A first time adopter can:
- (a) measure such assets or operations at the lower of carrying value and fair value less cost to sell at the date of transition to Ind AS in accordance with Ind AS 105; and
- (b) recognise directly in retained earnings any difference between that amount and the carrying amount of those assets at the date of transition to Ind AS determined under the entity's previous GAAP.
23. **Transfers of Assets from Customers:** An entity shall apply Appendix C of Ind AS 18 prospectively to transfers of assets from customers received on or after the transition date.

#### 8.27.5 Presentation and Disclosure

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The Standard does not provide exemptions from the presentation and disclosure requirements in other Ind AS. The Standard requires that an entity's first Ind AS financial statements shall include at least three Balance Sheets, two Statements of profit and loss, two Statements of cash flows and two Statements of changes in equity and related notes, including comparative information for all statements presented.

### 8.27.6 Explanation of Transition to Ind AS

The Standard requires that an entity shall explain how the transition from previous GAAP to Ind AS affected its reported balance sheet, financial performance and cash flows.

### 8.27.7 Reconciliation

An entity's first Ind AS financial statements shall include:

- (a) reconciliations of its equity reported in accordance with previous GAAP to its equity in accordance with Ind AS for both of the following dates:
  - (i) the date of transition to Ind AS; and
  - (ii) the end of the latest period presented in the entity's most recent annual financial statements in accordance with previous GAAP.
- (b) a reconciliation to its total comprehensive income in accordance with Ind AS for the latest period in the entity's most recent annual financial statements.
- (c) if the entity recognised or reversed any impairment losses for the first time in preparing its opening Ind AS Balance Sheet, the disclosures that Ind AS 36, '*Impairment of Assets*', would have required if the entity had recognised those impairment losses or reversals in the period beginning with the date of transition to Ind AS.

### 8.27.8 Major Changes in Ind AS 101 vis-à-vis IFRS 1

#### 8.27.8.1 Resulting in Carve Outs

##### (i) *Definition of Previous GAAP under Ind AS 101*

**As per IFRS:** IFRS 1 defines previous GAAP as the basis of accounting that a first-time adopter used immediately before adopting IFRS.

**Carve out:** Ind AS 101 defines previous GAAP as the basis of accounting that a first-time adopter used for its reporting requirement in India immediately before adopting Ind AS. The changes made it mandatory for Indian entities to consider the financial statements prepared in accordance with existing notified Accounting Standards as was applicable to them as previous GAAP when it transitions to Ind AS.

**Reason:** The change makes it mandatory for Indian companies to consider the financial statements prepared in accordance with existing Accounting Standards notified under the Companies (Accounting Standards) Rules, 2006 as previous GAAP when it transitions to Ind AS as the law prevailing in India recognises the financial statements prepared in accordance with the Companies Act.

##### (ii) *Allowing the use of Carrying Cost of Property, Plant and Equipment (PPE) on the Date of Transition of Ind AS 101.*

**As per IFRS:** IFRS 1 *First time adoption of International Accounting Standards* provides that on the date of transition either the items of Property, Plant and Equipment shall be determined by applying IAS 16 '*Property, Plant and Equipment*' retrospectively or the same should be recorded at fair value.

**Carve out:** Ind AS 101 provides an additional option to use carrying values of all items of property, plant and equipment on the date of transition in accordance with previous GAAP as an acceptable starting point under Ind AS.

**Reason:** In case of old companies, retrospective application of Ind AS 16 or fair values at the date of transition to determine deemed cost may not be possible for old assets. Accordingly, Ind AS 101 provides relief to an entity to use carrying values of all items of property, plant and equipment on the date of transition in accordance with previous GAAP as an acceptable starting point under Ind AS.

(iii) **Long-term Foreign Currency Monetary Items**

**As per IFRS:** No provision in IFRS 1.

**Carve out:** Paragraph D13AA of Appendix D to Ind AS 101 provides that a first-time adopter may continue the policy adopted for accounting for exchange differences arising from translation of long-term foreign currency monetary items recognised in the financial statements for the period ending immediately before the beginning of the first Ind AS financial reporting period as per the previous GAAP. Consequently, Ind AS 21 also provides that it does not apply to long-term foreign currency monetary items for which an entity has opted for the exemption given in paragraph D13AA of Appendix D to Ind AS 101. Such an entity may continue to apply the accounting policy so opted for such long-term foreign currency monetary items.

**Reason:** Para 46A of AS 11 provides an option to recognise long term foreign currency monetary items in the statement of profit and loss as a part of the cost of property, plant and equipment or to defer its recognition in the statement of profit and loss over the period of loan in case the loan is not related to acquisition of fixed assets. To provide transitional relief, such entities have been given an option to continue the capitalisation or deferment of exchange differences, as the case may be, on foreign currency borrowings obtained before the beginning of First IFRS reporting period.

**8.27.8.2 Not Resulting in Carve Outs**

1. **First Financial Statements:** Paragraph 3 of Ind AS 101 specifies that an entity's first Ind AS financial statements are the first annual financial statements in which the entity adopts Ind AS in accordance with Ind AS notified under the Companies Act, 2013 whereas IFRS 1 provides various examples of first IFRS financial statements.
2. **Examples when an Entity does not apply IFRS 1:** IFRS 1 provide various examples of instances when an entity does not apply this IFRS. Ind AS 101 does not provide the same.
3. **Previous GAAP:** IFRS 1 requires the first-time adopter shall exclude from its opening Ind AS Balance Sheet any item recognised in accordance with previous GAAP that does not qualify for recognition as an asset or liability under IFRS. The first-time adopter shall account for the resulting change in the retained earnings as at the transition date except in certain specific instances where it requires adjustment in the goodwill. In such specific instances where IFRS 1 allows adjustment in the goodwill, under Ind AS 101 it can be

adjusted with the Capital Reserve to the extent such adjustment amount does not exceed the balance available in Capital Reserve.

4. **Optional Exemptions:** IFRS 1 provides for various optional exemptions that an entity can seek while an entity transitions to IFRS from its previous GAAP. Similar provisions have been retained under Ind AS 101. However, there are few changes that have been made, which can be broadly categorized as follows:
  - (a) Elimination of Effective Dates Prior to Transition Date to Ind AS: IFRS 1 provides for various dates from which a standard could have been implemented. For example, Paragraph D2 of IFRS 1 provides that an entity is encouraged, but not required, to apply IFRS 2 'Share-based Payment' to equity instruments that were granted on or before 7 November 2002 or to instruments that were granted after 7 November 2002 and vested before the later of (a) the date of transition to IFRS and (b) 1 January 2005. However, for Ind AS 101 purposes, all these dates have been changed to coincide with the transition date elected by the entity adopting these converged standards i.e. Ind AS.
  - (b) Deletion of Borrowing Cost Exemptions not relevant for India: Paragraph D23 of IFRS 1 provides for transitional adjustment requiring companies to apply the provisions of IAS 23 prospectively after the transition date to IFRS. IAS 23 provided an option to expense out such borrowing cost. However, this paragraph has not been included in Appendix D of Ind AS 101 since this was considered as not relevant in Indian situation as existing Accounting Standard 16 always required an entity to capitalize borrowing costs.
5. **Short-term Exemptions from IFRS:** Appendix E of IFRS 1 provides for 'Short-term exemptions from IFRS', however Ind AS 101 does not provide the above said short-term exemption.
6. **Consequential Amendments of Ind AS 109:** The consequential amendments of Ind AS 109 'Financial Instruments', which have been early adopted in India have been incorporated in all the Ind AS including Ind AS 101. Further, the transitional provisions of these Ind AS have also been appropriately incorporated in Ind AS 101.
7. **Transitional Provisions:** Paragraph D9AA of Ind AS 101 provides that when a lease includes both land and building elements, a first time adopter may assess the classification of each element as finance or an operating lease at the transition date to Ind AS on the basis of the facts and circumstances existing as at that date. If there is any land lease newly classified as finance lease then the first time adopter may recognise assets and liability at fair value on that date; any difference between those fair values is recognised in retained earnings.
8. **Optional Exemptions relating to the Long-term Foreign Currency Monetary Items and Service Concession Arrangements relating to Toll Roads:** Ind AS 101 in addition to exemptions provided under IFRS 1, also provides certain optional exemptions relating to the long-term foreign currency monetary items and service concession arrangements relating to toll roads.

9. **Business Combinations:** Under Ind AS 101, para C4(c) requires, the first-time adopter shall exclude from its opening Ind AS Balance Sheet any item recognised in accordance with previous GAAP that does not qualify for recognition as an asset or liability under Ind AS. The first-time adopter shall account for the resulting change in the retained earnings as at the transition date except in certain specific instances where it requires adjustment in the goodwill.

In such specific instances where IFRS 1 allows adjustment in the goodwill, under Ind AS 101 it can be adjusted with the Capital reserve to the extent such adjustment amount does not exceed the balance available in Capital reserve.

10. **Option to take Fair Value for Investment Property:** Paragraph D7 (a) of IFRS 1 provides that option to take fair value at the date of transition to Ind AS or previous GAAP revalued amount may be exercised by a first item adopter for investment property. However, this option has not been provided under Ind AS 101, as Ind AS 40 permits only the cost model.

## 8.28 Ind AS 102 : Share-Based Payment

### 8.28.1 Objective

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The objective of this Standard is to specify the financial reporting by an entity when it undertakes a share-based payment transaction. In particular, it requires an entity to reflect in its profit or loss and financial position the effects of share-based payment transactions, including expenses associated with transactions in which share options are granted to employees.

### 8.28.2 Scope

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An entity shall apply this Standard in accounting for all share-based payment transactions, whether or not the entity can identify specifically some or all of the goods or services received, including:

- Equity-settled share-based payment transactions
- Cash-settled share-based payment transactions
- Transactions in which the entity receives or acquires goods or services and the terms of the arrangement provide either the entity or the supplier of those goods or services with a choice of whether the entity settles the transaction in cash (or other assets) or by issuing equity instruments

#### Not applicable to:

- Transactions in which the entity acquires goods as part of the net assets acquired in a business combination as defined by Ind AS 103, '*Business Combinations*'.

- This Standard does not apply to share-based payment transactions in which the entity receives or acquires goods or services under a contract within the scope of Ind AS 32, 'Financial Instruments: Presentation', Ind AS 109, 'Financial Instruments'.

For the purposes of this Standard, a transaction with an employee (or other party) in his/her capacity as a holder of equity instruments of the entity is not a share-based payment transaction.

### 8.28.3 Share-based Payment Transaction

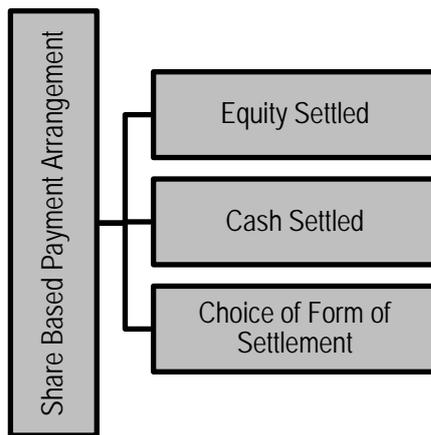
A transaction in which the entity:

- receives goods or services from the supplier of those goods or services (including an employee) in a share-based payment arrangement, or
- incurs an obligation to settle the transaction with the supplier in a share-based payment arrangement when another group entity receives those goods or services.

#### Share-based Payment Arrangement

An agreement between the entity (or another group entity or any shareholder of any group entity) and another party (including an employee) that entitles the other party to receive:

- cash or other assets of the entity for amounts that are based on the price (or value) of equity instruments (including shares or share options) of the entity or another group entity, or
- equity instruments (including shares or share options) of the entity or another group entity, provided the specified vesting conditions, if any, are met.



- Equity-settled Share-based Payment Transaction:** A share-based payment transaction in which the entity:
  - receives goods or services as consideration for its own equity instruments (including shares or share options), or
  - receives goods or services but has no obligation to settle the transaction with the supplier.

2. **Cash-settled Share-based Payment Transaction:** A share-based payment transaction in which the entity acquires goods or services by incurring a liability to transfer cash or other assets to the supplier of those goods or services for amounts that are based on the price (or value) of equity instruments (including shares or share options) of the entity or another group entity.

#### 8.28.4 Recognition

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- An entity shall recognise the goods or services received or acquired in a share-based payment transaction when it obtains the goods or as the services are received.
- The entity shall recognise a corresponding increase in equity if the goods or services were received in an equity-settled share-based payment transaction, or a liability if the goods or services were acquired in a cash-settled share-based payment transaction.
- When the goods or services received or acquired in a share-based payment transaction do not qualify for recognition as assets, they shall be recognised as expenses.

#### 8.28.5 Equity-settled Share-based Payment Transactions

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For equity-settled share-based payment transactions, the entity shall measure the goods or services received, and the corresponding increase in equity, directly, at the fair value of the goods or services received, unless that fair value cannot be estimated reliably. If the entity cannot estimate reliably the fair value of the goods or services received, the entity shall measure their value, and the corresponding increase in equity, indirectly, by reference to the fair value of the equity instruments granted.

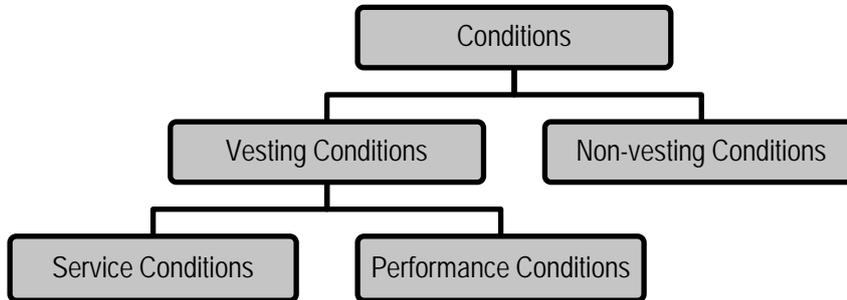
##### 8.28.5.1 Transactions with Employees and Others providing similar Services

- The entity shall measure the fair value of the services received by reference to the fair value of the equity instruments granted, because typically it is not possible to estimate reliably the fair value of the services received.
- The fair value of those equity instruments shall be measured at grant date.

##### 8.28.5.2 Transactions with Non-employees

- For equity-settled share-based payment transactions, the entity shall measure the goods or services received, and the corresponding increase in equity, directly, at the fair value of the goods or services received, unless that fair value cannot be estimated reliably. In other words, there shall be a rebuttable presumption that the fair value of the goods or services received can be estimated reliably.
- If the entity cannot estimate reliably the fair value of the goods or services received, the entity shall measure their value, and the corresponding increase in equity, indirectly, by reference to the fair value of the equity instruments granted.

8.28.6 Treatment of Vesting Conditions



8.28.6.1 Treatment of Vesting Conditions

- Vesting conditions, other than market conditions, shall not be taken into account when estimating the fair value of the shares or share options at the measurement date.
- Instead, vesting conditions shall be taken into account by adjusting the number of equity instruments included in the measurement of the transaction amount so that, ultimately, the amount recognised for goods or services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest.

8.28.6.2 Treatment of Non-vesting Conditions

Similarly, an entity shall take into account all non-vesting conditions when estimating the fair value of the equity instruments granted.

Therefore, for grants of equity instruments with non-vesting conditions, the entity shall recognise the goods or services received from a counterparty that satisfies all vesting conditions that are not market conditions (e.g. services received from an employee who remains in service for the specified period of service), irrespective of whether those non-vesting conditions are satisfied.

8.28.7 Modifications to the Terms and Conditions on which Equity Instruments were granted, including Cancellations and Settlements

An entity might modify the terms and conditions on which the equity instruments were granted. For example, it might reduce the exercise price of options granted to employees (i.e. reprice the options), which increases the fair value of those options.

	Fair Value of Equity Instruments	<ul style="list-style-type: none"> <li>• Beneficial to Employees</li> <li>• Non-beneficial to Employees</li> </ul>
	No. of Equity Instruments Granted	<ul style="list-style-type: none"> <li>• Beneficial to Employees</li> <li>• Non-beneficial to Employees</li> </ul>
	Modifications in Vesting Conditions	<ul style="list-style-type: none"> <li>• Beneficial to Employees</li> <li>• Non-beneficial to Employees</li> </ul>

#### 8.28.7.1 Fair Value

1. **Increases (Beneficial to Employees):** If the modification increases the fair value of the equity instruments granted (e.g. by reducing the exercise price), measured immediately before and after the modification, the entity shall include the incremental fair value granted in the measurement of the amount recognised for services received as consideration for the equity instruments granted. The incremental fair value granted is the difference between the fair value of the modified equity instrument and that of the original equity instrument, both estimated as at the date of the modification.
2. **Decreases (Non-beneficial to Employees):** If the modification reduces the fair value of the equity instruments granted, measured immediately before and after the modification, the entity shall not take into account that decrease in fair value and shall continue to measure the amount recognised for services received as consideration for the equity instruments based on the grant date fair value of the equity instruments granted.

#### 8.28.7.2 Number of Equity Instruments Granted

1. **Increases (Beneficial to Employees):** If the modification increases the number of equity instruments granted, the entity shall include the fair value of the additional equity instruments granted, measured at the date of the modification, in the measurement of the amount recognised for services received as consideration for the equity instruments granted.
2. **Decreases (Non-beneficial to Employees):** If the modification reduces the number of equity instruments granted to an employee, that reduction shall be accounted for as a cancellation of that portion of the grant.

#### 8.28.7.3 Vesting Conditions

1. **Increases (Beneficial to Employees):** If the entity modifies the vesting conditions in a manner that is beneficial to the employee, for example, by reducing the vesting period or by modifying or eliminating a performance condition (other than a market condition), the entity shall take the modified vesting conditions into account.
2. **Decreases (Non-beneficial to Employees):** If the entity modifies the vesting conditions in a manner that is not beneficial to the employee, for example, by increasing the vesting

period or by modifying or adding a performance condition (other than a market condition), the entity shall not take the modified vesting conditions into account.

**8.28.7.4 Cancellation/Settlement:** If a grant of equity instruments is cancelled or settled during the vesting period (other than a grant cancelled by forfeiture when the vesting conditions are not satisfied):

- (a) the entity shall account for the cancellation or settlement as an acceleration of vesting, and shall therefore recognise immediately the amount that otherwise would have been recognised for services received over the remainder of the vesting period.
- (b) any payment made to the employee on the cancellation or settlement of the grant shall be accounted for as the repurchase of an equity interest, i.e. as a deduction from equity, except to the extent that the payment exceeds the fair value of the equity instruments granted, measured at the repurchase date. Any such excess shall be recognised as an expense. However, if the share-based payment arrangement included liability components, the entity shall re-measure the fair value of the liability at the date of cancellation or settlement. Any payment made to settle the liability component shall be accounted for as an extinguishment of the liability.
- (c) if new equity instruments are granted to the employee and, on the date when those new equity instruments are granted, the entity identifies the new equity instruments granted as replacement equity instruments for the cancelled equity instruments, the entity shall account for the granting of replacement equity instruments in the same way as a modification of the original grant of equity instruments.

The incremental fair value granted is the difference between the fair value of the replacement equity instruments and the net fair value of the cancelled equity instruments, at the date the replacement equity instruments are granted.

The net fair value of the cancelled equity instruments is their fair value, immediately before the cancellation, less the amount of any payment made to the employee on cancellation of the equity instruments that is accounted for as a deduction from equity. If the entity does not identify new equity instruments granted as replacement equity instruments for the cancelled equity instruments, the entity shall account for those new equity instruments as a new grant of equity instruments.

#### **8.28.8 Cash-settled Share-based Payment Transactions**

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For cash-settled share-based payment transactions, the entity shall measure the goods or services acquired and the liability incurred at the fair value of the liability. Until the liability is settled, the entity shall re-measure the fair value of the liability at the end of each reporting period and at the date of settlement, with any changes in fair value recognised in profit or loss for the period.

#### **8.28.9 Share-based Payment Transactions with Cash Alternatives**

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For share-based payment transactions in which the terms of the arrangement provide either the entity or the counterparty with the choice of whether the entity settles the transaction in cash (or other assets) or by issuing equity instruments, the entity shall account for that transaction, or

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the components of that transaction, as a cash-settled share-based payment transaction if, and to the extent that, the entity has incurred a liability to settle in cash or other assets, or as an equity-settled share-based payment transaction if, and to the extent that, no such liability has been incurred.

### 8.29 Ind AS 103: Business Combinations

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#### 8.29.1 Objective

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The objective of this Indian Accounting Standard (Ind AS) is to improve the:

- Relevance
- Reliability
- Comparability

of the information that a reporting entity provides in its financial statements about a business combination and its effects.

To accomplish that, this Ind AS establishes principles and requirements for how the acquirer:

- Recognises and measures in its financial statements the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree
- Recognises and measures the goodwill acquired in the business combination or a gain from a bargain purchase
- Determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination

#### 8.29.2 Scope

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This Ind AS applies to a transaction or other event that meets the definition of a business combination. This Ind AS does not apply to:

1. The accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself.
2. The acquisition of an asset or a group of assets that does not constitute a business.
3. The requirements of this Standard do not apply to the acquisition by an investment entity, as defined in Ind AS 110, '*Consolidated Financial Statements*'; of an investment in a subsidiary that is required to be measured at fair value through profit or loss.

#### 8.29.3 Variety of ways in which a Business Combination may be Structured

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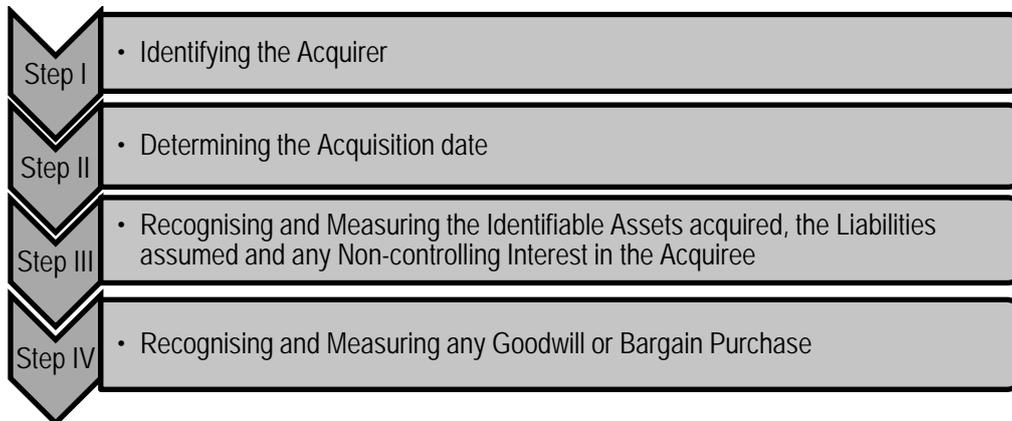
A business combination may be structured in a variety of ways for legal, taxation or other reasons, which include but are not limited to:

- (a) one or more businesses become subsidiaries of an acquirer or the net assets of one or more businesses are legally merged into the acquirer;
- (b) one combining entity transfers its net assets, or its owners transfer their equity interests to another combining entity or its owners;
- (c) all of the combining entities transfer their net assets, or the owners of those entities transfer their equity interests, to a newly formed entity (sometimes referred to as a roll-up or put-together transaction); or
- (d) a group of former owners of one of the combining entities obtains control of the combined entity.

#### 8.29.4 Acquisition Method

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An entity shall account for each business combination by applying the acquisition method. Applying the acquisition method requires:



The date on which the acquirer obtains control of the acquiree is generally the date on which the acquirer legally transfers the consideration, acquires the assets and assumes the liabilities of the acquiree - the closing date. However, the acquirer might obtain control on a date that is either earlier or later than the closing date.

#### Recognition Principle

On the acquisition date, the acquirer shall recognise, separately from goodwill:

- The identifiable assets acquired
- The liabilities assumed
- Any non-controlling interest in the acquiree

#### Exceptions to the Recognition Principles

##### Contingent Liabilities

- the acquirer shall recognise if it is a present obligation that arises from past events and its fair value can be measured reliably

### Measurement Principle

The acquirer shall measure the identifiable assets acquired and the liabilities assumed at their acquisition-date fair values.

#### Exceptions to the Measurement Principles

- Reacquired rights
  - ✓ measured at fair value based on remaining contractual term ignoring the fair value effect of renewal
- Share-based payment transactions
  - ✓ measured in accordance with Ind AS 102(Market Based Measure)
- Assets held for sale
  - ✓ measured in accordance with Ind AS 105 (i.e. fair value less costs to sell)

#### Exceptions to the Recognition and Measurement Principles

- Income taxes
  - ✓ deferred tax assets or liabilities arising from acquired assets or liabilities accounted for using Ind AS 12
- Employee benefits
  - ✓ accounted for using Ind AS 19
- Indemnification assets
  - ✓ Shall be measured and recognized on the basis of the indemnified item

### Recognition and Measurement of Goodwill or Bargain Purchase

The acquirer shall recognise goodwill as of the acquisition date measured as the excess of (a) over (b) below:

- (a) the aggregate of:
  - (i) the consideration transferred, which generally requires acquisition-date fair value;
  - (ii) the amount of any non-controlling interest in the acquiree; and
  - (iii) in a business combination achieved in stages, the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree.
- (b) the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

In extremely rare circumstances, an acquirer will make a bargain purchase in a business combination, where the value of acquired identifiable assets and liabilities exceeds the consideration transferred; the acquirer shall recognize a gain (bargain purchase). The gain shall be recognized by the acquirer in Other Comprehensive Income on the acquisition date and accumulate the same in equity as capital reserve, if there exists a clear evidence of the underlying reasons for classifying the business combination as a bargain purchase.

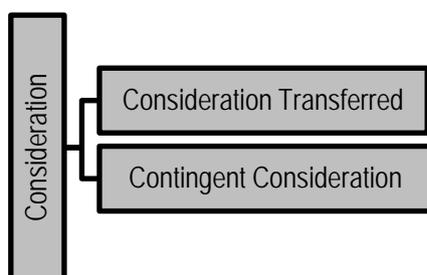
If there does not exist clear evidence of the underlying reasons for classifying the business combination as a bargain purchase, then the gain shall be recognised directly in equity as capital reserve.

**A Business Combination achieved in Stages (Step Acquisition):** In a business combination achieved in stages, the acquirer shall re-measure its previously held equity interest in the acquiree at its acquisition-date fair value and recognise the resulting gain or loss, if any, in profit or loss or other comprehensive income, as appropriate.

In prior reporting periods, the acquirer may have recognised changes in the value of its equity interest in the acquiree in other comprehensive income.

If so, the amount that was recognised in other comprehensive income shall be recognised on the same basis as would be required if the acquirer had disposed directly of the previously held equity interest.

### 8.29.5 Consideration



**8.29.5.1 Consideration Transferred:** The consideration transferred in a business combination shall be measured at fair value, which shall be calculated as the sum of:

- The acquisition-date fair values of the assets transferred by the acquirer
- The liabilities incurred by the acquirer to former owners of the acquiree; and
- The equity interests issued by the acquirer.

### 8.29.5.2 Contingent Consideration

- The consideration the acquirer transfers in exchange for the acquiree includes any asset or liability resulting from a contingent consideration arrangement.
- The acquirer shall recognise the acquisition-date fair value of contingent consideration as part of the consideration transferred in exchange for the acquiree.

### 8.29.6 Reverse Acquisitions

A reverse acquisition occurs when the entity that issues securities (the legal acquirer) is identified as the acquiree for accounting. The entity whose equity interests are acquired (the legal acquiree) must be the acquirer for accounting purposes for the transaction to be considered a reverse acquisition.

### 8.29.7 Measurement Period

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If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the acquirer shall report in its financial statements provisional amounts for the items for which the accounting is incomplete.

During the measurement period, the acquirer shall retrospectively adjust the provisional amounts recognised at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and, if known, would have affected the measurement of the amounts recognised as of that date.

During the measurement period, the acquirer shall also recognise additional assets or liabilities if new information is obtained about facts and circumstances that existed as of the acquisition date and, if known, would have resulted in the recognition of those assets and liabilities as of that date.

The measurement period ends as soon as the acquirer receives the information it was seeking about facts and circumstances that existed as of the acquisition date or learns that more information is not obtainable.

However, the measurement period shall not exceed one year from the acquisition date.
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### 8.29.8 Acquisition Related Costs

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Acquisition-related costs are costs the acquirer incurs to effect a business combination. The acquirer shall account for acquisition-related costs as expenses in the periods in which the costs are incurred and the services are received, with one exception. The costs to issue debt or equity securities shall be recognised in accordance with Ind AS 32 and Ind AS 109.

### 8.29.9 Subsequent Measurement and Accounting

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In general, an acquirer shall subsequently measure and account for assets acquired, liabilities assumed or incurred and equity instruments issued in a business combination in accordance with other applicable Ind AS for those items, depending on their nature. However, Ind AS 103 provides guidance on subsequently measuring and accounting for the following assets acquired, liabilities assumed or incurred and equity instruments issued in a business combination:

- (a) reacquired rights;
- (b) contingent liabilities recognised as of the acquisition date;
- (c) indemnification assets; and
- (d) contingent consideration.

### 8.29.10 Business Combinations of Entities under Common Control

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Common control business combination means a business combination involving entities or businesses in which all the combining entities or businesses are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory.

Business combinations involving entities or businesses under common control shall be

accounted for using the pooling of interests method.

The pooling of interest method is considered to involve the following:

- (a) The assets and liabilities of the combining entities are reflected at their carrying amounts.
- (b) No adjustments are made to reflect fair values, or recognise any new assets or liabilities. The only adjustments that are made are to harmonise accounting policies.
- (c) The financial information in the financial statements in respect of prior periods should be restated as if the business combination had occurred from the beginning of the preceding period in the financial statements, irrespective of the actual date of the combination. However, if business combination had occurred after that date, the prior period information shall be restated only from that date.
- (d) The balance of the retained earnings appearing in the financial statements of the transferor is aggregated with the corresponding balance appearing in the financial statements of the transferee. Alternatively, it is transferred to General Reserve, if any.
- (e) The identity of the reserves shall be preserved and shall appear in the financial statements of the transferee in the same form in which they appeared in the financial statements of the transferor.
- (f) The difference, if any, between the amounts recorded as share capital issued plus any additional consideration in the form of cash or other assets and the amount of share capital of the transferor shall be transferred to capital reserve and should be presented separately from other capital reserves with disclosure of its nature and purpose in the notes.

#### **8.29.11 Major Change in Ind AS 103 vis-à-vis IFRS 3 Resulting in Carve Out**

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##### **(A) Resulting in Carve Out**

**As per IFRS:** IFRS 3 requires bargain purchase gain arising on business combination to be recognised in profit or loss as income.

**Carve out:** Ind AS 103 requires the bargain purchase gain to be recognised in other comprehensive income and accumulated in equity as capital reserve, unless there is no clear evidence for the underlying reason for classification of the business combination as a bargain purchase, in which case, it shall be recognised directly in equity as capital reserve. A similar carve-out is made in Ind AS 28, Investments in Associates and Joint Ventures

**Reasons:** At present, since bargain purchase gain occurs at the time of acquiring a business, these are considered as capital reserve. Recognition of such gains in profit or loss would result into recognition of unrealised gains, which may get distributed in the form of dividends. Moreover, such a treatment may lead to structuring through acquisitions, which may not be in the interest of the stakeholders of the company.

##### **(B) Resulting in Carve-in**

As per IFRS

IFRS 3 excludes from its scope business combinations of entities under common control.

### Carve-in

Appendix C of Ind AS 103 Business Combinations gives guidance in this regard.

#### 8.29.12 Major Changes in Ind AS 103 vis-à-vis Notified AS 14

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- (i) **Scope:** Ind AS 103 defines a business combination which has a wider scope whereas the existing AS 14 deals only with amalgamation *and mergers*.
- (ii) **Methods for Accounting:** Under the existing AS 14 there are two methods of accounting for amalgamation viz - the pooling of interest method and the purchase method. Ind AS 103 prescribes only the acquisition method for every business combination.
- (iii) **Assets and Liabilities:** Under the existing AS 14, the acquired assets and liabilities are recognised at their existing book values or at fair values under the purchase method. Ind AS 103 requires the acquired identifiable assets liabilities and non-controlling interest to be recognised at fair value under acquisition method.
- (iv) **Minority / Non-controlling:** Ind AS 103 requires that for each business combination, the acquirer shall measure any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets. On other hand, the existing AS 14 states that the minority interest is the amount of equity attributable to minorities at the date on which investment in a subsidiary is made and it is shown outside shareholders' equity.
- (v) **Amortisation of Goodwill:** Under Ind AS 103, the goodwill is not amortised but tested for impairment on annual basis in accordance with Ind AS 36. The existing AS 14 requires that the goodwill arising on amalgamation in the nature of purchase is amortised over a period not exceeding five years.
- (vi) **Reverse Acquisitions:** Ind AS 103 deals with reverse acquisitions whereas the existing AS 14 does not deal with the same.
- (vii) **Contingent Consideration:** Ind AS 103 deals with the contingent consideration in case of business combination, i.e., an obligation of the acquirer to transfer additional assets or equity interests to the former owners of an acquiree as part of the exchange for control of the acquiree if specified future events occur or conditions are met. The existing AS 14 does not provide specific guidance on this aspect.
- (viii) **Bargain Purchase Gain:** Ind AS 103 requires bargain purchase gain arising on business combination to be recognised in other comprehensive income and accumulated in equity as capital reserve, unless there is no clear evidence for the underlying reason for classification of the business combination as a bargain purchase, in which case, it shall be recognised directly in equity as capital reserve. Under existing AS 14 the excess amount is treated as capital reserve.
- (ix) **Accounting for Common Control Transactions:** Appendix C of Ind AS 103 deals with accounting for common control transactions, which prescribes a method of accounting different from Ind AS 103. Existing AS 14 does not prescribe accounting for such transactions different from other amalgamations.

**8.30 Ind AS 104: Insurance Contract**

**8.30.1 Objective**

The objective of this Indian Accounting Standard (Ind AS) is to specify the financial reporting for insurance contracts by any entity that issues such contracts (described as an insurer).

In particular, this Ind AS requires:

- (a) limited improvements to accounting by insurers for insurance contracts.
- (b) disclosure that identifies and explains the amounts in an insurer’s financial statements arising from insurance contracts and helps users of those financial statements understand the amount, timing and uncertainty of future cash flows from insurance contracts.

**8.30.2 Scope**

An entity shall apply this Ind AS to:

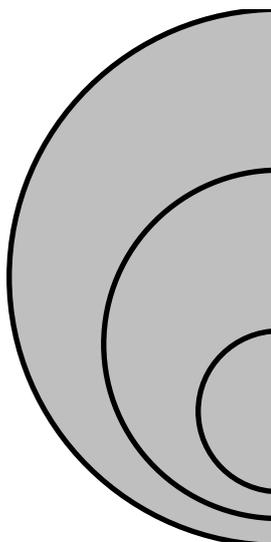
- (a) insurance contracts (including reinsurance contracts) that it issues and reinsurance contracts that it holds.
- (b) financial instruments that it issues with a discretionary participation feature.

An entity shall not apply this Ind AS to:

	Product warranties issued directly by a manufacturer, dealer or retailer	<ul style="list-style-type: none"> <li>• Ind AS 18</li> <li>• Ind AS 37</li> </ul>
	Employers’ assets and liabilities under employee benefit plans	<ul style="list-style-type: none"> <li>• Ind AS 19</li> <li>• Ind AS 102</li> </ul>
	Contractual rights or contractual obligations that are contingent on the future use of, or right to use, a non-financial item as well as a lessee’s residual value guarantee embedded in a finance lease	<ul style="list-style-type: none"> <li>• Ind AS 17</li> <li>• Ind AS 18 and Ind AS 38</li> </ul>

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Financial guarantee contracts unless the issuer has previously asserted explicitly that it regards such contracts as insurance contracts	<ul style="list-style-type: none"><li>• Ind AS 32</li><li>• Ind AS 107 and Ind AS 109</li></ul>
Contingent consideration payable or receivable in a business combination	<ul style="list-style-type: none"><li>• Ind AS 103</li></ul>
Direct insurance contracts that the entity holds (i.e. direct insurance contracts in which the entity is the policyholder)	<ul style="list-style-type: none"><li>• However, a cedant shall apply this Standard to reinsurance contracts that it holds</li></ul>

### 8.30.3 Insurance Contract

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An insurance contract is a contract:

- under which one party (the insurer)
- accepts significant insurance risk
- from another party (the policyholder)
- by agreeing to compensate the policyholder
- if a specified uncertain future event (the insured event) adversely affects the policyholder.

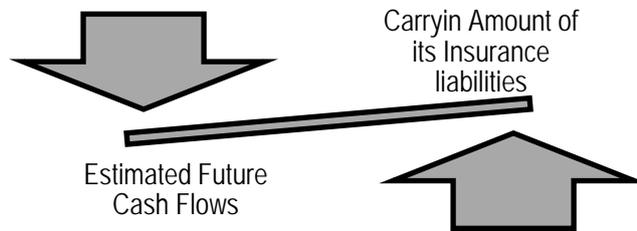
### 8.30.4 Recognition and Measurement

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The Ind AS exempts an insurer from some requirements of other Ind AS. Specifically, an insurer:

- (a) shall not recognise as a liability any provisions for possible future claims, if those claims arise under insurance contracts that are not in existence at the end of the reporting period (such as catastrophe provisions and equalisation provisions).
- (b) shall carry out the liability adequacy test.
- (c) shall remove an insurance liability (or a part of an insurance liability) from its balance sheet when, and only when, it is extinguished — i.e. when the obligation specified in the contract is discharged or cancelled or expires.
- (d) shall not offset:
  - i. reinsurance assets against the related insurance liabilities; or
  - ii. income or expense from reinsurance contracts against the expense or income from the related insurance contracts.
- (e) shall consider whether its reinsurance assets are impaired.

**8.30.4.1 Liability Adequacy Test:** An insurer shall assess at the end of each reporting period whether its recognised insurance liabilities are adequate, using current estimates of future cash flows under its insurance contracts. If that assessment shows that the carrying amount of its insurance liabilities (less related deferred acquisition costs and related intangible assets) is inadequate in the light of the estimated future cash flows, the entire deficiency shall be recognised in profit or loss.



**8.30.4.2 Impairment of Reinsurance Assets:** If a cedant's reinsurance asset is impaired, the cedant shall reduce its carrying amount accordingly and recognise that impairment loss in profit or loss.

A reinsurance asset is impaired if, and only if:

- (a) there is objective evidence, as a result of an event that occurred after initial recognition of the reinsurance asset, that the cedant may not receive all amounts due to it under the terms of the contract; and
- (b) that event has a reliably measurable impact on the amounts that the cedant will receive from the reinsurer.

### 8.30.5 Changes in Accounting Policies

An insurer may change its accounting policies for insurance contracts if, and only if, the change makes the financial statements more relevant to the economic decision-making needs of users and no less reliable, or more reliable and no less relevant to those needs. In particular, an insurer may continue any of the following practices, although it may continue using accounting policies that involve them:

- (a) measuring insurance liabilities on an undiscounted basis.
- (b) measuring contractual rights to future investment management fees at an amount that exceeds their fair value as implied by a comparison with current fees charged by other market participants for similar services.
- (c) using non-uniform accounting policies for the insurance contracts of subsidiaries.

The Ind AS permits an insurer to change its accounting policies so that it re-measures designated insurance liabilities to reflect current market interest rates and recognises changes in those liabilities in profit or loss. Without this permission, an insurer would have been required to apply the change in accounting policies consistently to all similar liabilities.

The Ind AS requires disclosure to help users understand:

- (a) the amounts in the insurer's financial statements that arise from insurance contracts.
- (b) the nature and extent of risks arising from insurance contracts.

## 8.31 Ind AS 105: Non-current Assets Held for Sale and Discontinued Operations

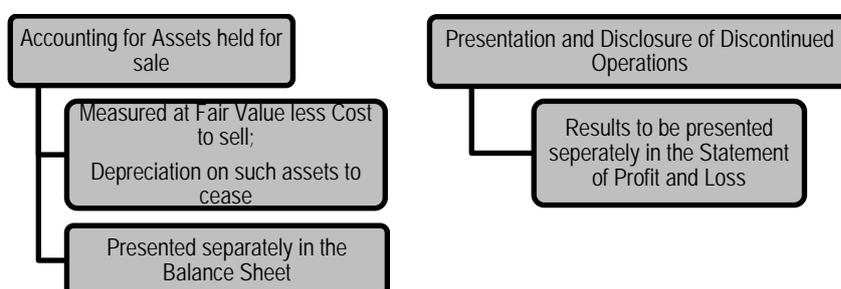
### 8.31.1 Objective

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The objective of this Indian Accounting Standard (Ind AS) is to specify the accounting for assets held for sale, and the presentation and disclosure of discontinued operations.

In particular, this Ind AS requires:

- (a) assets that meet the criteria to be classified as held for sale to be measured at the lower of carrying amount and fair value less costs to sell, and depreciation on such assets to cease; and
- (b) assets that meet the criteria to be classified as held for sale to be presented separately in the balance sheet and
- (c) the results of discontinued operations to be presented separately in the statement of profit and loss.



### 8.31.2 Scope

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The classification and presentation requirements of this Ind AS apply to all recognised non-current assets and to all disposal groups of an entity.

The measurement provisions of this Ind AS do not apply to the following assets, which are covered by the Ind AS listed, either as individual assets or as part of a disposal group:

- Deferred tax assets (Ind AS 12, '*Income Taxes*')
- Assets arising from employee benefits (Ind AS 19, '*Employee Benefits*')
- Financial assets within the scope of Ind AS 109, '*Financial Instruments*'
- Non-current assets that are measured at fair value less costs to sell in accordance with Ind AS 41, '*Agriculture*'
- Contractual rights under insurance contracts as defined in Ind AS 104, '*Insurance Contracts*'

Additional disclosures about non-current assets (or disposal groups) classified as held for sale or discontinued operations may be necessary to comply with the general requirements of Ind AS 1.

### 8.31.3 Discontinued Operations

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A component of an entity that either has been disposed of or is classified as held for sale and:

- (a) represents a separate major line of business or geographical area of operations,
- (b) is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations or
- (c) is a subsidiary acquired exclusively with a view to resale.

**Disposal Group:** A group of assets to be disposed of, by sale or otherwise, together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction. The group includes goodwill acquired in a business combination if the group is a cash-generating unit to which goodwill has been allocated in accordance with the requirements of Ind AS 36, *'Impairment of Assets'*, or if it is an operation within such a cash-generating unit.

### 8.31.4 Classification of Non-current Assets (or Disposal Groups) as Held for Sale or as Held for Distribution to Owners

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An entity shall classify a non-current asset (or disposal group) as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use.

To be classified as held for sale/distribution the asset (or disposal group):

1. Must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets (or disposal groups) and
2. Its sale must be highly probable.

#### When the sale/distribution is considered highly probable?

For the sale to be highly probable:

1. The appropriate level of management must be committed to a plan to sell the asset (or disposal group).
2. An active programme to locate a buyer and complete the plan must have been initiated.
3. Further, the asset (or disposal group) must be actively marketed for sale at a price that is reasonable in relation to its current fair value.
4. In addition, the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification.
5. The probability of shareholders' approval (if required in the jurisdiction) should be considered as part of the assessment of whether the sale is highly probable.

**Exception to Point 5:** Events or circumstances may extend the period to complete the sale beyond one year.

## 2.204 Financial Reporting

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An extension of the period required to complete a sale does not preclude an asset (or disposal group) from being classified as held for sale if the delay is caused by events or circumstances beyond the entity's control and there is sufficient evidence that the entity remains committed to its plan to sell the asset (or disposal group).

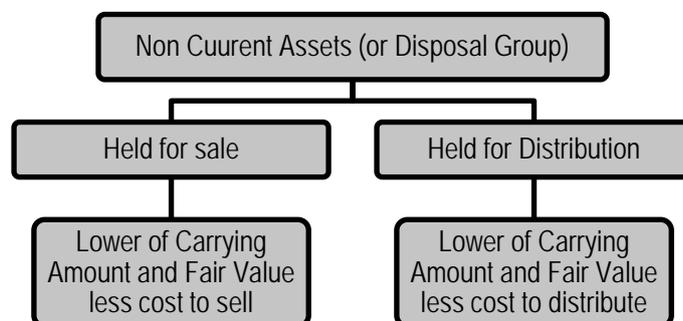
An entity shall not classify as held for sale a non-current asset (or disposal group) that is to be abandoned.

### 8.31.5 Measurement of Non-current Assets (or Disposal Groups) Classified as Held for Sale or Held for Distribution

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#### Measurement of a Non-current Asset (or Disposal Group)

- An entity shall measure a non-current asset (or disposal group) classified as held for sale at the lower of its carrying amount and fair value less costs to sell.
- An entity shall measure a non-current asset (or disposal group) classified as held for distribution to owners at the lower of its carrying amount and fair value less costs to distribute.



When the sale is expected to occur beyond one year, the entity shall measure the costs to sell at their present value. Any increase in the present value of the costs to sell that arises from the passage of time shall be presented in profit or loss as a financing cost.

#### 8.31.6 Changes to a Plan of Sale or to a Plan of Distribution to Owners

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If an entity has classified an asset (or disposal group) as held for sale or as held for distribution to owners, but the criteria specified are no longer met, the entity shall cease to classify the asset (or disposal group) as held for sale or held for distribution to owners (respectively).

If an entity reclassifies an asset (or disposal group) directly from being held for sale to being held for distribution to owners, or directly from being held for distribution to owners to being held for sale, then the change in classification is considered a continuation of the original plan of disposal. The entity:

- (a) The entity shall apply the classification, presentation and measurement requirements in this Ind AS that are applicable to the new method of disposal.

- (b) shall measure the non-current asset (or disposal group) either if reclassified as held for sale or if reclassified as held for distribution to owners, and recognise any reduction or increase in the fair value less costs to sell/costs to distribute of the non-current asset.
- (c) shall not change the date of classification. This does not preclude an extension of the period required to complete a sale or a distribution to owners if the specified conditions are met.

The entity shall measure a non-current asset (or disposal group) that ceases to be classified as held for sale or as held for distribution to owners (or ceases to be included in a disposal group classified as held for sale or as held for distribution to owners) at the lower of:

- (a) its carrying amount before the asset (or disposal group) was classified as held for sale or as held for distribution to owners, adjusted for any depreciation, amortisation or revaluations that would have been recognised had the asset (or disposal group) not been classified as held for sale or as held for distribution to owners, and
- (b) its recoverable amount at the date of the subsequent decision not to sell or distribute.

#### **8.31.7 Major Changes in Ind AS 105 vis-à-vis IFRS 5 Not Resulting in Carve Outs**

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1. **Classification of a Non-current Asset:** IFRS 5 prescribes the conditions for classification of a non-current asset (or disposal group) as held for sale. In Ind AS 105, a clarification has also been added that the non-current asset (or disposal group) cannot be classified as held for sale, if the entity intends to sell it in a distant future.
2. **Non-current Assets accounted as per the Fair Value Model:** IFRS 105 deals with non-current assets that are accounted for in accordance with the fair value model in IAS 40. Since Ind AS 40 prohibits the use of fair value model, this has not been included in Ind AS 105.
3. **Presentation of Discontinued Operations:** IFRS 5 requires presentation of discontinued operations in the separate income statement, where separate income statement is presented. This requirement is not provided in Ind AS 105 consequential to the removal of option regarding two statement approach in Ind AS 1. Ind AS 1 requires that the components of profit or loss and components of other comprehensive income shall be presented as a part of the statement of profit and loss.
4. **Transitional Provisions:** Ind AS 101 provides transitional relief, similar to the transitional provisions in IFRS 5, that while applying Ind AS 105, an entity may use the transitional date circumstances to measure such assets or operations at the lower of carrying value and fair value less cost to sell. This would facilitate smooth convergence with Ind AS.

#### **8.31.8 Major Difference between Ind AS 105 vis a vis Notified AS 24**

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- (i) **Scope and Objective:** Ind AS 105 specifies the accounting for non-current assets held for sale, and the presentation and disclosure of *discontinued operations*. The existing AS 24 establishes principles for reporting information about *discontinuing operations*. It does not deal with the non-current assets held for sale; fixed assets retired from active used and held for sale, are dealt in existing AS 10, 'Accounting for Fixed Assets'.

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- (ii) **Cash Flow Statement:** In the existing AS 24, requirements related to cash flow statement are applicable when the enterprise presents a cash flow statement. Ind AS 105 does not mention so.
- (iii) **Discontinued vs Discontinuing Operations:** Under Ind AS 105, a discontinued operation is a component of an entity that either has been disposed of or is classified as held for sale. In the existing AS 24, there is no concept of discontinued operations but it deals with discontinuing operations.
- (iv) **Time Period:** As per Ind AS 105, the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification with certain exceptions. The existing AS 24 does not specify any time period in this regard as it relates to discontinuing operations.
- (v) **Initial Disclosure Event:** The existing AS 24 specifies about the initial disclosure event in respect to a discontinuing operation. Ind AS 105 does not mention so as it relates to discontinued operation.
- (vi) **Measurement:** Under Ind AS 105, non-current assets (disposal groups) held for sale are measured at the lower of carrying amount and fair value less costs to sell, and are presented separately in the balance sheet. The existing AS 24 requires to apply the principles set out in other relevant Accounting Standards, e.g., the existing AS 10 requires that the fixed assets retired from active use and held for disposal should be stated at the lower of their net book value and net realisable value and shown separately in the financial statements.
- (vii) **Abandonment of Assets:** Ind AS 105 specifically mentions that abandonment of assets should not be classified as held for sale. In the existing AS 24, abandonment of assets is classified as a discontinuing operation; however, changing the scope of an operations or the manner in which it is conducted is not abandonment and hence not a discontinuing operation.
- (viii) **Guidance Regarding Measurement of Changes to a Plan of Change:** Ind AS 105 provides guidance regarding changes to the plan to sell non-current assets (or disposal groups) which are classified as held for sale. The existing AS 24 does not give any specific guidance regarding this aspect.
- (ix) **Definition:** As per Ind AS 105, a discontinued operation is a component of an entity that represents a separate major line of business or geographical area, or is a subsidiary acquired exclusively with a view to resale. Under the existing AS 24, a discontinuing operation is a component of an entity that represents the major line of business or geographical area of operations and that can be distinguished operationally and for financial reporting purposes.

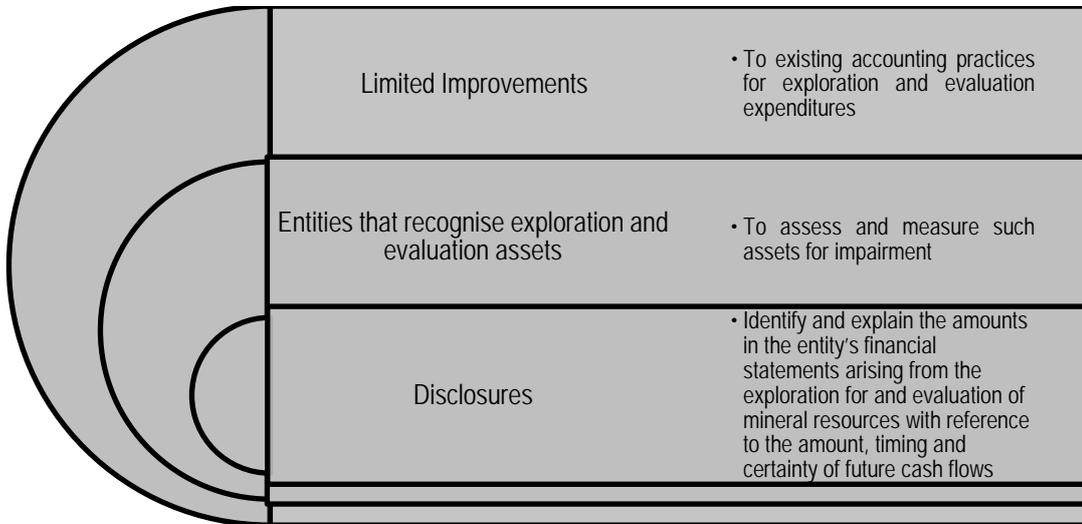
### 8.32 Ind AS 106: Exploration for and Evaluation of Mineral Resources

#### 8.32.1 Objective

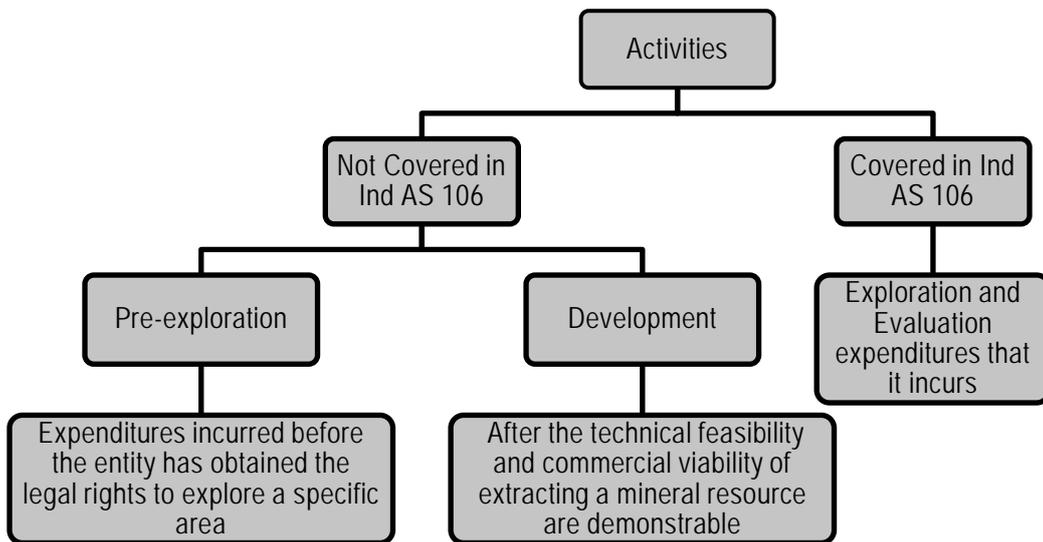
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The objective of this Indian Accounting Standard (Ind AS) is to specify the financial reporting for the exploration for and evaluation of mineral resources.

In particular, the Ind AS requires:



8.32.2 Scope



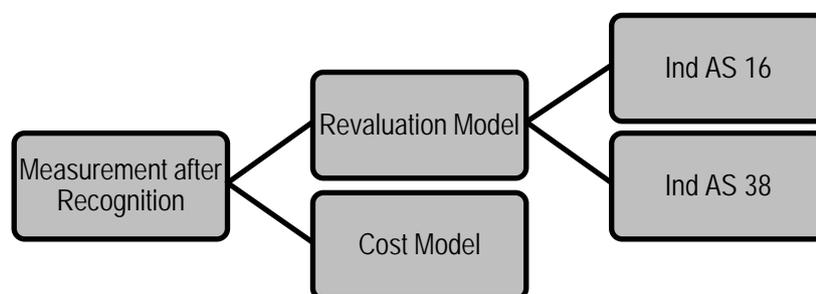
8.32.3 Measurement of Exploration and Evaluation of Assets

8.32.3.1 Measurement at Recognition: Exploration and evaluation assets shall be measured at cost.

8.32.3.2 Elements of Cost of Exploration and Evaluation of Assets: An entity shall determine an accounting policy specifying which expenditures are recognised as exploration and evaluation assets and apply the policy consistently.

**8.32.3.3 Measurement after Recognition:** After recognition, an entity shall apply either the cost model or the revaluation model to the exploration and evaluation assets.

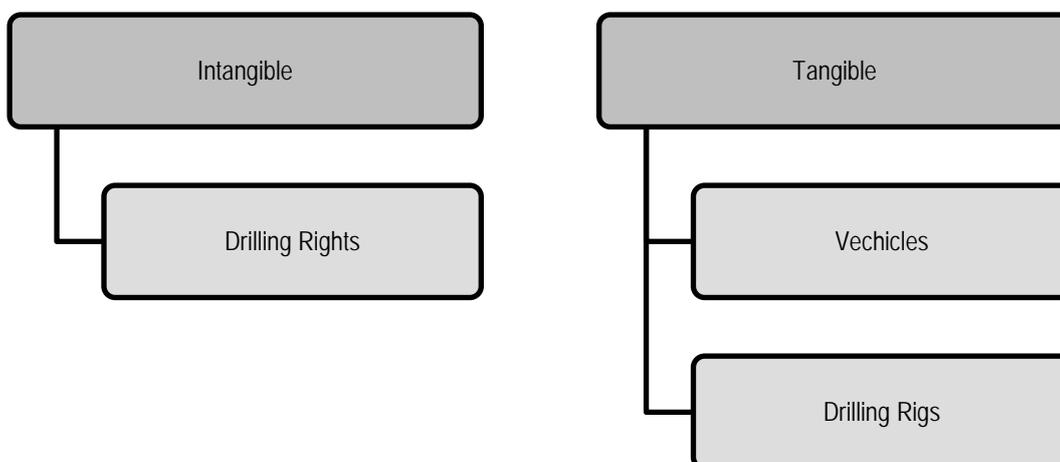
If the revaluation model is applied (either the model in Ind AS 16 '*Property, Plant and Equipment*' or the model in Ind AS 38) it shall be consistent with the classification of the assets.



### 8.32.4 Presentation

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**8.32.4.1 Classification of Exploration and Evaluation Assets:** An entity shall classify exploration and evaluation assets as tangible or intangible according to the nature of the assets acquired and apply the classification consistently.



### 8.32.5 Impairment

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**Recognition and Measurement:** Exploration and evaluation assets shall be assessed for impairment when facts and circumstances suggest that the carrying amount of an exploration and evaluation asset may exceed its recoverable amount.

When facts and circumstances suggest that the carrying amount exceeds the recoverable amount, an entity shall measure, present and disclose any resulting impairment loss in accordance with Ind AS 36

An entity shall determine an accounting policy for allocating exploration and evaluation assets to cash-generating units or groups of cash-generating units for the purpose of assessing such assets for impairment. Each cash-generating unit or group of units to which an exploration and

evaluation asset is allocated shall not be larger than an operating segment determined in accordance with Ind AS 108, '*Operating Segments*'.

One or more of the following facts and circumstances indicate that an entity should test exploration and evaluation assets for impairment (the list is not exhaustive):

- (a) the period for which the entity has the right to explore in the specific area has expired during the period or will expire in the near future, and is not expected to be renewed.
- (b) substantive expenditure on further exploration for and evaluation of mineral resources in the specific area is neither budgeted nor planned.
- (c) exploration for and evaluation of mineral resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the entity has decided to discontinue such activities in the specific area.
- (d) sufficient data exist to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

An entity shall disclose information that identifies and explains the amounts recognised in its financial statements arising from the exploration for and evaluation of mineral resources.

### **8.33 Ind AS 107: Financial Instruments: Disclosures**

#### **8.33.1 Objective**

The objective of this Indian Accounting Standard (Ind AS) is to require entities to provide disclosures in their financial statements that enable users to evaluate:

- (a) the significance of financial instruments for the entity's financial position and performance; and
- (b) the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the end of the reporting period, and how the entity manages those risks.

#### **8.33.2 Scope**

This Ind AS shall be applied by all entities to all types of financial instruments, except:

- (a) those interests in subsidiaries, associates or joint ventures that are accounted for in accordance with Ind AS 110 '*Consolidated Financial Statements*', Ind AS 27 '*Separate Financial Statements*', or Ind AS 28 '*Investments in Associates and Joint Ventures*'.
- (b) employers' rights and obligations arising from employee benefit plans, to which Ind AS 19, '*Employee Benefits*', applies.
- (c) insurance contracts as defined in Ind AS 104, '*Insurance Contracts*'.
- (d) financial instruments, contracts and obligations under share-based payment transactions to which Ind AS 102, '*Share-based Payment*', applies.

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- (e) instruments that are required to be classified as equity instruments in accordance with paragraphs 16A and 16B or paragraphs 16C and 16D of Ind AS 32.

This Ind AS applies to recognised and unrecognised financial instruments.

Recognised financial instruments include financial assets and financial liabilities that are within the scope of Ind AS 109. Unrecognised financial instruments include some financial instruments that, although outside the scope of Ind AS 109, are within the scope of this Ind AS.

### 8.33.3 Credit Risk, Liquidity Risk and Market Risk

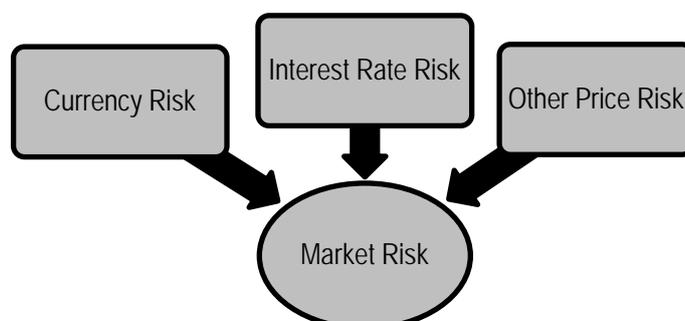
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**Credit Risk:** The risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

**Liquidity Risk:** The risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

**Market Risk:** The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices.

Market risk comprises three types of risk:



**Interest Rate Risk:** The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

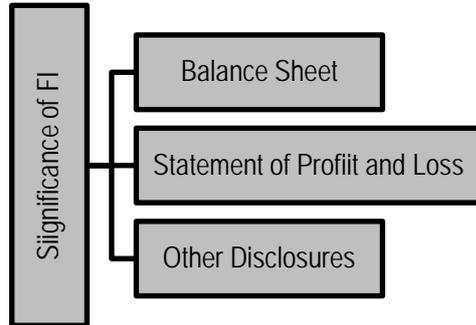
**Currency Risk:** The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

**Other Price Risk:** The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer or by factors affecting all similar financial instruments traded in the market.

### 8.33.4 Significance of Financial Instruments for Financial Position and Performance

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An entity shall disclose information that enables users of its financial statements to evaluate the significance of financial instruments for its financial position and performance.



### 8.33.4.1 Balance Sheet

**Categories of Financial Assets and Financial Liabilities:** The carrying amounts of each of the following categories, as specified in Ind AS 109, shall be disclosed either in the balance sheet or in the notes:

1. financial assets measured at fair value through profit or loss, showing separately
  - (i) those designated as such upon initial recognition or subsequently in accordance with Ind AS 109 and
  - (ii) those mandatorily measured at fair value through profit or loss in accordance with Ind AS 109.
2. financial liabilities at fair value through profit or loss, showing separately
  - (i) those designated as such upon initial recognition or subsequently in accordance with Ind AS 109 and
  - (ii) those that meet the definition of held for trading in Ind AS 109.
3. financial assets measured at amortised cost.
4. financial liabilities measured at amortised cost.
5. financial assets measured at fair value through other comprehensive income, showing separately
  - (i) financial assets that are measured at fair value through other comprehensive income in accordance with Ind AS 109; and
  - (ii) investments in equity instruments designated as such upon initial recognition in accordance with Ind AS 109.

**Financial Assets or Financial Liabilities at Fair Value through Profit or Loss:** If the entity has designated as measured at fair value through profit or loss a financial asset (or group of financial assets) that would otherwise be measured at fair value through other comprehensive income or amortised cost, it shall disclose:

- (a) the maximum exposure to credit risk of the financial asset (or group of financial assets) at the end of the reporting period.

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- (b) the amount by which any related credit derivatives or similar instruments mitigate that maximum exposure to credit risk.
- (c) the amount of change, during the period and cumulatively, in the fair value of the financial asset (or group of financial assets) that is attributable to changes in the credit risk of the financial asset determined either:
  - (i) as the amount of change in its fair value that is not attributable to changes in market conditions that give rise to market risk; or
  - (ii) using an alternative method the entity believes more faithfully represents the amount of change in its fair value that is attributable to changes in the credit risk of the asset.
- (d) the amount of the change in the fair value of any related credit derivatives or similar instruments that has occurred during the period and cumulatively since the financial asset was designated.

### **Investments in Equity Instruments designated at Fair Value through Other Comprehensive Income**

If an entity has designated investments in equity instruments to be measured at fair value through other comprehensive income, as permitted by Ind AS 109, it shall disclose:

- (a) which investments in equity instruments have been designated to be measured at fair value through other comprehensive income.
- (b) the reasons for using this presentation alternative.
- (c) the fair value of each such investment at the end of the reporting period.
- (d) dividends recognised during the period, showing separately those related to investments derecognised during the reporting period and those related to investments held at the end of the reporting period.
- (e) any transfers of the cumulative gain or loss within equity during the period including the reason for such transfers.

**Reclassification:** An entity shall disclose if, in the current or previous reporting periods, it has reclassified any financial assets in accordance with Ind AS 109. For each such event, an entity shall disclose:

- (a) the date of reclassification.
- (b) a detailed explanation of the change in business model and a qualitative description of its effect on the entity's financial statements.
- (c) the amount reclassified into and out of each category.

**Collateral:** An entity shall disclose:

- (a) the carrying amount of financial assets it has pledged as collateral for liabilities or contingent liabilities, including amounts that have been reclassified in accordance with Ind AS 109; and

(b) the terms and conditions relating to its pledge.

**Allowance Account for Credit Losses:** The carrying amount of financial assets measured at fair value through other comprehensive income in accordance with Ind AS 109 is not reduced by a loss allowance and an entity shall not present the loss allowance separately in the balance sheet as a reduction of the carrying amount of the financial asset. However, an entity shall disclose the loss allowance in the notes to the financial statements.

**Compound Financial Instruments with Multiple Embedded Derivatives:** If an entity has issued an instrument that contains both a liability and an equity component and the instrument has multiple embedded derivatives whose values are interdependent (such as a callable convertible debt instrument), it shall disclose the existence of those features.

**Defaults and Breaches:** For loans payable recognised at the end of the reporting period, an entity shall disclose:

- (a) details of any defaults during the period of principal, interest, sinking fund, or redemption terms of those loans payable;
- (b) the carrying amount of the loans payable in default at the end of the reporting period; and
- (c) whether the default was remedied, or the terms of the loans payable were renegotiated, before the financial statements were approved for issue.

#### 8.33.4.2 Statement of Profit and Loss

**Items of Income, Expense, Gains or Losses:** An entity shall disclose the following items of income, expense, gains or losses either in the statement of profit and loss or in the notes:

- (a) net gains or net losses on:
  - (i) financial assets or financial liabilities measured at fair value through profit or loss, showing separately those on financial assets or financial liabilities designated as such upon initial recognition or subsequently in accordance with Ind AS 109, and those on financial assets or financial liabilities that are mandatorily measured at fair value through profit or loss in accordance with Ind AS 109 (e.g. financial liabilities that meet the definition of held for trading in Ind AS 109). For financial liabilities designated as at fair value through profit or loss, an entity shall show separately the amount of gain or loss recognised in other comprehensive income and the amount recognised in profit or loss.
  - (ii) financial liabilities measured at amortised cost.
  - (iii) financial assets measured at amortised cost.
  - (iv) investments in equity instruments designated at fair value through other comprehensive income in accordance with Ind AS 109.
  - (v) financial assets measured at fair value through other comprehensive income in accordance with Ind AS 109, showing separately the amount of gain or loss recognised in other comprehensive income during the period and the amount

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reclassified upon derecognition from accumulated other comprehensive income to profit or loss for the period.

- (b) total interest revenue and total interest expense (calculated using the effective interest method) for financial assets that are measured at amortised cost or that are measured at fair value through other comprehensive income in accordance with Ind AS 109 (showing these amounts separately); or financial liabilities that are not measured at fair value through profit or loss.
- (c) fee income and expense (other than amounts included in determining the effective interest rate) arising from:
  - (i) financial assets and financial liabilities that are not at fair value through profit or loss; and
  - (ii) trust and other fiduciary activities that result in the holding or investing of assets on behalf of individuals, trusts, retirement benefit plans, and other institutions.

### 8.33.4.3 Other Disclosures

**Accounting Policies:** In accordance with Ind AS 1 '*Presentation of Financial Statements*', an entity discloses its significant accounting policies, comprising the measurement basis (or bases) used in preparing the financial statements and the other accounting policies used that are relevant to an understanding of the financial statements.

**Hedge Accounting:** An entity shall apply the disclosure requirements for those risk exposures that an entity hedges and for which it elects to apply hedge accounting. Hedge accounting disclosures shall provide information about:

- (i) an entity's risk management strategy and how it is applied to manage risk;
- (ii) how the entity's hedging activities may affect the amount, timing and uncertainty of its future cash flows; and
- (iii) the effect that hedge accounting has had on the entity's balance sheet, statement of profit and loss and statement of changes in equity.

**Fair Value:** For each class of financial assets and financial liabilities, an entity shall disclose the fair value of that class of assets and liabilities in a way that permits it to be compared with its carrying amount.

Disclosures of fair value are not required:

- (a) when the carrying amount is a reasonable approximation of fair value, for example, for financial instruments such as short-term trade receivables and payables;
- (b) for a contract containing a discretionary participation feature (as described in Ind AS 104) if the fair value of that feature cannot be measured reliably.

### 8.33.5 Nature and Extent of Risks arising from Financial Instruments

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An entity shall disclose information that enables users of its financial statements to evaluate the nature and extent of risks arising from financial instruments to which the entity is exposed at the end of the reporting period.

**Qualitative Disclosures:** The qualitative disclosures describe management's objectives, policies and processes for managing those risks.

For each type of risk arising from financial instruments, an entity shall disclose:

- (a) the exposures to risk and how they arise;
- (b) its objectives, policies and processes for managing the risk and the methods used to measure the risk; and
- (c) any changes in (a) or (b) from the previous period.

**Quantitative Disclosures:** The quantitative disclosures provide information about the extent to which the entity is exposed to risk, based on information provided internally to the entity's key management personnel.

For each type of risk arising from financial instruments, an entity shall disclose:

- (a) summary quantitative data about its exposure to that risk at the end of the reporting period. This disclosure shall be based on the information provided internally to key management personnel of the entity (as defined in Ind AS 24, *'Related Party Disclosures'*), for example the entity's board of directors or chief executive officer.
- (b) the disclosures required by paragraphs 36–42, to the extent not provided in accordance with (a).
- (c) concentrations of risk if not apparent from the disclosures made in accordance with (a) and (b).

Together, these disclosures provide an overview of the entity's use of financial instruments and the exposures to risks they create.

The Ind AS applies to all entities, including entities that have few financial instruments (eg a manufacturer whose only financial instruments are accounts receivable and accounts payable) and those that have many financial instruments (eg a financial institution most of whose assets and liabilities are financial instruments).

When this Ind AS requires disclosures by class of financial instrument, an entity shall group financial instruments into classes that are appropriate to the nature of the information disclosed and that take into account the characteristics of those financial instruments. An entity shall provide sufficient information to permit reconciliation to the line items presented in the statement of financial position.

The principles in this Ind AS complement the principles for recognising, measuring and presenting financial assets and financial liabilities in Ind AS 32, *'Financial Instruments: Presentation'* and Ind AS 109, *'Financial Instruments'*.

### 8.33.6 Major Change in Ind AS 107 vis-à-vis IFRS 7 Not Resulting in Carve Out

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**Disclosure of description of Gains and Losses presented in the Separate Income Statement:** IFRS 7 requires disclosure of description of gains and losses presented in the separate income statement, where separate income statement is presented. This requirement is not provided in Ind AS 107 consequential to the removal of option regarding two statement approach in Ind AS 1 as compared to IAS 1. Ind AS 1 requires that the components of profit or loss and components of other comprehensive income shall be presented as a part of the statement of profit and loss.

## 8.34 Ind AS 108: Operating Segments

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### 8.34.1 Core Principle

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An entity shall disclose information to enable users of its financial statements to evaluate the nature and financial effects of the **business activities** in which it engages and the **economic environments** in which it operates.

Accordingly, the objective of segment reporting is to provide financial information on the different business activities that an entity engages in and the different economic environments under which it operates to help users of financial statements to:

- (a) better understand the entity's performance;
- (b) better assess its prospects for future net cash flows;
- (c) make more informed judgments about the entity as a whole.

### 8.34.2 Scope

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This Accounting Standard shall apply to companies to which Indian Accounting Standards (Ind AS) notified under the Companies Act apply.

If an entity that is not required to apply this Ind AS chooses to disclose information about segments that does not comply with this Ind AS, it shall not describe the information as segment information.

If a financial report contains both the consolidated financial statements of a parent that is within the scope of this Indian Accounting Standard as well as the parent's separate financial statements, segment information is required only in the consolidated financial statements.

### 8.34.3 Operating Segments

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An operating segment is a component of an entity:

- (a) that engages in business activities from which it may earn revenues and incur expenses
- (b) whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and
- (c) for which discrete financial information is available.

An operating segment may engage in business activities for which it has yet to earn revenues, for example, start-up operations may be operating segments before earning revenues. Not every part of an entity is necessarily an operating segment or part of an operating segment.

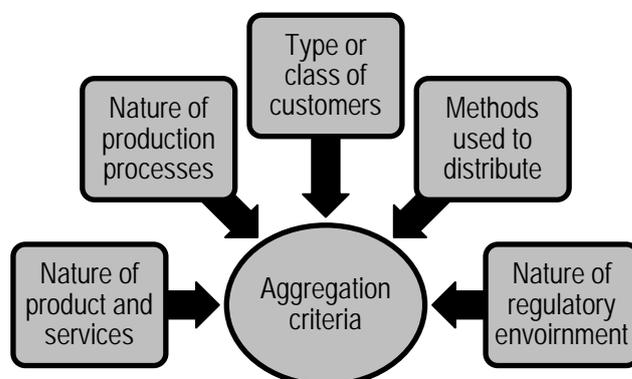
**For example:** A corporate headquarters or some functional departments may not earn revenues or may earn revenues that are only incidental to the activities of the entity and would not be operating segments. For the purposes of this Ind AS, an entity's post-employment benefit plans are not operating segments.

#### 8.34.4 Reportable Segments

An entity shall report separately information about each operating segment that:

- (a) has been identified or results from aggregating two or more of segments, and
- (b) exceeds the quantitative thresholds as specified in the standard.

**8.34.4.1 Aggregation Criteria:** Operating segments often exhibit similar long-term financial performance if they have similar economic characteristics.



**8.34.4.2 Quantitative Thresholds:** An entity shall report separately information about an operating segment that meets any of the following quantitative thresholds:

- (a) Its reported revenue, including both sales to external customers and intersegment sales or transfers, is 10 per cent or more of the combined revenue, internal and external, of all operating segments.
- (b) The absolute amount of its reported profit or loss is 10 per cent or more of the greater, in absolute amount, of
  - (i) the combined reported profit of all operating segments that did not report a loss and
  - (ii) the combined reported loss of all operating segments that reported a loss.
- (c) Its assets are 10 per cent or more of the combined assets of all operating segments.

**Notes:**

1. Operating segments that do not meet any of the quantitative thresholds may be considered reportable, and separately disclosed, if management believes that information about the segment would be useful to users of the financial statements.

## **2.218 Financial Reporting**

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2. An entity may combine information about operating segments that do not meet the quantitative thresholds with information about other operating segments that do not meet the quantitative thresholds to produce a reportable segment only if the operating segments have similar economic characteristics and share a majority of the aggregation criteria listed in paragraph 12.
3. If the total external revenue reported by operating segments constitutes less than 75 per cent of the entity's revenue, additional operating segments shall be identified as reportable segments (even if they do not meet the criteria in paragraph 13) until at least 75 per cent of the entity's revenue is included in reportable segments.

### **8.34.5 General Information**

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The Standard requires an entity to report a measure of operating segment profit or loss and of segment assets. It also requires an entity to report a measure of segment liabilities and particular income and expense items if such measures are regularly provided to the chief operating decision maker. It requires reconciliations of total reportable segment revenues, total profit or loss, total assets, liabilities and other amounts disclosed for reportable segments to corresponding amounts in the entity's financial statements.

The Standard requires an entity to report information about the revenues derived from its products or services (or groups of similar products and services), about the countries in which it earns revenues and holds assets, and about major customers, regardless of whether that information is used by management in making operating decisions. However, the Standard does not require an entity to report information that is not prepared for internal use if the necessary information is not available and the cost to develop it would be excessive.

The Standard also requires an entity to give descriptive information about the way the operating segments were determined, the products and services provided by the segments, differences between the measurements used in reporting segment information and those used in the entity's financial statements, and changes in the measurement of segment amounts from period to period.

### **8.34.6 Major Change in Ind AS 108 vis-à-vis IFRS 8 Not Resulting in Carve Out**

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Paragraph 2 of IFRS 8 requires that the standard shall apply to :

- a) the separate or individual financial statements of an entity:
  - i. whose debt or equity instruments are traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets), or
  - ii. that files, or is in the process of filing, its financial statements with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market; and
- b) the consolidated financial statements of a group with a parent:
  - i. whose debt or equity instruments are traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets), or

- ii. that files, or is in the process of filing, the consolidated financial statements with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market.

The above have been deleted in the Ind AS 108 as the applicability or exemptions to the Indian Accounting Standards are governed by the Companies Act and the Rules made thereunder.

#### **8.34.7 Major Changes in Ind AS 108 vis a vis Notified AS 17**

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- (i) **Identification of Segments:** Identification of segments under Ind AS 108 is based on 'management approach' i.e. operating segments are identified based on the internal reports regularly reviewed by the entity's chief operating decision maker. Existing AS 17 requires identification of two sets of segments; one based on related products and services, and the other on geographical areas based on the risks and returns approach. One set is regarded as primary segments and the other as secondary segments.
- (ii) **Basis of Measurement for Amounts to be Reported in Segments:** Ind AS 108 requires that the amounts reported for each operating segment shall be measured on the same basis as that used by the chief operating decision maker for the purposes of allocating resources to the segments and assessing its performance. Existing AS 17 requires segment information to be prepared in conformity with the accounting policies adopted for preparing and presenting the financial statements. Accordingly, existing AS 17 also defines segment revenue, segment expense, segment result, segment assets and segment liabilities.
- (iii) **Aggregation Criteria:** Ind AS 108 specifies aggregation criteria for aggregation of two or more segments and also requires the related disclosures in this regard. Existing AS 17 does not deal specifically with this aspect.
- (iv) **Single Reportable Segment:** An explanation has been given in the existing AS 17 that in case there is neither more than one business segment nor more than one geographical segment, segment information as per this standard is not required to be disclosed. However, this fact shall be disclosed by way of footnote. Ind AS 108 requires certain disclosures even in case of entities having single reportable segment.
- (v) **Interest Expense:** An explanation has been given in the existing AS 17 that interest expense relating to overdrafts and other operating liabilities identified to a particular segment should not be included as a part of the segment expense. It also provides that in case interest is included as a part of the cost of inventories and those inventories are part of segment assets of a particular segment, such interest should be considered as a segment expense. These aspects are specifically dealt with keeping in view that the definition of 'segment expense' given in AS 17 excludes interest. Ind AS 108 requires the separate disclosures about interest revenue and interest expense of each reportable segment, therefore, these aspects have not been specifically dealt with.
- (vi) **Disclosures:** Ind AS 108 requires disclosures of revenues from external customers for each product and service. With regard to geographical information, it requires the disclosure of revenues from customers in the country of domicile and in all foreign countries, non-current assets in the country of domicile and all foreign countries. It also requires disclosure of

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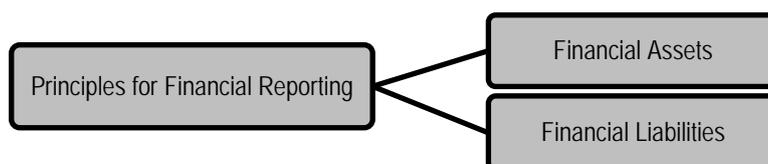
information about major customers. Disclosures in existing AS 17 are based on the classification of the segments as primary or secondary segments. Disclosure requirements for primary segments are more detailed as compared to secondary segments.

### 8.35 Ind AS 109 : Financial Instruments

#### 8.35.1 Objective

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The objective of this Standard is to establish principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows.



#### 8.35.2 Scope

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This Standard shall be applied by all entities to all types of financial instruments except:

- (a) those interests in subsidiaries, associates and joint ventures that are accounted for in accordance with the permission given by Ind AS 110, Ind AS 27 or Ind AS 28
- (b) rights and obligations under leases to which Ind AS 17 'Leases' applies. However:
  - (i) lease receivables recognised by a lessor are subject to the derecognition and impairment requirements of this Standard;
  - (ii) finance lease payables recognised by a lessee are subject to the derecognition requirements of this Standard; and
  - (iii) derivatives that are embedded in leases are subject to the embedded derivatives requirements of this Standard.
- (c) employers' rights and obligations under employee benefit plans, to which Ind AS 19 'Employee Benefits' applies.
- (d) financial instruments issued by the entity that meet the definition of an equity instrument in Ind AS 32 (including options and warrants)
- (e) rights and obligations arising under
  - (i) an insurance contract as defined in Ind AS 104 '*Insurance Contracts*',
  - (ii) a contract that is within the scope of Ind AS 104 because it contains a discretionary participation feature.
- (f) any forward contract between an acquirer and a selling shareholder to buy or sell an acquiree that will result in a business combination within the scope of Ind AS 103 at a future acquisition date.

- (g) loan commitments other than those which entity designates as financial liabilities at fair value through profit or loss, loan commitments that can be settled net in cash or by delivering or issuing another financial instrument and commitments to provide a loan at a below-market interest rate
- (h) financial instruments, contracts and obligations under share-based payment transactions to which Ind AS 102 '*Share-based Payment*' applies.
- (i) rights to payments to reimburse the entity for expenditure that it is required to make to settle a liability that it recognises as a provision in accordance with Ind AS 37 '*Provisions, Contingent Liabilities and Contingent Assets*', or for which, in an earlier period, it recognised a provision in accordance with Ind AS 37.
- (j) rights and obligations within the scope of Ind AS 11, Construction Contracts, and Ind AS 18, Revenue, that are financial instruments, except for those that Ind AS 11 and Ind AS 18 specify are accounted for in accordance with this Standard.
- (k) Contracts to buy or sell a non-financial item which cannot be settled net in cash or another financial instrument, or by exchanging financial instruments.

### 8.35.3 Recognition

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**8.35.3.1 Initial Recognition:** An entity shall recognise a financial asset or a financial liability in its balance sheet when, and only when, the entity becomes party to the contractual provisions of the instrument.

### 8.35.4 Derecognition

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**8.35.4.1 Derecognition of Financial Assets:** A financial asset shall be derecognised when and only when:

- (a) the contractual rights to the cash flows from the financial asset expire, or
- (b) it transfers the financial asset and the transfer qualifies for derecognition.

On derecognition of a financial asset in its entirety, the difference between the carrying amount (measured at the date of derecognition) and the consideration received (including any new asset obtained less any new liability assumed) shall be recognised in profit or loss.

In case of partial derecognition of a financial asset, the previous carrying amount of the whole asset shall be allocated between the part that continues to be recognised and the part that is derecognised, on the basis of the relative fair values of those parts on the date of the transfer.

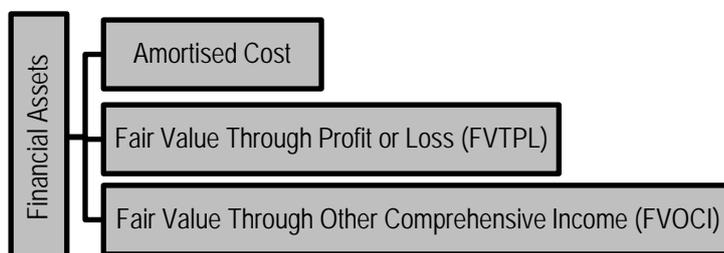
**8.35.4.2 Derecognition of Financial Liabilities:** A financial liability (or a part of a financial liability) shall be derecognised when, and only when, it is extinguished (obligation specified in the contract is discharged or cancelled or expires).

An entity shall account for a substantial modification of the terms of contracts as an extinguishment of the original financial liability and the recognition of a new financial liability. Any difference between the carrying amount of a financial liability extinguished or transferred and the consideration paid should be recognised in profit or loss.

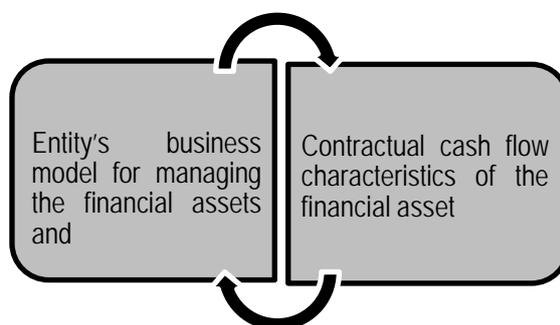
8.35.5 Classification

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8.35.5.1 Classification of Financial Assets



An entity shall classify financial assets as subsequently measured at amortised cost, fair value through other comprehensive income or fair value through profit or loss on the basis of both:

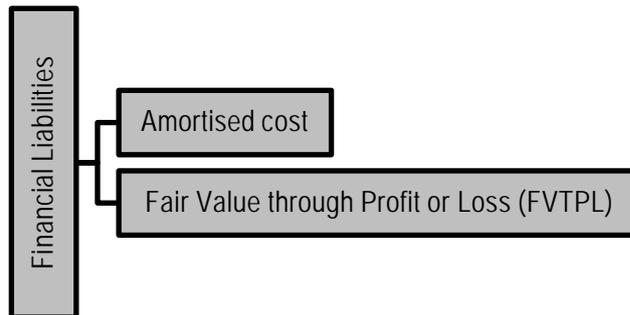


1. **Amortised Cost:** A financial asset shall be measured at amortised cost if both of the following conditions are met:
  - (i) the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and
  - (ii) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.
2. **Fair Value through Other Comprehensive Income (FVOCI):** A financial asset shall be measured at fair value through other comprehensive income if both of the following conditions are met:
  - (i) the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and
  - (ii) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.
3. **Fair Value through Profit or Loss (FVTPL):** A financial asset shall be measured at fair value through profit or loss unless it is measured at amortised cost or at fair value through other comprehensive income.

However, an entity may make an irrevocable election at initial recognition for particular investments in equity instruments that would otherwise be measured at fair value through profit or loss to present subsequent changes in fair value in other comprehensive income.

**Option to designate a financial asset at fair value through profit or loss:** An entity may, at initial recognition, irrevocably designate a financial asset as measured at fair value through profit or loss if doing so eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as an 'accounting mismatch') that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.

**8.35.5.2 Classification of Financial Liabilities:** An entity shall classify all financial liabilities as subsequently measured at amortised cost, except for:



1. **Amortised Cost:** An entity shall classify all financial liabilities as subsequently measured at amortised cost, except for those mentioned below to be measured at FVTPL.
2. **Financial Liabilities at Fair Value through Profit or Loss:** Such liabilities, include
  - Derivatives that are liabilities, shall be subsequently measured at fair value through profit or loss.
  - Financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies.
  - Financial guarantee contracts.
  - Commitments to provide a loan at a below-market interest rate.
  - Contingent consideration recognised by an acquirer in a business combination to which Ind AS 103 applies. Such contingent consideration shall subsequently be measured at fair value with changes recognised in profit or loss.

**Option to designate a financial liability at fair value through profit or loss:** An entity may, at initial recognition, irrevocably designate a financial liability as measured at fair value through profit or loss

**8.35.6 Reclassification**

When and only when, an entity changes its business model for managing financial assets it shall reclassify all affected financial assets. An entity shall not reclassify any financial liability.

### 8.35.7 Measurement

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**8.35.7.1 Initial Measurement:** At initial recognition, an entity shall measure a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

**8.35.7.2 Subsequent Measurement of Financial Assets:** After initial recognition, an entity shall measure a financial asset in accordance with its classification i.e.:

- (i) amortised cost;
- (ii) fair value through other comprehensive income; or
- (iii) fair value through profit or loss.

An entity shall apply the impairment requirements to financial assets that are measured at amortised cost and to financial assets that are measured at fair value through other comprehensive income.

**8.35.7.3 Subsequent Measurement of Financial Liabilities:** After initial recognition, an entity shall measure a financial liability in accordance with amortised cost method using effective interest method.

**8.35.7.4 Gains and Losses:** An entity shall recognise a loss allowance for *expected credit losses* on a financial asset that is measured at FVTOCI and FV at amortised cost, a lease receivable, a *contract asset* or a loan commitment and a financial guarantee contract to which the impairment requirements of this standard applies.

An entity shall measure expected credit losses of a financial instrument in a way that reflects an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes; the time value of money; and reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

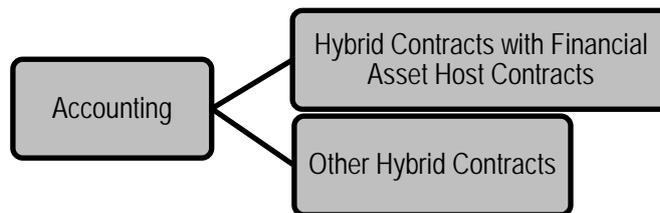
A gain or loss on a financial asset or financial liability that is measured at fair value shall be recognised in profit or loss unless:

- (i) it is part of a hedging relationship;
- (ii) it is an investment in an equity instrument and the entity has elected to present gains and losses on that investment in other comprehensive income;
- (iii) it is a financial liability designated as at fair value through profit or loss and the entity is required to present the effects of changes in the liability's credit risk in other comprehensive income; or
- (iv) it is a financial asset measured at fair value through other comprehensive income and the entity is required to recognise some changes in fair value in other comprehensive income.

### 8.35.8 Embedded Derivatives

An embedded derivative is a component of a hybrid contract that also includes a non-derivative host—with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative.

An embedded derivative causes some or all of the cash flows that otherwise would be required by the contract to be modified according to a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract. A derivative that is attached to a financial instrument but is contractually transferable independently of that instrument, or has a different counterparty, is not an embedded derivative, but a separate financial instrument.



**8.35.8.1 Hybrid Contracts with Financial Asset Hosts:** If a hybrid contract contains a host that is an asset within the scope of this Standard, an entity shall apply the requirements of this standard to the entire hybrid contract.

**8.35.8.2 Other Hybrid Contracts:** If a hybrid contract contains a host that is not an asset, an embedded derivative shall be separated from the host and accounted for as a derivative if, and only if:

- (a) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host;
- (b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
- (c) the hybrid contract is not measured at fair value with changes in fair value recognised in profit or loss (i.e. a derivative that is embedded in a financial liability at fair value through profit or loss is not separated).

### 8.35.9 Hedge Accounting

**8.35.9.1 Objective and Scope of Hedge Accounting:** The objective of hedge accounting is to represent, in the financial statements, the effect of an entity's risk management activities that use financial instruments to manage exposures arising from particular risks that could affect profit or loss (or other comprehensive income, in the case of investments in equity instruments for which an entity has elected to present changes in fair value in other comprehensive income).

#### 8.35.9.2 Hedging Instruments

**Qualifying Items:** A derivative measured at fair value through profit or loss may be designated as a hedging instrument, except for some written options.

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A non-derivative financial asset or a non-derivative financial liability measured at fair value through profit or loss may be designated as a hedging instrument unless it is a financial liability designated as at fair value through profit or loss for which the amount of its change in fair value that is attributable to changes in the credit risk of that liability is presented in other comprehensive income.

For a hedge of foreign currency risk, the foreign currency risk component of a non-derivative financial asset or a non-derivative financial liability may be designated as a hedging instrument provided that it is not an investment in an equity instrument for which an entity has elected to present changes in fair value in other comprehensive income.

Only contracts entered into by the entity with party external to the reporting entity can be designated as hedging instruments.

**8.35.9.3 Designation of Hedging Instruments:** A qualifying instrument must be designated in its entirety as a hedging instrument. The only exceptions permitted are:

- (a) separating the intrinsic value and time value of an option contract and designating as the hedging instrument only the change in intrinsic value of an option and not the change in its time value;
- (b) separating the forward element and the spot element of a forward contract and designating as the hedging instrument only the change in the value of the spot element of a forward contract and not the forward element; similarly, the foreign currency basis spread may be separated and excluded from the designation of a financial instrument as the hedging instrument; and
- (c) a proportion of the entire hedging instrument, such as 50 per cent of the nominal amount, may be designated as the hedging instrument in a hedging relationship. However, a hedging instrument may not be designated for a part of its change in fair value that results from only a portion of the time period during which the hedging instrument remains outstanding.

**8.35.9.4 Hedged Items:**

**Qualifying Items:** A hedged item can be a recognised asset or liability, an unrecognised firm commitment, a forecast transaction or a net investment in a foreign operation. The hedged item can be:

- a single item; or
- a group of items.

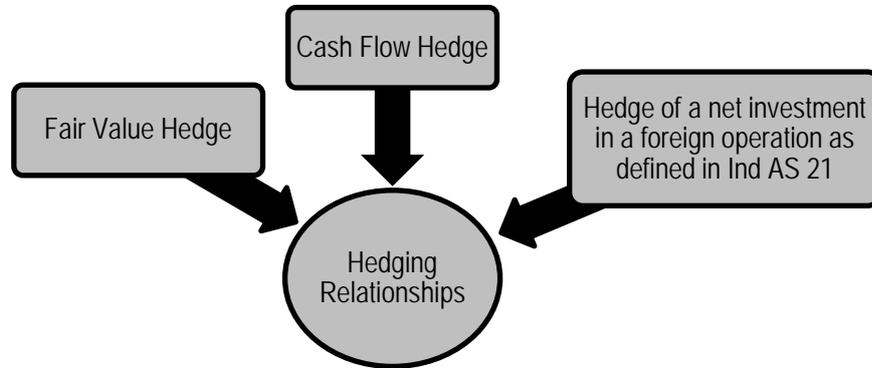
**8.35.9.5 Types of Hedging Relationship:** An entity applies hedge accounting to hedging relationships that meet the qualifying criteria (which include the entity's decision to designate the hedging relationship).

There are three types of hedging relationships:

- (a) **Fair Value Hedge:** a hedge of the exposure to changes in fair value of a recognised asset or liability or an unrecognised firm commitment, or a component of any such item, that is attributable to a particular risk and could affect profit or loss.
- (b) **Cash Flow Hedge:** a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with all, or a component of, a recognised asset or liability or

a highly probable forecast transaction, and could affect profit or loss.

- (c) **Hedge of a Net Investment in a Foreign Operation** as defined in Ind AS 21.



**8.35.9.6 Qualifying Criteria for Hedge Accounting:** A hedging relationship qualifies for hedge accounting only if all of the following criteria are met:

- (a) the hedging relationship consists only of eligible hedging instruments and eligible hedged items.
- (b) at the inception of the hedging relationship there is formal designation and documentation of the hedging relationship and the entity's risk management objective and strategy for undertaking the hedge.
- (c) the hedging relationship meets all of the following hedge effectiveness requirements:
  - (i) there is an economic relationship between the hedged item and the hedging instrument;
  - (ii) the effect of credit risk does not dominate the value changes that result from that economic relationship; and
  - (iii) the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the entity actually hedges and the quantity of the hedging instrument that the entity actually uses to hedge that quantity of hedged item.

However, that designation shall not reflect an imbalance between the weightings of the hedged item and the hedging instrument that would create hedge ineffectiveness (irrespective of whether recognised or not) that could result in an accounting outcome that would be inconsistent with the purpose of hedge accounting.

In case a hedging relationship ceases to meet the hedge effectiveness requirement relating to the hedge ratio but the risk management objective for that designated hedging relationship remains the same, an entity shall adjust the hedge ratio of the hedging relationship so that it meets the qualifying criteria again called as 'rebalancing'.

An entity shall discontinue hedge accounting prospectively only when the hedging relationship (or a part of a hedging relationship) ceases to meet the qualifying criteria (after taking into account any rebalancing of the hedging relationship, if applicable).

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Ind AS 109 prescribes principles for hedge accounting and also requires detailed disclosures. These disclosures explain both the effect that hedge accounting has had on the financial statements and an entity's risk management strategy, as well as providing details about derivatives that have been entered into and their effect on the entity's future cash flows.

### 8.35.10 Major Change in Ind AS 109 vis-à-vis IFRS 9 Not Resulting in Carve Out

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**Fair Value Hedge:** IFRS 9 provides an option to apply requirements of IAS 39 'Financial Instruments: Recognition and Measurement' for fair value hedge of the interest rate exposure of a portfolio of financial assets or financial liabilities. The said option has been removed in Ind AS 109.

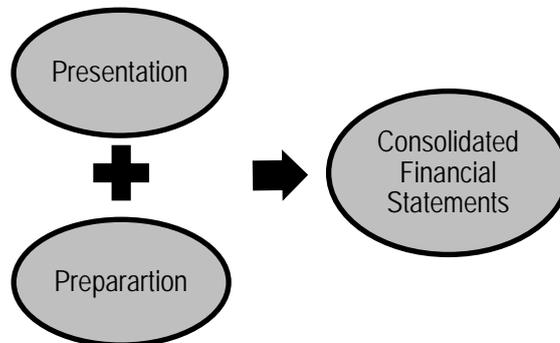
## 8.36 Ind AS 110: Consolidated Financial Statements

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### 8.36.1 Objective

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The objective of this Indian Accounting Standard (Ind AS) is to establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities.

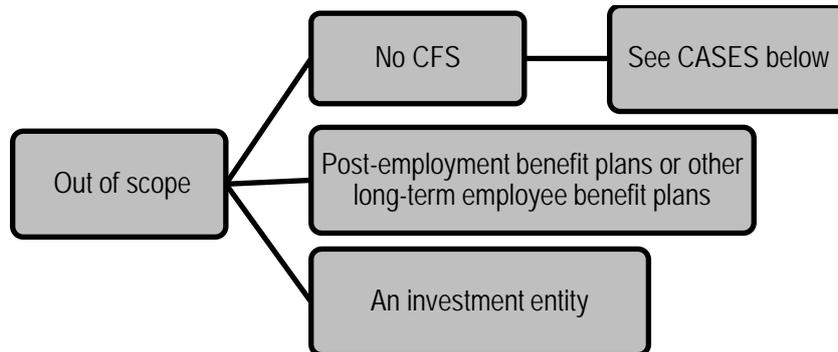


This Ind AS does not deal with the accounting requirements for business combinations and their effect on consolidation, including goodwill arising on a business combination.

### 8.36.2 Scope

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An entity that is a parent shall present consolidated financial statements. This Ind AS applies to all entities, except as follows:



- (a) A parent need not present consolidated financial statements if it meets all the following conditions:
- (i) it is a wholly-owned subsidiary or is a partially-owned subsidiary of another entity and all its other owners, including those not otherwise entitled to vote, have been informed about, and do not object to;
  - (ii) its debt or equity instruments are not traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets);
  - (iii) it did not file, nor is it in the process of filing, its financial statements with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market; and
  - (iv) its ultimate or any intermediate parent produces financial statements that are available for public use and comply with Ind AS, in which subsidiaries are consolidated or are measured at fair value through profit or loss in accordance with this Ind AS.

This Ind AS does not apply to post-employment benefit plans or other long-term employee benefit plans to which Ind AS 19, Employee Benefits, applies.

A parent that is an investment entity shall not present consolidated financial statements if it is required, to measure all of its subsidiaries at fair value through profit or loss.

### 8.36.3 Consolidated Financial Statements

The financial statements of a group in which the assets, liabilities, equity, income, expenses and cash flows of the parent and its subsidiaries are presented as those of a single economic entity.

### 8.36.4 Control

An investor, regardless of the nature of its involvement with an entity (the investee), shall determine whether it is a parent by assessing whether it controls the investee.

An investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Thus, an investor controls an investee if and only if the investor has all the following:

- Power over an investee
- Exposure, or rights, to variable returns from its involvement with the investee
- The ability to use its power over the investee to affect the amount of the investor's returns

#### 8.36.4.1 Power

- An investor has power over an investee when the investor has existing rights that give it the current ability to direct the relevant activities, i.e. the activities that significantly affect the investee's returns.
- Power arises from rights.
- Sometimes assessing power is straightforward, such as when power over an investee is obtained directly and solely from the voting rights granted by equity instruments such as shares
- Power may result from one or more contractual arrangements.

#### 8.36.4.2 Returns

- An investor is exposed, or has rights, to variable returns from its involvement with the investee when the investor's returns from its involvement have the potential to vary as a result of the investee's performance.
- The investor's returns can be only positive, only negative or both positive and negative.
- Although only one investor can control an investee, more than one party can share in the returns of an investee. For example, holders of non-controlling interests can share in the profits or distributions of an investee.

#### 8.36.4.3 Link between Power and Returns

- An investor controls an investee if the investor not only has power over the investee and exposure or rights to variable returns from its involvement with the investee, but also has the ability to use its power to affect the investor's returns from its involvement with the investee.
- An investor with decision-making rights shall determine whether it is a principal or an agent.
- An investor that is an agent does not control an investee when it exercises decision-making rights delegated to it.

A parent of an investment entity shall consolidate all entities that it controls, including those controlled through an investment entity subsidiary, unless the parent itself is an investment entity.

### 8.36.5 Accounting Requirements

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A parent shall prepare consolidated financial statements using uniform accounting policies for like transactions and other events in similar circumstances.

Consolidation of an investee shall begin from the date the investor obtains control of the investee and cease when the investor loses control of the investee.

#### 8.36.5.1 Non-controlling Interests

- A parent shall present non-controlling interests in the consolidated balance sheet within equity, separately from the equity of the owners of the parent.
- Changes in a parent's ownership interest in a subsidiary that do not result in the parent losing control of the subsidiary are equity transactions (i.e. transactions with owners in their capacity as owners).

#### 8.36.5.2 Loss of Control

If a parent loses control of a subsidiary, the parent shall:

- (a) derecognise the assets and liabilities of the former subsidiary from the consolidated balance sheet.
- (b) recognise any investment retained in the former subsidiary at its fair value in accordance with relevant Ind AS.
- (c) recognises the gain or loss associated with the loss of control attributable to the former controlling interest.

#### 8.36.5.3 Consolidation Procedures

Consolidated financial statements:

- (a) combine like items of assets, liabilities, equity, income, expenses and cash flows of the parent with those of its subsidiaries.
- (b) offset (eliminate) the carrying amount of the parent's investment in each subsidiary and the parent's portion of equity of each subsidiary.
- (c) eliminate in full intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between entities of the group (profits or losses resulting from intragroup transactions that are recognised in assets, such as inventory and fixed assets, are eliminated in full).

**8.36.5.4 Uniform Accounting Policies:** If a member of the group uses accounting policies other than those adopted in the consolidated financial statements for like transactions and events in similar circumstances, appropriate adjustments are made to that group member's financial statements in preparing the consolidated financial statements to ensure conformity with the group's accounting policies.

## 2.232 Financial Reporting

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### 8.36.5.5 Measurement

- An entity includes the income and expenses of a subsidiary in the consolidated financial statements from the date it gains control until the date when the entity ceases to control the subsidiary.
- Income and expenses of the subsidiary are based on the amounts of the assets and liabilities recognised in the consolidated financial statements at the acquisition date.

**For example:** Depreciation expense recognised in the consolidated statement of profit and loss after the acquisition date is based on the fair values of the related depreciable assets recognised in the consolidated financial statements at the acquisition date.

### 8.36.5.6 Potential Voting Rights

- When potential voting rights, or other derivatives containing potential voting rights, exist, the proportion of profit or loss and changes in equity allocated to the parent and non-controlling interests in preparing consolidated financial statements is determined solely on the basis of existing ownership interests and does not reflect the possible exercise or conversion of potential voting rights and other derivatives.
- Ind AS 109 does not apply to interests in subsidiaries that are consolidated. When instruments containing potential voting rights in substance currently give access to the returns associated with an ownership interest in a subsidiary, the instruments are not subject to the requirements of Ind AS 109. In all other cases, instruments containing potential voting rights in a subsidiary are accounted for in accordance with Ind AS 109.

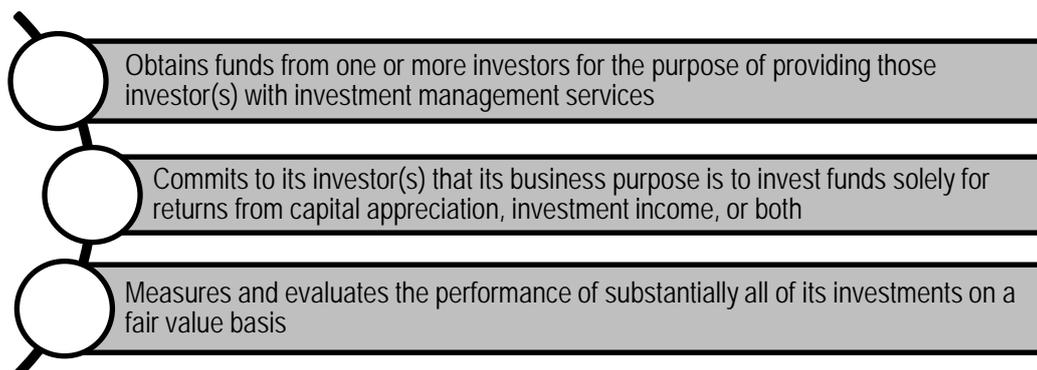
### 8.36.5.7 Reporting Date

- The financial statements of the parent and its subsidiaries used in the preparation of the consolidated financial statements shall have the same reporting date.
- When the end of the reporting period of the parent is different from that of a subsidiary, the subsidiary prepares, for consolidation purposes, additional financial information as of the same date as the financial statements of the parent to enable the parent to consolidate the financial information of the subsidiary, unless it is impracticable to do so.
- If it is impracticable to do so, the parent shall consolidate the financial information of the subsidiary using the most recent financial statements of the subsidiary adjusted for the effects of significant transactions or events that occur between the date of those financial statements and the date of the consolidated financial statements.
- In any case, the difference between the date of the subsidiary's financial statements and that of the consolidated financial statements shall be no more than three months, and the length of the reporting periods and any difference between the dates of the financial statements shall be the same from period to period.

### 8.36.6 Determining whether an Entity is an Investment Entity

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A parent shall determine whether it is an investment entity. An investment entity is an entity that:



A parent that either ceases to be an investment entity or becomes an investment entity shall account for the change in its status prospectively from the date at which the change in status occurred.

#### 8.36.7 Investment Entities: Exception to Consolidation

- An investment entity shall not consolidate its subsidiaries or apply Ind AS 103 when it obtains control of another entity.
- Instead, an investment entity shall measure an investment in a subsidiary at fair value through profit or loss in accordance with Ind AS 109.
- If an investment entity has a subsidiary that is not itself an investment entity and whose main purpose and activities are providing services that relate to the investment entity's investment activities, it shall consolidate that subsidiary in accordance with this Ind AS and apply the requirements of Ind AS 103 to the acquisition of any such subsidiary.
- A parent of an investment entity shall consolidate all entities that it controls, including those controlled through an investment entity subsidiary, unless the parent itself is an investment entity.

#### 8.36.8 Major Change in Ind AS 110 vis-à-vis IFRS 10 Not Resulting in Carve Out

**Investment Properties:** IFRS 10 requires all investments to be measured at fair value to qualify for the exemption from consolidation available to an investment entity. Ind AS 40 'Investment Properties' requires all investment properties to be measured at cost initially and cost less depreciation subsequently. Accordingly, the relevant paragraph of IFRS 10 has been deleted in Ind AS 110 as investment property measured at fair value is not relevant in the Indian context.

#### 8.36.9 Major Changes in Ind AS 110 vis-a-vis Notified AS 21

- (i) **Mandatory preparation of Consolidated Financial Statements:** Ind AS 110 makes the preparation of Consolidated Financial Statements mandatory for a parent. Existing AS 21 does not mandate the preparation of Consolidated Financial Statements by a parent.
- (ii) **Control:** As per AS 21, control is the ownership of more than one-half of the voting power of an enterprise or control of the composition of the board of directors or governing body. However, unlike rule based definition given in AS 21, definition of control in

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Ind AS 110 is principle based which states that, an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

- (iii) **Clarification regarding inclusion of Notes:** Existing AS 21 provides clarification regarding inclusion of notes appearing in the separate financial statements of the parent and its subsidiaries in the consolidated financial statements. However, Ind AS 110 does not provide any clarification in this regard.
- (iv) **Clarification on more than one Parent of a Subsidiary:** Under AS 21 there can be more than one parent of a subsidiary therefore existing AS 21 provides clarification regarding consolidation in case an entity is controlled by two entities. No clarification has been provided in this regard in Ind AS 110, keeping in view that as per the definition of control given in Ind AS 110, control of an entity could be with one entity only.
- (v) **Difference in Reporting Dates:** As per AS 21, difference between the date of the subsidiary's financial statements and that of the consolidated financial statements shall not exceed 6 months. However, as per Ind AS 110 the difference shall not be more than three months.
- (vi) **Loss of Control:** Ind AS 110 provides detailed guidance as compared to existing AS 21 regarding accounting in case of loss of control over subsidiary.
- (vii) **Uniform Accounting Policies:** Both the existing AS 21 and Ind AS 110, require the use of uniform accounting policies. However, existing AS 21 specifically states that if it is not practicable to use uniform accounting policies in preparing the consolidated financial statements, that fact should be disclosed together with the proportions of the items in the consolidated financial statements to which the different accounting policies have been applied. However, Ind AS 110 does not recognise the situation of impracticability.
- (viii) **Presentation of Non-controlling Interest in CFS:** As per existing AS 21 minority interest should be presented in the consolidated balance sheet separately from liabilities and equity of the parent's shareholders. However, as per Ind AS 110 non-controlling interests shall be presented in the consolidated balance sheet within equity separately from the parent shareholders' equity.
- (ix) **Potential Equity Shares:** For considering share ownership, potential equity shares of the investee held by investor are not taken into account as per existing AS 21. However, as per Ind AS 110, potential voting rights that are substantive are also considered when assessing whether an entity has control over the subsidiary.
- (x) **Exclusion from Consolidation:** As per existing AS 21, subsidiary is excluded from consolidation when control is intended to be temporary or when subsidiary operates under severe long term restrictions. Ind AS 110 does not give any such exemption from consolidation.
- (xi) **Explanations:** Existing AS 21 explains where an entity owns majority of voting power because of ownership and all the shares are held as stock-in-trade, whether this amounts to temporary control. Existing AS 21 also explains the term 'near future'. However, Ind AS 110 does not explain the same, as these are not relevant.

**8.37 Ind AS 111 : Joint Arrangements**

**8.37.1 Objective**

The objective of this Ind AS is to establish principles for financial reporting by entities that have an interest in arrangements that are controlled jointly (i.e. joint arrangements).

The Standard requires an entity that is a party to a joint arrangement to determine the type of joint arrangement in which it is involved by assessing its rights and obligations and to account for those rights and obligations in accordance with that type of joint arrangement.

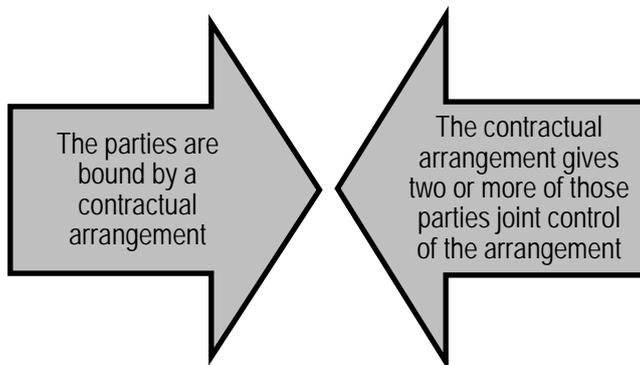
**8.37.2 Scope**

This Ind AS shall be applied by all entities that are a party to a joint arrangement.

**8.37.3 Joint Arrangement and Joint Control**

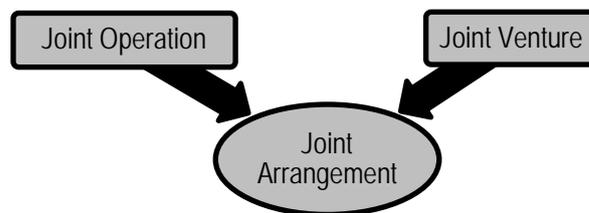
A *joint arrangement* is an arrangement of which two or more parties have *joint control*.

A joint arrangement has the following characteristics:



*Joint control* is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

A joint arrangement is either a joint operation or a joint venture.



The classification of a joint arrangement as a joint operation or a joint venture depends upon the rights and obligations of the parties to the arrangement.

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A **joint operation** is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Those parties are called joint operators.

A **joint venture** is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. Those parties are called joint venturers.

### 8.37.4 Financial Statements of Parties to a Joint Arrangement

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**8.37.4.1 Joint Operations:** A joint operator shall recognise in relation to its interest in a joint operation:

- (a) its assets, including its share of any assets held jointly;
- (b) its liabilities, including its share of any liabilities incurred jointly;
- (c) its revenue from the sale of its share of the output arising from the joint operation;
- (d) its share of the revenue from the sale of the output by the joint operation; and
- (e) its expenses, including its share of any expenses incurred jointly.

A joint operator shall account for the assets, liabilities, revenues and expenses relating to its interest in a joint operation in accordance with the Ind AS applicable to the particular assets, liabilities, revenues and expenses.

**8.37.4.2 Joint Ventures:** A joint venturer shall recognise its interest in a joint venture as an investment and shall account for that investment using the equity method in accordance with Ind AS 28, 'Investments in Associates and Joint Ventures', unless the entity is exempted from applying the equity method as specified in that standard.

A party that participates in, but does not have joint control of, a joint venture shall account for its interest in the arrangement in accordance with Ind AS 109, '*Financial Instruments*', unless it has significant influence over the joint venture, in which case it shall account for it in accordance with Ind AS 28.

### 8.37.5 Separate Financial Statements

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In its separate financial statements, a joint operator or joint venturer shall account for its interest in:

- (a) a joint operation in accordance with this AS;
- (b) a joint venture in accordance with Ind AS 27, '*Separate Financial Statements*'.

In its separate financial statements, a party that participates in, but does not have joint control of, a joint arrangement shall account for its interest in:

- (a) a joint operation in accordance with this AS;
- (b) a joint venture in accordance with Ind AS 109, unless the entity has significant influence over the joint venture, in which case it shall apply Ind AS 27.

**8.37.6 Major Change in Ind AS 110 vis-à-vis IFRS 10 Not Resulting in Carve Out**

**Appendix C 'Business Combinations under Common Control'** : Paragraph B33D refers to the accounting specified in Appendix C 'Business Combinations under Common Control' of Ind AS 103 for the acquisition of an interest in a joint operation when the parties sharing joint control, including the entity acquiring the interest in the joint operation, are under the common control of the same ultimate controlling party or parties both before and after the acquisition, and that control is not transitory. IFRS 11 scopes out the same as IFRS 3, Business Combinations, does not deal with business combinations under common control.

**8.37.7 Major Differences between Ind AS 110 vis-a-vis Notified AS 21**

- (i) **Types of Joint Arrangement/Joint Venture:** Existing AS 27 recognises three forms of joint venture namely: a) jointly controlled operations, b) jointly controlled assets and c) jointly controlled entities. As per Ind AS 111, a joint arrangement is either a joint operation or a joint venture. Such classification of joint arrangement depends upon the rights and obligations of the parties to the arrangement and disregards the legal structure.
- (ii) **Joint Control:** Existing AS 27 provides that in some exceptional cases, an enterprise by a contractual arrangement establishes joint control over an entity which is a subsidiary of that enterprise within the meaning of AS 21, 'Consolidated Financial Statements'. In those cases, the entity is consolidated under AS 21 by the said enterprise, and is not treated as a joint venture. Ind AS 111 does not recognise such cases keeping in view the definition of control given in Ind AS 110.
- (iii) **Equity Method:** Ind AS 111 provides that a venturer can recognise its interest in joint venture using only equity method as per Ind AS 28. Existing AS 27 prescribes the use of proportionate consolidation method only.
- (iv) **Interest in Jointly Controlled Entity:** In case of separate financial statements under existing AS 27, interest in jointly controlled entity is accounted for as per AS 13, Accounting for Investments, i.e., at cost less provision for other than temporary decline in the value of investment. Ind AS 111 requires that the joint operator shall recognise its interest in joint operation and a joint venture in accordance with Ind AS 28, 'Investments in Associates and Joint Ventures'.
- (v) **Near Future:** An explanation has been given in existing AS 27 regarding the term 'near future' used in an exemption given from applying proportionate consolidation method, i.e., where the investment is acquired and held exclusively with a view to its subsequent disposal in the near future.

This explanation has not been given in the Ind AS 111, as such situations are now covered by Ind AS 105, 'Non-current Assets Held for Sale and Discontinued Operations'.

- (vi) **Application of the Proportionate Consolidation Method:** Existing AS 27 requires application of the proportionate consolidation method only when the entity has subsidiaries and prepares Consolidated Financial Statements. Ind AS 111 requires application of equity method in financial statements other than separate financial statements in case of

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a joint venture, even if the venturer does not have any subsidiary in the financial statements

(vii) **Disclosure of Venturer's Share in Post-acquisition Reserves:** Existing AS 21 provides clarification regarding disclosure of venturer's share in post-acquisition reserves of a jointly controlled entity. The same has not been dealt with in the Ind AS 111.

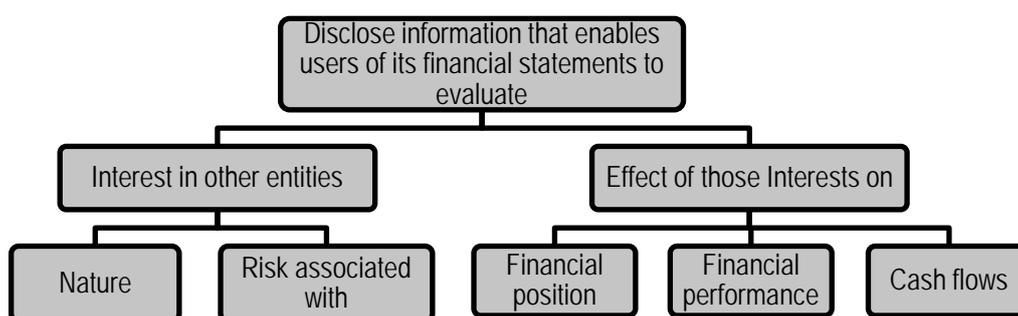
### 8.38 Ind AS 112: Disclosure of Interests in Other Entities

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#### 8.38.1 Objective

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The objective of this Indian Accounting Standard (Ind AS) is to require an entity to disclose information that enables users of its financial statements to evaluate:



To meet the above objective, an entity shall disclose:

- (a) the significant judgements and assumptions it has made in determining:
  - (i) the nature of its interest in another entity or arrangement;
  - (ii) the type of joint arrangement in which it has an interest;
  - (iii) that it meets the definition of an investment entity, if applicable; and
- (b) information about its interests in:
  - (i) Subsidiaries;
  - (ii) Arrangements and Associates; and
  - (iii) Structured Entities that are not controlled by the entity (Unconsolidated Structured Entities).

If the disclosures required by this Ind AS, together with disclosures required by other Ind AS, do not meet the above objective, an entity shall disclose whatever additional information is necessary to meet that objective.

#### 8.38.2 Scope

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This Ind AS shall be applied by an entity that has an interest in any of the following:

- Subsidiaries
- Joint arrangements (i.e. Joint operations or Joint ventures)
- Associates
- Unconsolidated Structured Entities

This Ind AS does not apply to:

- (a) post-employment benefit plans or other long-term employee benefit plans to which Ind AS 19, '*Employee Benefits*', applies.
- (b) an entity's separate financial statements to which Ind AS 27, '*Separate Financial Statements*', applies. However:
  - (i) if an entity has interests in unconsolidated structured entities and prepares separate financial statements as its only financial statements, it shall apply the specified requirements when preparing those separate financial statements.
  - (ii) an investment entity that prepares financial statements in which all of its subsidiaries are measured at fair value through profit or loss in accordance with paragraph 31 of Ind AS 110 shall present the disclosures relating to investment entities required by this Ind AS.
- (c) an interest held by an entity that participates in, but does not have joint control of, a joint arrangement unless that interest results in significant influence over the arrangement or is an interest in a structured entity.
- (d) an interest in another entity that is accounted for in accordance with Ind AS 109, '*Financial Instruments*'. However, an entity shall apply this Ind AS:
  - (i) when that interest is an interest in an associate or a joint venture that, in accordance with Ind AS 28, '*Investments in Associates and Joint Ventures*', is measured at fair value through profit or loss; or
  - (ii) when that interest is an interest in an unconsolidated structured entity.

### 8.38.3 Significant Judgements and Assumptions

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An entity shall disclose information about significant judgements and assumptions it has made (and changes to those judgements and assumptions) in determining:

-  That it has control of another entity, i.e. an investee as described in Ind AS 110 '*Consolidated Financial Statements*'
-  That it has joint control of an arrangement or significant influence over another entity
-  The type of joint arrangement (i.e. joint operation or joint venture) when the arrangement has been structured through a separate vehicle

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### 8.38.4 Investment Entity Status

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When a parent determines that it is an investment entity in accordance with Ind AS 110, the investment entity shall disclose information about significant judgements and assumptions it has made in determining that it is an investment entity.

If the investment entity does not have one or more of the typical characteristics of an investment entity, it shall disclose its reasons for concluding that it is nevertheless an investment entity.

When an entity becomes, or ceases to be, an investment entity, it shall disclose the change of investment entity status and the reasons for the change. In addition, an entity that becomes an investment entity shall disclose the effect of the change of status on the financial statements for the period presented, including:

- (a) the total fair value, as of the date of change of status, of the subsidiaries that cease to be consolidated;
- (b) the total gain or loss, if any, calculated in accordance with Ind AS 110; and
- (c) the line item(s) in profit or loss in which the gain or loss is recognised (if not presented separately).

### 8.38.5 Interests in Subsidiaries

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An entity shall disclose information that enables users of its consolidated financial statements:

- (a) to understand:
  - (i) the composition of the group; and
  - (ii) the interest that non-controlling interests have in the group's activities and cash flows; and
- (b) to evaluate:
  - (i) the nature and extent of significant restrictions on its ability to access or use assets, and settle liabilities, of the group;
  - (ii) the nature of, and changes in, the risks associated with its interests in consolidated structured entities;
  - (iii) the consequences of changes in its ownership interest in a subsidiary that do not result in a loss of control; and
  - (iv) the consequences of losing control of a subsidiary during the reporting period.

### 8.38.6 Interests in Unconsolidated Subsidiaries (Investment Entities)

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An investment entity that, in accordance with Ind AS 110, is required to apply the exception to consolidation and instead account for its investment in a subsidiary at fair value through profit or loss shall disclose that fact.

For each unconsolidated subsidiary, an investment entity shall disclose:

	Subsidiary's name
	Principal place of business (and Country of incorporation if different from the principal place of business) of the Subsidiary
	Proportion of ownership interest held by the Investment Entity and, if different, the proportion of voting rights held

If an investment entity is the parent of another investment entity, the parent shall also provide the above disclosures for investments that are controlled by its investment entity subsidiary.

An investment entity is required to make disclosures regarding the nature and extent of any significant restrictions on the ability of an unconsolidated subsidiary to transfer funds to the investment entity in the form of cash dividends or to repay loans or advances made to the unconsolidated subsidiary by the investment entity and any current commitments or intentions to provide financial or other support to an unconsolidated subsidiary, etc.

#### **8.38.7 Interests in Joint Arrangements and Associates**

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An entity shall disclose information that enables users of its financial statements to evaluate:

- (i) the nature, extent and financial effects of its interests in joint arrangements and associates, including the nature and effects of its contractual relationship with the other investors with joint control of, or significant influence over, joint arrangements and associates; and
- (ii) the nature of, and changes in, the risks associated with its interests in joint ventures and associates.

#### **8.38.8 Interests in Unconsolidated Structured Entities**

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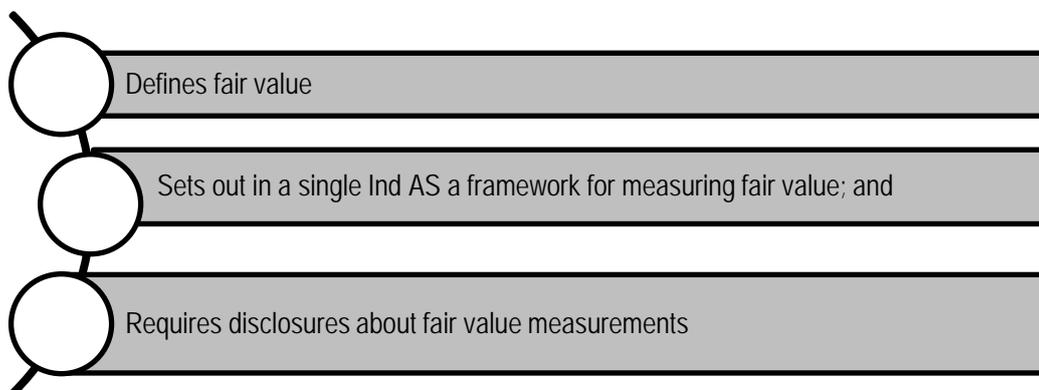
An entity shall disclose information that enables users of its financial statements:

- (i) to understand the nature and extent of its interests in unconsolidated structured entities; and
- (ii) to evaluate the nature of, and changes in, the risks associated with its interests in unconsolidated structured entities.

## 8.39 Ind AS 113: Fair Value Measurement

### 8.39.1 Objective

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Fair value is a market-based measurement, not an entity-specific measurement.

The objective of a fair value measurement is—

- To estimate the price
- At which an orderly transaction to sell the asset or to transfer the liability would take place
- Between market participants
- At the measurement date
- Under current market conditions

(i.e. an exit price at the measurement date from the perspective of a market participant that holds the asset or owes the liability).

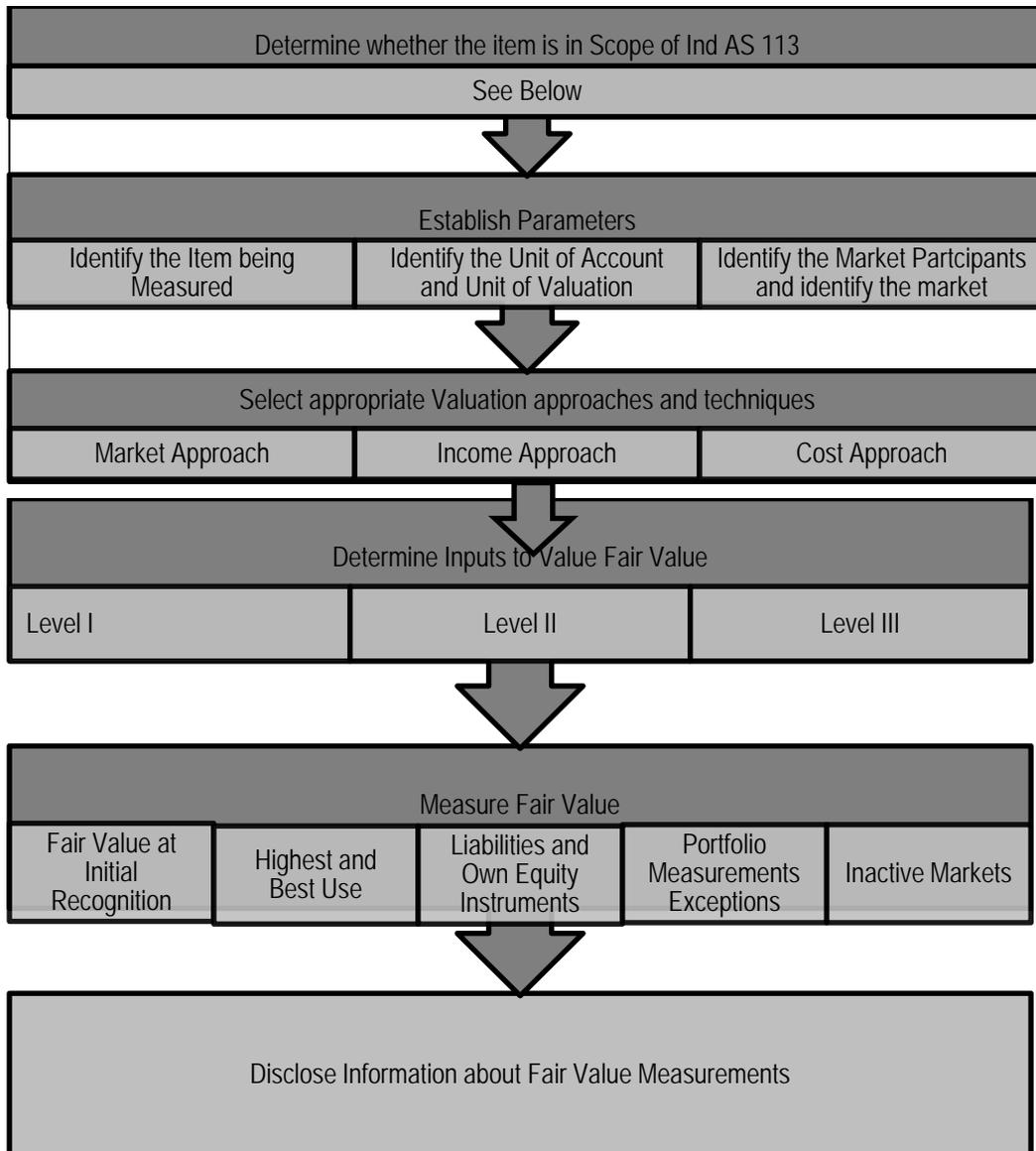
When a price for an identical asset or liability is not observable, an entity measures fair value using another valuation technique that:

- Maximises the use of relevant observable inputs and
- Minimises the use of unobservable inputs.

Because fair value is a market-based measurement, it is measured using the assumptions that market participants would use when pricing the asset or liability, including assumptions about risk. As a result, an entity's intention to hold an asset or to settle or otherwise fulfil a liability is not relevant when measuring fair value.

The definition of fair value focuses on assets and liabilities because they are a primary subject of accounting measurement. In addition, this Ind AS shall be applied to an entity's own equity instruments measured at fair value.

Manner to proceed for the understanding of Ind AS 113:



### 8.39.2 Scope

This Ind AS applies when another Ind AS requires or permits:

- Fair value measurements or
- Disclosures about fair value measurements

The measurement and disclosure requirements of this Ind AS do not apply to the following:

	Share-based payment transactions	<ul style="list-style-type: none"> <li>• Within the scope of Ind AS 102 Share-based Payment</li> </ul>
	Leasing transactions	<ul style="list-style-type: none"> <li>• Within the scope of Ind AS 17 Leases</li> </ul>
	Measurements that have some similarities to fair value but are not fair value	<ul style="list-style-type: none"> <li>• Such as NRV in Ind AS 2; or</li> <li>• 'Value in use' in Ind AS 36</li> </ul>

The disclosures required by this Ind AS are not required for the following:

-  Plan assets measured at fair value in accordance with Ind AS 19
-  Assets for which recoverable amount is fair value less costs of disposal in accordance with Ind AS 36

The fair value measurement framework described in this Ind AS applies to both initial and subsequent measurement if fair value is required or permitted by other Ind AS.

### 8.39.3 Measurement

**Definition of fair value:** This Ind AS defines fair value as:

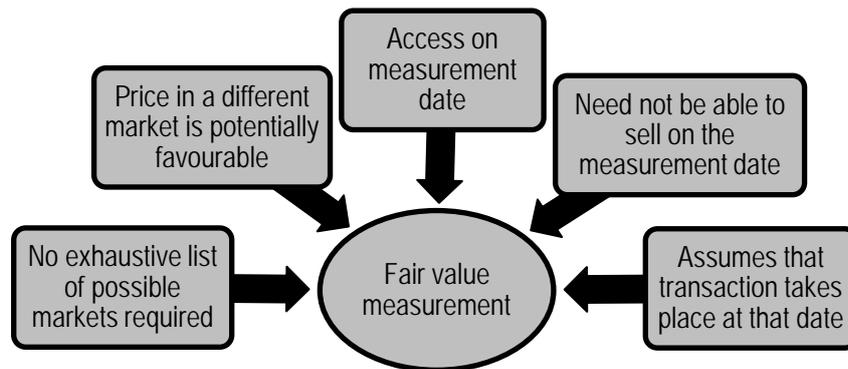
Fair Value			
The price that would be received to sell an asset or paid to transfer a liability	In an orderly transaction	Between market participants	At the measurement date

**Asset or liability:** A fair value measurement is for a particular asset or liability. Therefore, when measuring fair value an entity shall take into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Such characteristics include, the condition and location of the asset; and restrictions, if any, on the sale or use of the asset.

**The transaction:** A fair value measurement assumes that the asset or liability is exchanged in an orderly transaction between market participants to sell the asset or transfer the liability at the measurement date under current market conditions. A fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either, in the principal market for the asset or liability or in the absence of a principal market, in the most advantageous market for the asset or liability.

**Market participants:** An entity shall measure the fair value of an asset or a liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their best economic interest.

**The price:** Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (ie an exit price) regardless of whether that price is directly observable or estimated using another valuation technique.



#### 8.39.4 Application to Non-financial Assets

**Highest and best use for non-financial assets:** A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits:

- By using the asset in its 'highest and best use'
- OR
- By selling it to another market participant that would use the asset in its highest and best use

The highest and best use of a non-financial asset takes into account the use of the asset that is physically possible, legally permissible and financially feasible.

#### 8.39.5 Application to Liabilities and an Entity's Own Equity Instruments

**General Principles:** A fair value measurement assumes that a financial or non-financial liability or an entity's own equity instrument (e.g. equity interests issued as consideration in a business combination) is transferred to a market participant at the measurement date. The transfer of a liability or an entity's own equity instrument assumes the following:

- a) A liability would remain outstanding and the market participant transferee would be required to fulfil the obligation. The liability would not be settled with the counterparty or otherwise extinguished on the measurement date.

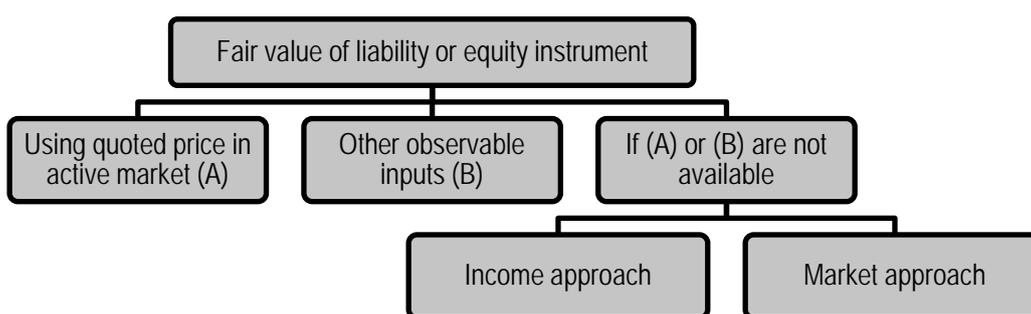
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- b) An entity's own equity instrument would remain outstanding and the market participant transferee would take on the rights and responsibilities associated with the instrument. The instrument would not be cancelled or otherwise extinguished on the measurement date.

**8.39.5.1 Liabilities and equity instruments held by other parties as assets:** When a quoted price for the transfer of an identical or a similar liability or entity's own equity instrument is not available and the identical item is held by another party as an asset, an entity shall measure the fair value of the liability or equity instrument from the perspective of a market participant that holds the identical item as an asset at the measurement date.

In such cases, an entity shall measure the fair value of the liability or equity instrument as follows:



**8.39.5.2 Liabilities and Equity Instruments not held by Other Parties as Assets:** When a quoted price for the transfer of an identical or a similar liability or entity's own equity instrument is not available and the identical item is not held by another party as an asset, an entity shall measure the fair value of the liability or equity instrument using a valuation technique from the perspective of a market participant that owes the liability or has issued the claim on equity.

### 8.39.6 Valuation Techniques

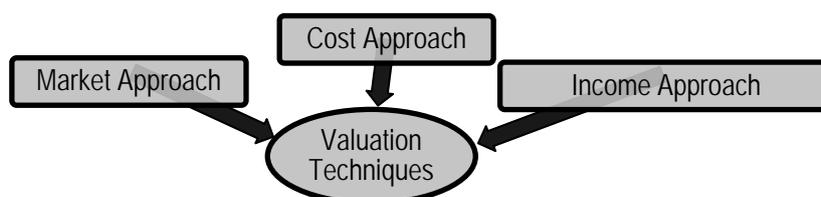
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An entity shall use valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value by

- Maximising the use of relevant observable inputs and
- Minimising the use of unobservable inputs

The objective of using a valuation technique is to estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions.

Three widely used valuation techniques are:



1. **Income Approach:** The income approach converts future amounts (e.g. cash flows or income and expenses) to a single current (i.e. discounted) amount. When the income approach is used, the fair value measurement reflects current market expectations about those future amounts.

Those valuation techniques include, for example, the following:

- Present value techniques
- Option pricing models, such as the Black-Scholes-Merton formula or a binomial model (i.e. a lattice model), that incorporate present value techniques and reflect both the time value and the intrinsic value of an option
- The multi-period excess earnings method, which is used to measure the fair value of some intangible assets

2. **Market Approach:** The market approach uses prices and other relevant information generated by market transactions involving identical or comparable (i.e. similar) assets, liabilities or a group of assets and liabilities, such as a business.

For example, valuation techniques consistent with the market approach often use market multiples derived from a set of comparables. Multiples might be in ranges with a different multiple for each comparable. The selection of the appropriate multiple within the range requires judgement, considering qualitative and quantitative factors specific to the measurement.

Valuation techniques consistent with the market approach include matrix pricing. Matrix pricing is a mathematical technique used principally to value some types of financial instruments, such as debt securities, without relying exclusively on quoted prices for the specific securities, but rather relying on the securities' relationship to other benchmark quoted securities.

An entity shall use valuation techniques consistent with one or more of those approaches to measure fair value.

### 8.39.7 Fair Value Hierarchy

To increase consistency and comparability in fair value measurements and related disclosures, this Ind AS establishes a fair value hierarchy that categorises into three levels, the inputs to valuation techniques used to measure fair value.

**The fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1 inputs) and the lowest priority to unobservable inputs (Level 3 inputs).**

In some cases, the inputs used to measure the fair value of an asset or a liability might be categorised within different levels of the fair value hierarchy. In those cases, the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the

lowest level input that is significant to the entire measurement. Assessing the significance of a particular input to the entire measurement requires judgement, taking into account factors specific to the asset or liability. Adjustments to arrive at measurements based on fair value, such as costs to sell when measuring fair value less costs to sell, shall not be taken into account when determining the level of the fair value hierarchy within which a fair value measurement is categorised.

The availability of relevant inputs and their relative subjectivity might affect the selection of appropriate valuation techniques. However, the fair value hierarchy prioritises the inputs to valuation techniques, not the valuation techniques used to measure fair value.

**For example:** A fair value measurement developed using a present value technique might be categorised within Level 2 or Level 3, depending on the inputs that are significant to the entire measurement and the level of the fair value hierarchy within which those inputs are categorised. If an observable input requires an adjustment using an unobservable input and that adjustment results in a significantly higher or lower fair value measurement, the resulting measurement would be categorised within Level 3 of the fair value hierarchy.

**For example:** If a market participant would take into account the effect of a restriction on the sale of an asset when estimating the price for the asset, an entity would adjust the quoted price to reflect the effect of that restriction. If that quoted price is a Level 2 input and the adjustment is an unobservable input that is significant to the entire measurement, the measurement would be categorised within Level 3 of the fair value hierarchy.

**8.39.7.1 Level 1 Inputs:** Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.

A quoted price in an active market provides the most reliable evidence of fair value and shall be used without adjustment to measure fair value whenever available.

A Level 1 input will be available for many financial assets and financial liabilities, some of which might be exchanged in multiple active markets (e.g. on different exchanges). Therefore, the emphasis within Level 1 is on determining both of the following:

- ① The principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability
- ② Whether the entity can enter into a transaction for the asset or liability at the price in that market at the measurement date

**8.39.7.2 Level 2 Inputs**

Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

If the asset or liability has a specified (contractual) term, a Level 2 input must be observable for substantially the full term of the asset or liability. Level 2 inputs include the following:

- (a) quoted prices for similar assets or liabilities in active markets.
- (b) quoted prices for identical or similar assets or liabilities in markets that are not active.

- (c) inputs other than quoted prices that are observable for the asset or liability, for example:
  - (i) interest rates and yield curves observable at commonly quoted intervals;
  - (ii) implied volatilities; and
  - (iii) credit spreads.
  - (iv) market-corroborated inputs.

#### 8.39.7.3 Level 3 Inputs

Level 3 inputs are unobservable inputs for the asset or liability. Unobservable inputs shall be used to measure fair value to the extent that relevant observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date. However, the fair value measurement objective remains the same, i.e. an exit price at the measurement date from the perspective of a market participant that holds the asset or owes the liability. Therefore, unobservable inputs shall reflect the assumptions that market participants would use when pricing the asset or liability, including assumptions about risk.

Assumptions about risk include the risk inherent in a particular valuation technique used to measure fair value (such as a pricing model) and the risk inherent in the inputs to the valuation technique. A measurement that does not include an adjustment for risk would not represent a fair value measurement if market participants would include one when pricing the asset or liability.

**For example:** It might be necessary to include a risk adjustment when there is significant measurement uncertainty (e.g. when there has been a significant decrease in the volume or level of activity when compared with normal market activity for the asset or liability, or similar assets or liabilities, and the entity has determined that the transaction price or quoted price does not represent fair value).

#### 8.39.8 Disclosure

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An entity shall disclose information that helps users of its financial statements assess both of the following:

- (a) for assets and liabilities that are measured at fair value on a recurring or non-recurring basis in the balance sheet after initial recognition, the valuation techniques and inputs used to develop those measurements.
- (b) for recurring fair value measurements using significant unobservable inputs (Level 3), the effect of the measurements on profit or loss or other comprehensive income for the period.

#### 8.39.9 Major Change in Ind AS 113 *vis-à-vis* IFRS 13 Not Resulting in Carve Out

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**Paragraph 7(b) of IFRS 13:** Paragraph 7(b) of IFRS 13 refers to IAS 26 'Accounting and Reporting by Retirement Benefit Plans', which is not relevant for the companies. Hence the paragraph is deleted in Ind AS 113.

## 8.40 Ind AS 114 : Regulatory Deferral Accounts

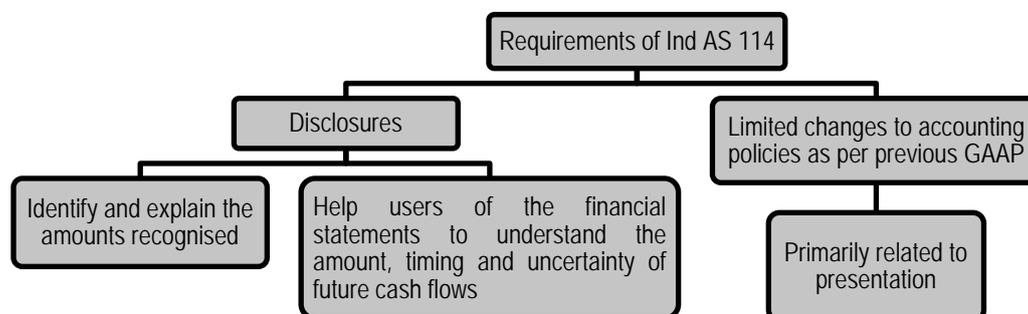
### 8.40.1 Objective

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The objective of this Standard is to specify the financial reporting requirements for regulatory deferral account balances that arise when an entity provides goods or services to customers at a **price or rate that is subject to rate regulation**.

In meeting this objective, the Standard requires:

- (a) limited changes to the accounting policies that were applied in accordance with previous generally accepted accounting principles (previous GAAP) for regulatory deferral account balances, which are primarily related to the presentation of these accounts; and
- (b) disclosures that:
  - (i) identify and explain the amounts recognised in the entity's financial statements that arise from rate regulation; and
  - (ii) help users of the financial statements to understand the amount, timing and uncertainty of future cash flows from any regulatory deferral account balances that are recognised.

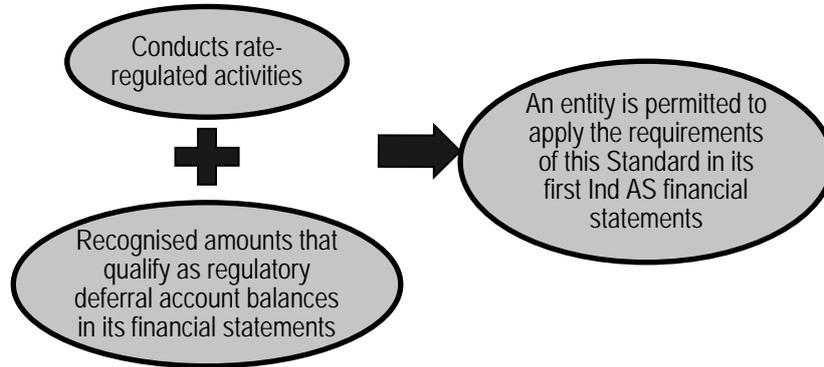


### 8.40.2 Scope

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An entity is permitted to apply the requirements of this Standard in its first Ind AS financial statements if and only if it:

- (a) conducts rate-regulated activities; and
- (b) recognised amounts that qualify as regulatory deferral account balances in its financial statements in accordance with its previous GAAP.



1. An entity shall apply the requirements of this Standard in its financial statements for subsequent periods if and only if, in its first Ind AS financial statements, it recognised regulatory deferral account balances by electing to apply the requirements of this Standard.
2. This Standard does not address other aspects of accounting by entities that are engaged in rate-regulated activities.
3. An entity that is within the scope of, and that elects to apply, this Standard shall apply all of its requirements to all regulatory deferral account balances that arise from all of the entity's rate-regulated activities.

**Regulatory Deferral Account Balance:** A 'Regulatory Asset' or a 'Regulatory Liability' as defined in the *Guidance Note on Accounting for Rate Regulated Activities*.

**Rate-Regulated Activities:** An entity's activities that are subject to rate regulation.

**Rate Regulation:** 'Cost of Service Regulation' as defined in the *Guidance Note on Accounting for Rate Regulated Activities*.

### 8.40.3 Recognition, Measurement, Impairment and Derecognition

**Temporary Exemption** from paragraph 11 of Ind AS 8 '*Accounting Policies, Changes in Accounting Estimates and Errors*'

An entity that has rate-regulated activities and that is within the scope of, and elects to apply, this Standard shall apply paragraphs 10 and 12 of Ind AS 8 when developing its accounting policies for the recognition, measurement, impairment and derecognition of regulatory deferral account balances.

**8.40.3.1 Continuation of Existing Accounting Policies:** On initial application of this Standard, an entity shall continue to apply previous GAAP accounting policies for the recognition, measurement, impairment and derecognition of regulatory deferral account balances, except for any changes permitted by paragraphs 13–15. However, the presentation of such amounts shall comply with the presentation requirements of this Standard, which may require changes to the entity's previous GAAP presentation policies.

**8.40.3.2 Changes in Accounting Policies:** An entity shall not change its accounting policies in order to start to recognise regulatory deferral account balances. An entity may only change

## 2.252 Financial Reporting

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its accounting policies for the recognition, measurement, impairment and derecognition of regulatory deferral account balances if the change makes the financial statements more relevant to the economic decision-making needs of users and no less reliable, or more reliable and no less relevant to those needs. An entity shall judge relevance and reliability using the criteria in paragraph 10 of Ind AS 8.

**8.40.3.3 Interaction with Other Standards:** Any specific exception, exemption or additional requirements related to the interaction of this Standard with other Standards are contained within this Standard. In the absence of any such exception, exemption or additional requirements, other Standards shall apply to regulatory deferral account balances in the same way as they apply to assets, liabilities, income and expenses that are recognised in accordance with other Standards.

### 8.40.4 Presentation

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**8.40.4.1 Classification of Regulatory Deferral Account Balances:** An entity shall present separate line items in the balance sheet for:

- (a) the total of all regulatory deferral account debit balances; and
- (b) the total of all regulatory deferral account credit balances.

When an entity presents current and non-current assets, and current and non-current liabilities, as separate classifications in its balance sheet, it shall not classify the totals of regulatory deferral account balances as current or non-current. Instead, the separate line items shall be distinguished from the assets and liabilities that are presented in accordance with other Standards by the use of sub-totals, which are drawn before the regulatory deferral account balances are presented.

**8.40.4.2 Classification of Movements in Regulatory Deferral Account Balances:** An entity shall present, in the other comprehensive income section of the statement of profit and loss, the net movement in all regulatory deferral account balances for the reporting period that relate to items recognised in other comprehensive income. Separate line items shall be used for the net movement related to items that, in accordance with other Standards:

- (a) will not be reclassified subsequently to profit or loss; and
- (b) will be reclassified subsequently to profit or loss when specific conditions are met.

An entity shall present a separate line item in the profit or loss section of the statement of profit and loss, for the remaining net movement in all regulatory deferral account balances for the reporting period, excluding movements that are not reflected in profit or loss, such as amounts acquired. This separate line item shall be distinguished from the income and expenses that are presented in accordance with other Standards by the use of a sub-total, which is drawn before the net movement in regulatory deferral account balances.

### 8.40.5 Disclosures

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An entity that elects to apply this Standard shall disclose information that enables users to assess:

- (a) the nature of, and the risks associated with, the rate regulation that establishes the price(s) that the entity can charge customers for the goods or services it provides; and
- (b) the effects of that rate regulation on its financial position, financial performance and cash flows.

#### **8.40.6 Major Changes in Ind AS 114 *vis-à-vis* IFRS 14 Not Resulting in Carve Outs**

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1. **Definition of previous GAAP:** Appendix A 'Defined terms' of Ind AS 114 have been modified to clarify that *Guidance Note of Accounting for Rate Regulated Activities* would be considered as the previous GAAP for the purpose of Ind AS 114.
2. **Application of requirements of previous GAAP:** Under paragraph 6 of Ind AS 114, a footnote has been added to clarify the application of requirements of previous GAAP in the case of an entity subject to rate regulation coming into existence after Ind AS coming into force or an entity whose activities become subject to rate regulation as defined in this Ind AS subsequent to preparation and presentation of its first Ind AS financial statements.