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Indian Accounting Standards (Ind AS)

BASIC CONCEPTS

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). Ind AS are considered a "principles-based" set of standards. In fact, they establish broad rules rather than dictating specific treatments.

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 diffferences which are in deviation to the accounting principles and practices stated in IFRS, are commonly known as **'Carve-outs'.**

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'.**

Roadmap for Implementation of Indian Accounting Standards (Ind AS)

A. For Companies other than banks, NBFCs and Insurance Companies

1st April 2015 or thereafter: Voluntary Basis for all companies
(with Comparatives)

Phase I **1st April 2016: Mandatory Basis**

(a) Companies listed/in process of listing on Stock Exchanges in India or Outside India having net worth ≥ INR 5 Billion

(b) Unlisted Companies having net worth ≥ INR 5 Billion

(c) Parent, Subsidiary, Associate and J.V. of Above

Phase II **1st 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 ASs 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.

B. 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)**
	• NBFCs (whether listed or unlisted) having net worth 500 crore or more
	• Holding, Subsidiary, JV and Associate companies of above NBFC other than those already covered under corporate roadmap shall also apply from said date

Phase II:	From 1st April, 2019 (with comparatives)
	• 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.
	• NBFCs that are unlisted having net worth 250 crore or more but less 500 crore.
	• Holding, Subsidiary, JV and Associate companies of above other than those already covered under corporate roadmap shall also apply from said date.
• 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.	
Scheduled Commercial banks (excluding RRB's) and Insurers/Insurance companies	
➢ **From 1st April, 2018 (with comparatives):**	
• 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.	
• Applicable for both Consolidated and individual Financial Statements	
➢ **Urban Cooperative banks (UCBs) and Regional Rural banks (RRBs) are not required to apply Ind AS.**	

Question 1

Briefly explain the following terms:

(i) Other comprehensive income

(ii) Prior period errors

(iii) Types of leases

Answer

(i) 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 ASs.

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.

(ii) 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:

was available when financial statements for those periods were approved for issue; and 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:

(a) mathematical mistakes,

(b) mistakes in applying accounting policies,

(c) oversights or

(d) misinterpretations of facts, and

(e) 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.

(iii) **1. Finance Lease:** A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. 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.

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

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.

Question 2

Write short notes on types of Employee Benefits:

Answer

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.

Question 3

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.

Answer

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[1] in profit or loss in the following cases.

[1] In this context, the word "It" means, the revision in the estimated amount.

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.

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).

Question 4

Write short note on some key differences between Ind AS and Existing AS with respect to:

(a) Property, Plant and Equipment

(b) Changes in Accounting Policy and Prior period items.

(c) Inventories.

Answer

(a) Property, Plant and Equipment

(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.

(b) Changes in Accounting Policy and Prior period items

(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 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.

(c) Inventories

(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, 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.

Question 5

Differentiate the following items with reference to Existing Accounting Standards and Ind AS:

(i) Extra ordinary items

(ii) Contingencies.

Answer

Existing Accounting Standards	Ind AS
Extraordinary Items	
Events or transactions, clearly distinct from the ordinary activities of the entity, which are not expected to recur frequently and regularly, are termed as extra-ordinary items. Disclosure of the nature and amount of such item is required in the income statement to perceive the impact of current and future profits.	Ind AS 1 prohibits presentation of any items of income or expense as extraordinary.
Contingencies	
Contingent Liabilities are disclosed unless the probability of outflow is remote. Contingent gains are neither recognized nor disclosed.	Unrecognized possible losses and possible gains are disclosed.

Question 6

Differentiate the following items with reference to Existing Accounting Standards and Ind AS:

(i) Discontinued vs discontinuing operations – definition and measurement

(ii) Acquired intangible assets.

Answer

Treatment under Accounting Standard and IFRS

		Existing Accounting Standards	Ind AS
(i)	**Discontinuing operation - definition and measurement**	In the existing AS 24, there is no concept of discontinued operations but it deals with discontinuing operations. Operations and cash flows that can be clearly distinguished for	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

		financial reporting and represent major line of business or geographical area of operations are discontinued operations.	sale.
		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.	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. However, it also includes a subsidiary acquired exclusively with a view to resale. Discontinued operations are measured at lower of carrying amount and fair value less cost to sell.
(ii)	**Acquired intangible assets**	AS 26 requires that if an intangible asset is acquired in exchange of a non-monetary asset, the principles of AS 10 "Fixed Assets" to be followed i.e. 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 is to record the asset acquired at the net book value of the asset given up; in each case an adjustment is made for any balance receipt or payment of cash or other consideration.	IAS 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

		As per AS 26, 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.	As per IAS 38, when intangible assets are acquired free of charge or for nominal consideration by way of government grant, an entity should, in accordance with IAS 20, record both the grant and the intangible asset at fair value. If an entity chooses not to recognise the asset initially at fair value, the entity may recognise the asset initially at a nominal amount, as per IAS 20, plus any expenditure that is directly attributable to preparing the asset for its intended use.
		There is no such provision in the existing standard.	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.

Question 7

Differentiate the following items with reference to Existing Accounting Standards and Ind AS:

(a) Impairment of Assets

(b) Business Combinations.

Answer

(a) Impairment of assets

(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.

(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.

(b) Business Combinations

(i) ***Scope****:* Ind AS 103 defines a business combination which has a wider scope whereas the existing AS 14 deals only with amalgamation.

(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.

Question 8

Explain the differences between Ind AS 1 and IAS 1 which results into carve out and which do not result into carve outs.

Answer

Major Changes in Ind AS 1 *vis-à-vis* IAS 1

A. Resulting in Carve outs/carve ins

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.

B. 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.

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:*** 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:*** 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.

Question 9

Explain the carve outs in Ind AS 101 from IFRS 1 alongwith the reasons.

Answer

Major Changes in Ind AS 101 Resulting in Carve Outs from IFRS 1

i. ***Definition of Previous GAAP under Ind AS 101:*** 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 ASs. 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 ASs.

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:** 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:*** No provision is given in IFRS 1 regarding Long-term Foreign Currency Monetary Items.

Carve out: 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 Ind AS 101. Such an entity may continue to apply the accounting policy so opted for such long-term foreign currency monetary items.

Reason: 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.

Question 10

Explain the carve outs in Ind AS 103 from IFRS 3 alongwith the reasons.

Answer

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.