POSITION PAPER

Suggestions of the Group constituted to identify the tax issues arising out of convergence with IFRS to the Ministry of Corporate Affairs

Dated 13th December, 2010

1. Preparation for Convergence with IFRS in India

1.1. As per Government policy announced in 2008, the Indian Accounting Standards are expected to be fully convergent with IFRS w.e.f. April 1, 2011. The Ministry of Corporate Affairs, Government of India Press Note vide No.1/5/2001-CL.V dated 13th May, 2008 states that the initiative for harmonization of the Indian accounting standards with IFRS, taken up on 2001 and implemented through notification of accounting standards by the Central Government in 2006, would be continued by the Government with the intention of achieving convergence with IFRS by 2011.

1.2. In July 2009, with a view to designing a definitive roadmap for convergence with IFRS and coordinating the process, a Core Group was set-up under the Chairmanship of the Secretary, Ministry of Corporate Affairs with participation from also Ministry of Finance, C&AG, RBI, SEBI, IRDA, PFRDA, ICAI, NACAS and industry representatives. Further, two Sub-groups were also constituted. First Sub-group was set-under under the Chairmanship of Shri Y. H. Malegam, Chairman, NACAS with a view to identifying the various legal and regulatory changes required for convergence and to prepare a roadmap for achieving the same. Second Sub-group, comprising of industry CFOs, was set-up under the Chairmanship of Shri T V Mohandas Pai, Director, Infosys to interact with various stakeholders from business and industry to understand their concerns on the issues of convergence with IFRS, identify problem areas and ascertain the preparedness of the industry for such convergence. Deliberations took place in these Groups with a view to lay down the roadmap for the convergence with IFRS in India. The second Sub-group forwarded its suggestions and recommendations to Sub-Group – I. Sub-Group – I also submitted its Report to the Core Group.

1.3. The Core Group, under the Chairmanship of Secretary, Ministry of Corporate Affairs, at its meeting held during January, 2010 after examining the Reports of the Sub-Group – I, laid down the roadmap for achieving the convergence with IFRS in India so as to meet the targeted deadline of 1st April, 2011. Now, as per the roadmap announced by the Ministry of Corporate Affairs, Government of India, the Indian Accounting Standards converged with IFRS shall be applied to specified class of companies in phases beginning with the financial year 1.4.2011.

2. Role of ICAI in identifying direct tax issues arising from convergence with IFRS

2.1. Accordingly, a Group for identifying direct tax issues arising from convergence of Indian Accounting Standards (IAS) with International Financial Reporting Standards (IFRS) was constituted by the ICAI, which comprised both of members of the Council of the Institute and of the CBDT.

The meeting of the said Group was held on 28th April, 2010, wherein it was decided to form two sub-groups as follows:

(1) A sub group to be formed under the Chairmanship of CA Mahesh P Sarda, Chairman, International Taxation Committee, ICAI to study the status of tax provisions in other countries where IFRS has already been implemented.

(2) Another sub group to be formed under the Chairmanship of CA Jayant Gokhale, Chairman, Direct Taxes Committee to study the specific differences arising out of IFRS implementation, in each of the Accounting Standard with respect to the tax laws.

2.2. On the basis of inputs received from the members of both the sub-groups, some major tax issues arising out of convergence with IFRS were identified by the sub-group and the same was placed in form of Position paper before the group in its meeting held on 18.10.2010 for its consideration. The group considered the report and decided to place its views in the meeting of NACAS scheduled on 22.10.10 at Mumbai.

2.3. CA. Jayant Gokahle, Chairman, Direct Taxes Committee presented the views of the group before the NACAS in its meeting scheduled on 22.10.2010. As a consequence of the presentation, the Chairman, NACAS made certain observations and suggested the Secretary to the NACAS to adopt the following approach while preparing the report:

a) Identifying Permanent differences between converged Indian Accounting Standards and existing Income-tax Act, 1961

b) After identification whether the differences, if any, on account of timing differences can be tackled by effecting one time changes and meeting tax requirements

c) Clearly identifiable areas where unrealized profit/gain is likely to ocuur merely due to following of converged Indian Accounting Standards and steps to be taken for not subjecting the unrealized profit/notional gain to tax i.e. such unrealized profit should not be subjected to tax.

d) Unrealised /notional profit may be routed through Other Comprehensive Income (OCI) and not through Profit and Loss A/c

e) For certain accounting Standards (which have tax implications), IFRS offer more than one options. Nevertherless, certain areas of options still exist. A thorough examination may be done of those options and the possibility of retaining uniform option may be explored for comparability and uniformity.

f) Possibility of revaluation of fixed assets, such as land and strategic investments, which are not available for sale/trading, being taken at historical cost and option for revaluation may be explored.

This paper is intended to address the above-mentioned issues.

3. Convergence with IFRS

3.1. The groundwork for Convergence of Indian Accounting Standards with IFRS started in 2001. However, the task Force on Convergence was constituted in 2006. Thereafter, a position paper on Convergence was issued in 2007. The same was widely discussed and lead to the present position on Convergence through the Ind AS model wherein, the Ministry of Corporate Affairs agreed for two separate sets of Accounting Standards under section 211(3C) of the Companies Act, 1956.

3.2. First set would comprise of Indian Accounting Standards, which are converged with IFRS which shall be applicable to other companies. These Standards are hereinafter referred to as IND AS. The second set would comprise of existing Accounting Standards and would be applicable to other companies, including Small and Medium Companies, hereinafter referred to as AS.

3.3. As per the roadmap announced by the Government, the first set of Accounting Standards (i.e Converged Accounting Standards) will be applied to specified class of companies in three phases starting from April 1, 2011.

3.4. In the first phase, certain category of listed entities and public interest entities have to adopt the converged standards (Ind-AS) from accounting periods commencing on or after 1st April, 2011. These entities are estimated to be not more than 300 Companies including their subsidiaries. These entities have to prepare their Financial Statements as per Ind AS for the year beginning on 1st April, 2011.

4. Areas of Tax Impact arising out of Application of IND AS.

4.1. It is commonly accepted and appreciated that companies preparing financial statements as per the IND AS framework would have certain differences from the financial statements (FS) as prepared under the AS. Without getting into the details - (which are dealt with in a subsequent part of the note) of the resulting differences the broad points of conceptual difference may b e noted as under:

a) IND AS (as also the IFRSs) lay more emphasis on the balance -sheet disclosures than the profit and loss account

b) The accounting treatment is based on fair value accounting rather than on historical cost basis which is favoured as a conse rvative approach in AS.

The presentation of the profit and loss under the AS and IND AS is slightly different - especially since IND AS makes a distinction between the normal incomes and what is called the "Other Comprehensive Income"(OCI).This statement inter alia contains numerous items arising out of increases/decreases consequent upon application of fair market value / mark to market concept. However it also contains other items that are conceptually not treated as part of the current year's operating profits.

As a result of the above, certain differences in the quantification of net profit in the profit and loss of each of the entities which are following IND AS are inevitable. Therefore as per the Exposure Draft of Ind -AS 41 (Corresponding to IFRS-1) on First Time adoption of Ind-AS released by the Accounting Standard Board of ICAI, an entity is required to explain, by way of reconciliation statement, how the transition from earlier GAAP to Ind -ASs would affect its reported Balance Sheet, financial p erformance and cash flows.

5. Possible options on hand:

The basic principle which was agreed upon is that although effect is being given, to implementation of Ind AS for the phase I companies no change in the existing tax structure are presently conte mplated. Therefore, it was decided that the entire approach is to prescribe a methodology whereby the corporates applying Ind AS would come to the original tax base as computed under the Income -Tax Act for all other tax payers (it had already been conclude d in the earlier deliberations that under any circumstances different assesses having different tax bases would be inequitable and legally questionable).

Even under the present Act, the tax base which is the basis of levy of Income tax is independent of the Ass per se. This is because of numerous statutory deviations that are prescribed such as sections 35D, 36, 40a(2)(b),40(a)(ia), 43B etc. The objective is to arrive at status quo i.e arriving at the original tax base (irrespective of the AS adopted). This could be achieved by either an in principle approach or a prescriptive approach, both of which are given hereunder: -

5.1 ***In principle approach- Adoption of Common tax base without effecting specific section wise changes in the Income Tax Act.***

Another option would be to provide by a single amendment that in all cases where IND AS is followed, there will be an additional statement furnished by the assessee (duly verified by the auditor / chartered accountant) indicating / quantifying the major differences that have arisen pursuant to the application of IND AS rather than AS. Such an approach would require introduction of a provision in the Income Tax Act requiring reporting by way of such statement (similar to the provision requiring tax audit and a report in Form 3CD). Based on the list of standards were differences are likely to arise as indicated in the Appendix I given hereunder, the necessary format could be devised in consultation with the Ministry and suitable amendments requiring filing of such a statement could be prescribed. It may be mentioned that while such a requirement is certainly possible, there could be operational issues of the underlying records that would be required to be maintained in order for the chartered accountant to accurately quantify such differences on a continuing basis – especially in certain items where the effect may not be restricted to a specific financial year but may have implications for successive years (such as in the case of valuation of inventory).

However it will be equally appreciated that similar provision, on a limited scale is already applicable in the case of Sec. 145A which requires the inventory to be valued by including therein the indirect tax component – even though the AS applicable prescribes differently. The said adjustment is being effected outside the books of account for a number of years and the judiciary has also recognized that such an adjustment if required by law may validly be done outside the books of account.

Similarly, the quantification and deduction of depreciation as prescribed under the Companies Act 1956 and the Income Tax Act 1961 has consistently been different, and all assessees have been submitting separate data and making adjustments in their computation for giving effect to these divergent requirements. A similar approach,(admittedly scaled up significantly), would have to be applied in regard to material departures from AS arising out of application of IND AS. A policy adopting this approach would require an amendment introducing a specific reporting requirement as suggested above and prescribing a suitable format say Form 3CX.

If the above-mentioned options are adopted, specific changes are to be identified. Some of these changes are tabulated in Appendix I as under: For the sake of completeness – the comparison has been made in the sequence of the AS currently prescribed by NACAS (Companies Act 1956).

5.2. ***Prescriptive approach-Specific changes in the Income-tax Act, 1961 to be effected to bring the converged entities to the same tax base as entities following AS.***

As per this option, the provisions of the Income-tax Act, 1961 will have to be amended extensively to negate the impact of compliance with the Ind AS requirements. To facilitate this process, a fairly detailed list of differences likely to arise on application of each of the AS presently applied is given hereunder in Appendix I. The sections which would require amendment would be, Ss 28, 32, 36, 40, 40A, 43, 43B, 43C, 50, 115JB, 145, 145A, Chapter XVIIB dealing with TDS. These are indicated to facilitate such changes being effected if it is decided to adopt this policy.

5.3 Parallel books

Another option which could be resorted to primarily as an ad interim measure, in case the above options of not found suitable would be to harmonise the tax bases by requiring the companies adopting IND AS to maintain parallel set of books / prepare financial statements which are drawn up in accordance with the presently applicable AS. Undoubtedly this will impose an additional burden on the companies required to do so. For the reasons mentioned hereunder, this option could be considered for Financial Year 2011 -12. For later years although theoretically possible this approach may defeat the objective of introduction of IND AS (or convergence with IFRS). However for the year 2011-12, as per the requirements of Ind AS 1 in the year of transition a disclosure of major impact of the change arising out of adoption of Ind AS is required to be disclosed. This would in any case require the maintenance of suitable records and quantification of the resultant variation from the current AS. In most cases this would effectively be achieved by maintenance of parallel books. Therefore, in order to simplify the determination of taxable income as per the pre-existing tax base maintenance of parallel books may be prescribed. For the reasons mentioned above, this would not really increase the burden for the corporates. Further, it may be noted that this would not require any significant change since most of the corporates covered in phase I would already have an ERP in place which is in accordance with the current AS requirements. They would merely have to continue this system in parallel to the changed system which they are in any case required to implement to apply Ind AS.

It has often been mentioned in various public forums that in order to ease the situation for direct taxation it may be better to apply Ind AS only to consolidated financial statements (CFS). Apart from the conceptual and theoretical arguments against this approach, which were considered before taking the policy decision to apply to Standalone statements, the practical aspect is entirely missed out. If one were to prepare standalone statements as per AS and seek to prepare CFS in accordance with Ind AS, it would be a pre-requisite to generate and maintain the necessary financial data required to prepare CFS as per Ind AS. This effectively means preparing data outside the books or maintenance of parallel books which is exactly what is being suggested earlier in para 5.1 and 5.3 respectively. Therefore, the perceived simplification for tax purposes arising out of application of Ind AS only to CFS is illusory and need not be considered.

6. Approach for transition year- FY 2011-12

6.1 In view of the fact that IFRS is to be implemented w.e.f. 1st April, 2011 and the Direct Taxes Code would come into effect from 1st April, 2012 it is felt that the Ministry of Finance would not prefer to make amendments in the Act for one year only since the same has to be substituted by Direct Taxes Code (DTC) 2010 in the near future. Therefore, for the financial year 2011-12, if parallel are prescribed as a transitional arrangement, the Income-tax Act, 1961 would continue to apply.

6.2 If this is decided upon, it may be provided that the entities may be allowed to prepare parallel books of accounts for one / more years. This may enable the income tax department to have certain live studies and to gather empirical data so that when the option of maintaining parallel books is withdrawn, a specific evaluation of probable revenue impact would be available. Such data would then facilitate other policy decisions in regard to adjustments that may be permitted. specifically in computing taxable income / book profit.

6.3 Since from April, 2012 Direct Taxes Code is proposed to be implemented, the issues arising from convergence could also be suitably dealt with in the changes being made in the DTC Bill 2010.

7. Minimum Alternate tax (MAT)

7.1 The provisions of MAT were introduced to bring such companies under the tax net who were showing book profits and declaring dividends to the shareholders but were not paying any tax because the income computed as per provisions of the Income Tax Act, 1961 was either nil or negative.

7.2 Accordingly, the present section 115JB provides that in case of a corporate, if the tax liability computed on the income under the provisions of the Income-tax act is less than the tax liability computed at the rate of 18% of the book profit of the company, the company is required to pay tax as per book profit named as 'Minimum Alternate Tax' (MAT). This book profit is to be computed in accordance with the provisions of the Companies Act. For MAT also various additions and deductions are to be made for computing the book profit on which MAT is payable under the provisions of the Income Tax Act, so as to neutralize the effect of certain adjustments made in the profit and loss account, which in effect either do not go to reduce the profit, or increase the income in substance, though under the accounting standards are required to be accounted for while preparing the profit and loss account under the Companies Act. List of additions and deductions is being expanded from time to time in line with the announcement of the new standard or the corporate practices. Thus, over a period, a reconciliation between the Income Tax Act and the accounting standards have been developed for determination of taxable income as well as bo ok profit subject to MAT.

7.3 As Ind AS is to be applied to phase I companies, harmonization of provisions of MAT in line with Ind AS is also required. Thus, to arrive at a common base a new section say 115JBX should be inserted in the Income-tax Act, 1961. A comparison of the present position and proposed position is tabulated as under:-

Present section 115JB	Modified Situation
Book profit to be computed on the basis of Profit and loss account* (as per present Accounting standards)	Modified Book profits to be computed on the basis of profit and loss account* prepared on the basis of Ind AS which should be before Other Comprehensive Income (OCI)
*prepared in accordance with the provisions of Part I and Part II of Schedule VI of Companies Act,1956	*prepared in accordance with the provisions of REVISED Schedule VI of Companies Act,1956.
The accounting policies, accounting standards and the methods and rates adopted for calculating depreciation be same as adopted in the annual accounts placed before the company in its Annual General meeting in accordance with section 210 of the Companies act,1956	The accounting policies, accounting standards and the methods and rates adopted for calculating depreciation be same as adopted in the annual accounts placed before the company in its Annual General meeting in accordance with section 210 of the Companies act,1956.

7.4 With the notification of Ind AS by NACAS for phase I companies, section 211 of the Companies Act would also need an amendment. A new sect ion say 211(3CB) will have to be introduced in order to recognize IFRS converged Accounting Standards i.e Ind AS.

7.5 Further, the proposed section 115JBX will have to be worded in line with present section 115JB and should commence from book profit bef ore OCI. Also, in order to arrive at equitable position with the existing law, the adjustments to be made thereafter in form of additions/deductions should take into account the following :-

a) the existing adjustments to book profit and

b) the changes arising out of to application of Ind AS .

The above mentioned changes would exclude the items of OCI unless otherwise specified. Further, the adjustments may also provide that all notional gains/losses arising out of fair valuation as per Ind AS would be excluded.

Furthermore, it suggested that the gains /losses arising out of fair valuation (as per Ind AS) may be taken to Other Comprehensive income (OCI) rather than routing the same through Profit and Loss account and also a restriction may be imposed so that such gains are not made available for distribution of dividends. For achieving the said purpose, the OCI may be divided into two parts. First part may comprise of reserves build out of notional gains /losses arising on account of revaluation and second part may contain other incomes which are required to be taken to OCI due to other factors. Thereafter, imposing a restriction on the first part for not making it available for distribution may not be difficult.

It is also suggested that one time effect of transition may also be excluded from ambit of MAT.

Conclusion

Considering the various options that were examined at length, some of the theoretical alternatives which were not found practical have been eliminated. These include levying tax on different tax bases applying Ind AS only to CFS etc. Of the other alternatives it would appear that in order to reach the objective of coming to the original tax base the in principle approach suggested in Para 5.1 seems to be the most practical solution. Along with this, the necessary changes in MAT provisions as suggested in Para 7.5 would also have to be effected. It is believed that in this manner even after application of Ind AS there would be equity amongst all companies and complete revenue neutrality.

Based on the above it is suggested that the Government may decide upon the specific approach to be adopted so that the changes to be effected in the Companies Act (by MCA) and in the Finance Act, DTC/IT Act (by the Finance Ministry) may be harmoniously introduced.

Appendix I

IND AS-8	AS-1	Impact
Accounting Policies, Changes in Estimates and errors	**Disclosure of Accounting Policies**	
Since This is primarily a disclosure standard it would not have any tax impact except in regard to the fact that statement of OCI would have to be separately prepared as mentioned elsewhere in the note.		
IND AS 2	**AS-2**	**Impact**
Inventories	**Valuation of Inventories**	
1. Inventory purchased on deferred settlement terms		
Under IND AS-2, the difference between the purchase price of inventories for normal credit terms and the amount paid for deferred settlement terms is recognized as interest expense over the period of financing.	Inventories purchased on deferred settlement terms are not explicitly dealt with in AS 2.The entire actual cost is taken as cost without any break up.	These differences would result in changes in carrying amount of inventory – which would impact more than one year – depending on the period in which the said inventory is consumed /sold. In any case it is only a timing difference as value of closing stock (inventory) will become opening stock next year and hence revenue neutral over a period. Further, on splitting of purchase costs, interest during the year will be eligible for deduction to the extent it pertains to the current year. Thus, there will be reduction in purchase cost and corresponding reduction in value of inventory.
Example A dealer purchases goods in March,2010 on credit for three months for Rs. 100. The payment is to be made by him in June, 2010. If he makes prompt payment, he was offered a price of Rs. 98/ -. If the goods remain unsold on 31st March 2010, the treatment of the same in the Financial Statements shall be as under:-		
Under IND AS-2, the inventory shall be valued at Rs.98 and Rs.2 would be taken as Finance charges	Under AS-2, the inventory would be valued at Rs.100/-.	Interest shown as payable by the Purchaser would not appear as interest receivable in the books of seller. The same

and would be charged to Profit and loss account as interest for a period of three months.		would be shown as sale. The issue of TDS on such finance cost not reflecting in the return of TDS would also arise since there is no payee.
2. Selling and Distribution costs		
Ind AS excludes only "selling costs" and not "Distribution costs"	AS 2 specifically excludes "selling and distribution costs from the cost of inventories and provides that it is appropriate to recognize them as expenses in the period in which they are incurred.	Similar impact as above in regard to inventory valuation.
IND AS 7 **Statement of Cash Flows**	**AS-3** **Cash Flow Statements**	**Impact**
This is disclosure Standard and does not have any impact on tax computation.		
IND AS 10 **Events after Reporting date**	**AS-4** **Contingencies and events occurring after the Balance Sheet date**	**Impact**
There is no major impact as the differences between the two standards are not significant (However, reference may also be made to observations given under AS29)		
IND AS 8 **Accounting Policies, Changes in Estimates and errors**	**AS-5** **Net Profit or loss for the period, Prior period items and changes in Accounting policies.**	**Impact**
Comparatives and prior year are restated against opening retained earnings, unless specifically exempted. The effect will be reflected in respective years.	Restatement is not required. The effect of change is included in current year income statement. The impact of change is disclosed i.e. change is made in single year.	While conceptually they should not result in any difference in taxable income for the previous year / financial year, the identification of difference which is claimable in the relevant financial year could result in some practical difficulty.

Example:- A dealer of goods opts for change in accounting policy in respect of valuation of its goods. Goods valued on LIFO basis for last five years are to be re-valued at weighted average. Let us say goods on LIFO basis was valued at Rs.5000/- and goods on weighted average are now valued at Rs.6000/- .		
Inventory of last 5 years would be restated and be increased by Rs 200/- (i.e. Rs.1000/5) every year.	The inventory would be shown at Rs.6000/- with adequate disclosures about the change in accounting policy.	Tax difference would arise due to difference in value of closing stock.
IND AS 16	**AS-6 and AS-10**	**Impact**
Property, Plant and Equipment	**Depreciation Accounting and Accounting for Fixed assets**	
1. Dismantling Cost		
Estimated cost of dismantling/ restoring the site is to be included in the cost of asset.	Actual cost is recognized. No general guidance is given for capitalization of dismantling and site restoration cost. However, the guidance note on Accounting for Oil and Gas Producing Activities states that entities involved in those activities should capitalize the dismantling and site restoration cost.	Depreciation claim would be affected significantly. The amount capitalized and therefore the amount eligible for depreciation as per the books under IND AS would be higher and would include costs not yet incurred.
Example Site restoration costs to be incurred by Telecom Companies in connection with its towers.		
2. Assets acquired on deferred settlement basis		

The cost of property, plant and equipment is the cash price equivalent at the recognition date. If the 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 recognised in the carrying amount of qualifying asset)	There is no guidance under AS 10 specifying treatment of fixed assets acquired on deferred settlement terms. Generally, financing element is not separated from the total price paid even if payment is deferred beyond normal credit terms.	• Depreciation claim is affected. • Imputed interest is recognized in the books of the purchaser but interest receivable is not shown in the books of seller. • Year of chargeability would differ. • Change in capitalization value.
3. Cost of Major Inspection or Overhauls		
Cost of each major inspection or overhaul is required to be recognised in the carrying amount of the item of property, plant and equipment as replacement if the recognition criteria are met. Recognition of the cost of overhaul/ inspection in profit or loss is not permitted.	Generally expensed when incurred	Impact shall be same as mentioned above. Cost and Written down value under Income Tax Act need to be computed independent of the books of account.
4. Component Approach		
The asset is to be valued component wise and depreciation is to be charged accordingly.	Component wise approach is not adopted and depreciation is to be charged on the whole asset together.	The amount of depreciation could differ significantly as the assets useful life would be broken up for different components with some of the components having a shorter anticipated life i.e. a higher rate of depreciation. However, there would be no impact on income tax computation as in Income Tax, it is mandatory to follow block of asset concept.

5. **Compensation for Impairment or Loss**		
Compensation from third parties for impairment/ insurance claim or loss of items of property, plant and equipment are included in profit or loss when the compensation becomes receivable.	No specific requirement	The approach adopted may not be different from Income-tax Department's views.
Examples:- 1. The reimbursements by Insurance Companies after the impairment or loss of a tangible fixed asset, e.g. due to natural disasters, theft etc.		
2. Physical replacement in whole or in part of an impaired or loss asset		
5. Depreciation and revaluations		
Depreciation amount allocated based on the useful life on a systematic basis. Depreciation method, residual value and useful lives are reviewed at each Balance sheet date	Minimum rates are prescribed as per companies Act. No requirement of review at regular intervals	Generally, tax neutral but MAT implications could be significant. This is because as per the AS, in the case of revalued assets, the incremental depreciation is matched by an equivalent credit taken from the revaluation reserve. However, in case policy of systematic revaluation is adopted under IND AS, the entire hit would go to the profit and loss account bringing down the book profits significantly. Even at present, this issue is relevant and covered by Sec 115JB.
6. **Valuing investment property (Land / Building – held to earn rentals/capital appreciation)**		

Investment property to be valued at **cost** or **fair value** (optional)	Investment property is usually at cost. However, revaluation with disclosures is permitted.	Ministry of Corporate Affairs was considering the doing away of the option of revaluation as it leads to non-comparability and disparity. However, NACAS was of the view that option should not be curtailed. It may be noted that this would have direct impact on Profit and loss account which has significant MAT implications. As per a recent Council decision, the notional gain or loss arising out of the revaluation of investment property should be included in Other Comprehensive Income (OCI) and not Profit and Loss A/c. It is also suggested that OCI may be divided into two parts. First part may comprise of reserves built out of notional gains /losses arising on account of revaluation and second part may contain other incomes which are required to be taken to OCI due to other factors. Thereafter, a restriction on the first part may be imposed so that no part of the same is made available for distribution of dividends.
IND AS 11	**AS-7**	**Impact**
Construction contracts	**Construction contracts**	

Revenue is recognized on completed contracts basis.	Revenue id recognized on percentage of completion method.	IND AS 11 is being modified to be in line with current AS-7. Therefore, no significant difference is forseen except on issue of point of time of recognition of revenue which is arising out of AS-9

IND AS 18 Revenue Recognition	AS-9 Revenue Recognition	Impact
Revenue has to be recognized at fair value Fair value of revenue from sale of goods and services when the inflow of cash and cash equivalents is deferred is determined by discounting all future receipts using an imputed rate of interest. The difference between the fair value and the nominal amount of consideration is recognized as interest income using the effective interest method.	Revenue is measured by the charges made to customers for goods supplied and services rendered to them and by the charges and rewards arising from the use of resources by them. Revenue is recognized at the **nominal amount of consideration receivable**	• Interest income is recognized in different years. • Postponement of revenue on account of adoption of discounted value and consequent timing differences. • Head of income may change. The change in value of sale as recognized in the books would also have a significant impact on indirect taxation. Since that is not the focus of the current note – this issue is not addressed in detail – even though a policy in this regard is extremely important.

Example – Sale by Deferred Consideration

An enterprise sells an item of equipment for Rs. 100,000 with annual instalments of Rs. 20,000 due for 5 years under zero% financing arrangement

Year	**Principal Amount O/s**	**Interest elements @ 10%**	**Principal element**	**Total payment**
End of Yr 1	75,816	7,581	12,419	20,000
End of Yr 2	63,397	6,340	13,660	20,000
End of Yr 3	49,737	4,974	15,026	20,000
End of Yr 4	34,711	3,471	16,529	20,000
End of Yr 5	18,182	1,818	18,182	20,000
TOTAL		24,184	75,816	100,000
 Sale **Interest income**	**IND AS** 75,816 24,184	AS 1,00,000 -	**Tax implication** Deferment of interest income	

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<tr><td colspan="3">Recognition- Sale of Goods</td></tr>
<tr>
<td>Revenue from the sale of goods should be recognized when all the following conditions have been satisfied:

• Transfer of significant risk and reward of ownership to the buyer
• No managerial involvement or effective control over goods
• The amount of revenue can be measured reliably
• Probability of inflow of economic benefits
Cost Incurred or to be incurred can be measured reliably</td>
<td>Revenue from the sale of goods should be recognized when all the following conditions have been satisfied:

• Completion of Performance
Transfer of property or significant risk and reward of ownership such that seller retains no effective control of goods
• Measurability
No significant uncertainty exists regarding amount of consideration
• Collectability
Not unreasonable to expect ultimate collection at the time of sale.</td>
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<tr><td colspan="3">Example: -Cost to be measured reliably

Warranty Cost should generally be estimated and accrued. If such cost cannot be estimated reliably, revenue is deferred until the amount of such expenses can be more reliably estimated or have been incurred. In these circumstances, any consideration already received from the sal e of goods is recognized as a liability.

A car seller offers free service for two years at the time of sale of a car which is worth Rs. 5,00,000. Let us say normally, the yearly service cost of a car amounts to Rs.25,000.</td></tr>
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<td>As per Ind AS, the Sale value as reflected in FS is Rs.4,50,000 and Rs. 50,000 is the advance service fees received to be recognized in two subsequent years.</td>
<td>As per current AS the sale price would be Rs.5,00,000</td>
<td>• Difference in timing of recognition of revenue
• Whether to charge GST on Rs. 5,00,000 or Rs. 4,50,000?
• The levy, value and year of levy of service tax on warranty cost would be different.</td>
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IND AS 21	AS-11	Impact
The Effects of changes in Foreign Exchange Rates	**Effects of changes in Foreign Exchange rates**	
Functional Currency approach is adopted	There is no concept of functional currency.	• Arithmetical differences may arise while changing the functional currency into reporting currency which may or may not be significant. • Functional currency approach could have significant implications on profitability if the reporting currency (say Rs.) is not the functional currency. Difference in treatment between current AS and Income-tax Act,1961 already exist and will persist. • Translation gain/loss on conversion into presentation currency taken to OCI may lead to significant variation. • Taxability of forex gains/loss in regard to highly probable forecast transactions treated as cash flow hedge will be reflected in OCI. Deductibility for tax despite of Supreme Court decision in Woodword Governor is often a matter of litigation even presently. Present, Rule 115 of Income Tax Rules addresses this issue. Since, it is part of delegated legislation; the same can be amended to meet any specific issue.

<table>
<tr><th>IND AS 20</th><th>AS-12</th><th>Impact</th></tr>
<tr><td>Accounting for Government Grants and Disclosure of Government Assistance</td><td>Government Grants</td><td></td></tr>
<tr><td>1. IND AS 20 does not permit direct credits to equity. Everything has to be routed through Income and Expenditure account or OCI</td><td>1. Adjustment to cost of asset is permitted.</td><td rowspan="2">• Significant impact on MAT
• Difference in point of recognition</td></tr>
<tr><td>2. Grants in kind to be included in income at fair market value.</td><td>2. Grants in kind to be valued at Rs.1</td></tr>
<tr><td colspan="3">Example:-

A village in Tamil Nadu with a flourishing cottage industry was completely deva stated due to flood. Cotex is a company exporting cottage industry products. The Government gave a grant of Rs.5 crore to Cotex with a condition that at least 200 artisians from the village should be rehabilitated within 3 years of the commencement of the operations when the facilities are re-built. The Government released the first instalment of Rs.1 crore immediately.</td></tr>
<tr><td>The amount of Rs.5 crore should be recognized over a period of 3 years within which the company is to spend the money. Although, the amount of Rs. 1 crore is received immediately, the conditions attached with the grant would be fulfilled over a period of 3 years. Hence the grant should be recognized on a systematic basis and not upon receipt of the grant.</td><td>The AS does not recognize such amortization.</td><td>Such situations are not very common in a commercial context and therefore – the divergence arising in the accounting treatment may not be considered very important in the present context. In certain cases however where such situation exists, the impact could be material.</td></tr>
</table>

<table>
<tr><th>IND AS 40</th><th>AS-13</th><th rowspan="2">Impact</th></tr>
<tr><th>Investment Properties</th><th>Accounting for Investments</th></tr>
<tr><td>Investment property is a property held for deriving revenue benefit but not like Plant and machinery for eg. Properties held by a broker dealing in buying and selling flats. .

1. The investment properties held for trading are marked to market and are dealt with in Profit and Loss A/c whether realized or not.
2. The investment proerties available for sale are taken to Other comprehensive income (OCI)</td><td>The Investments are valued at lower or cost or realizable value.</td><td>The impact may be significant and may actually lead to non-realized gains or losses. Ministry may consider whether this should be treated as distributable and/or taxable for MAT.
An option is available to the corporate in respect of assets held for sale and held to maturity to make adjustments at fair value. The adjustments will be part of other comprehensive income and hence, not liable for MAT in view of the proposed amendment in Sec 115JB. As regards, assets held for trading, the adjustments consequent to fair value is to be credited to the profit and loss account (not as other Comprehensive income) and the same will be part of distributable profits. So, there should be in no issue for taxing the same.</td></tr>
<tr><th>IFRS-3</th><th>AS-14</th><th rowspan="2">Impact</th></tr>
<tr><th>Business Combinations</th><th>Accounting for Amalgamations</th></tr>
<tr><td colspan="3">Accounting and tax treatment are vastly different. However since the tax treatment is largely independent of the treatment in books, at the moment the tax implicatio ns have not been crytalised. However attention is drawn to Section 72A of the Income -tax Act,1961 dealing with treatment of losses post- amalgamation,</td></tr>
<tr><td></td><td></td><td></td></tr>
</table>

IND AS 19	AS-15	Impact
Employee benefits	**Employee Benefits**	
Actuarial gains and losses may be recognised immediately in profit and loss; or recognised immediately in other comprehensive income; or Deferred up to a maximum with any excess of 10% of the greater of the defined benefit obligation or the fair value of the plan assets at the end of the previous reporting period being recognized over the expected average remaining lives of the participating employees or other accelerated basis.	Actuarial gains and losses should be recognised immediately in the statement of profit and loss as an income or expenses.	Impact will be only if OCI follows allowability of such expenses. Provision in s.40A(7) of the Income-tax Act, 1961 differ today also hence not treated as a difference arising out of application of INS AS.
IND AS 23	**AS-16**	**Impact**
Accounting of Borrowing Costs	**Borrowing Costs**	
Interest income is recognized using the effective interest method when: • It is probable that the economic benefits associated with the transaction will flow to the entity and • The amount of the revenue can be measured reliably	Interest income is recognized only when no significant uncertainty as to measurability or collectability exists, on a time proportion basis taking into account the amount outstanding and the rate applicable. Usually, discount or premium on debt securities held is treated as though it were accruing over the period to maturity	

Computation would be result in controversy and litigation. 2. Imputed interest rate may arise without any borrowing but applying current value and fair value method	Issue does not arise as no notional debits are allowed.	• Difference in rate adopted may lead manipulation. • Deduction of tax at source may not be possible as in case of notional interest there is no payee. • Problems of allowability under section 36 (1) (iii) may arise as there is no capital borrowed which is a prerequisite for interest to be allowed. This would result in a divergences between interest debited under IND AS and the amount allowable as a deduction under the income tax provisions. • Point of commencement and cessation/ suspension of interest capitaisation for qualifying asset as well as what is qualifying asset is different in IT Act and AS However these differences exist even under the present AS and therefore are not treated as arising out of IND AS application. • Assessees following different frameworks would result in items not corresponding with each other - leaving scope for divergence / possible manipulation.

Example:- • . • Similar issue would arise in case of a listed company following IND AS wh ich takes loan from its associate concern at cheaper rate. Provision would be made in respect of interest which is not payable. Such interest would be debited as per IND AS (thereby reducing book profits – and in absence of specific amendment also the taxa ble income) and as per AS, as the same is not shown as income in the books of account of the associate concern		
AS-17,18,20,25		
These are disclosure standards and do not have any tax impact.		
IND AS 17	**AS-19**	**Impact**
Leases	**Leases**	
Under IFRS converged standards, lease incentives have to be recognized by both the lessor and the lessee as a reduction from rental income and expense, respectively, over the lease term.		There are differences betweent the accounting and tax treatment even under the present AS and therefore the impact arising out of application of IND AS is not separately considered as differences between the accounting and tax treatment may persist.
AS-21,23,27		
These three standards deal with presentation in Consolidated Financial S tatements, interest in joint venture, associates etc. Particularly, these are matters of presentation and the impact of fair value/ mark to market treatment is already dealt with in this note under respective standards. Hence except MAT impact , no other issues are specifically addressed in this regard.		
AS-22 -Accounting for taxes on income		
Except for MAT there is no major impact		

IND AS 38	AS-26	Impact
Intangible Assets	**Intangible assets**	
Goodwill is not depreciated. If the life of the asset is definite ,the asset can be impaired/amortised depending upon the determination of its useful life. Where the life of the asset is indefinite, the asset cannot be amortised.	Goodwill is depreciated. Life of the asset is to be determined and asset is to be depreciated in all cases	Effects will be similar to those of property, plant and equipment. – AS 6 & 10 r.w. IND AS 16.

IND AS 37	AS-29	Impact
Provisions, contingent liabilities and contingent assets	**Provisions, contingent liabilities and contingent assets**	
Recognition of provision		
A provision is recognized when an entity has a present obligation (legal or Constructive) as a result of a past event. E.g. Contaminated land – enterprise has no legal obligation, but meets widely publicized clean-up policy – Provide for constructive obligation	Present obligation and not constructive obligation is the basis though some provisions may be needed in respect of obligations arising from normal practice, custom and a desire to maintain good business relations or to act in an equitable manner. E.g. Contaminated land – enterprise cleans up to meet legal requirements, which are virtually certain to be enacted soon after the year end- Provide for the expected obligation	Income-tax recognizes only legally enforceable liability. There are issues even presently in regard to deductibility of certain provisions. Many of these issues revolve primarily upon the facts of the case. Hence, the matter was not dealt with elaborately. However, upon application of IND AS the differences may be accentuated on account of recognition of constructive obligations.
Provision is based on best estimate with detailed guidelines. Employs statistical notion of expected value in estimating the settlement value.	Provision is based on best estimate	Since a more elaborate and scientific method is prescribe d under IND AS the area of divergence with taxation would possibly reduce.

2. Discounting		
Where the effect of time value of money is material, the amount of provision is the present value of the expenditure expected to be required to settle the obligation. The discount rate is pre-tax rate that reflects the current market assessment of time value of money and risk specific to the liability. The discount rate does not reflect risk for which future cash flow estimates have been adjusted.	Discounting of liabilities is not permitted and provisions are carried at their fair value.	• Timing of allowability of discount • TDS issues ❖ Gross or net of discount element? ❖ Provisions should be reviewed at each balance sheet date and adjusted to reflect current best estimates