

Exposure Draft

***Appendix B-1, Levies
to
Ind AS 37 Provisions, Contingent Liabilities and Contingent
Assets,***

(Last date for Comments February 17, 2014)



Issued by
Accounting Standards Board

The Institute of Chartered Accountants of India

Exposure Draft

Appendix B-1, Levies to Ind AS 37 Provisions, Contingent Liabilities and Contingent Assets,

Following is the Exposure Draft of the Appendix B-1, Levies, to Ind AS 37 Provisions, Contingent Liabilities and Contingent Assets, issued by the Accounting Standards Board of the Institute of Chartered Accountants of India, for comments:

The Board invites comments on any aspect of this Exposure Draft. Comments are most helpful if they indicate the specific paragraph or group of paragraphs to which they relate, contain a clear rationale and, where applicable, provide a suggestion for alternative wording.

Comments should be submitted in writing to the Secretary, Accounting Standards Board. The Institute of Chartered Accountants of India, ICAI Bhawan, Post Box No. 7100, Indraprastha Marg, New Delhi – 110 002, so as to be received not later than February 17, 2014 . Comments can also be sent by e-mail at commentsasb@icai.in or asb@icai.in.

*(This Exposure Draft of the Indian Accounting Standard includes paragraphs set in **bold** type and plain type, which have equal authority. Paragraphs in bold type indicate the main principles. This Exposure Draft of the Indian Accounting Standard should be read in the context of its objective and the Preface to the Statements of Accounting Standards¹)*

Background

1. A government may impose a levy on an entity. An issue arises when to recognise a liability to pay a levy that is accounted for in accordance with Ind AS 37 *Provisions, Contingent Liabilities and Contingent Assets*.

Scope

2. This Appendix 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.
3. This Appendix does not address the accounting for the costs that arise from recognising a liability to pay a levy. Entities should apply other Standards to decide whether the recognition of a liability to pay a levy gives rise to an asset or an expense.

¹ Attention is specifically drawn to paragraph 4.3 of the Preface, according to which accounting standards are intended to apply only to items which are material.

4. For the purposes of this Appendix, a levy is an outflow of resources embodying economic benefits that is imposed by governments on entities in accordance with legislation (ie laws and/or regulations), other than:
 - (a) those outflows of resources that are within the scope of other Standards (such as income taxes that are within the scope of Ind AS 12 *Income Taxes*); and
 - (b) fines or other penalties that are imposed for breaches of the legislation.

‘Government’ refers to government, government agencies and similar bodies whether local, national or international.
5. A payment made by an entity for the acquisition of an asset, or for the rendering of services under a contractual agreement with a government, does not meet the definition of a levy.
6. An entity is not required to apply this Appendix to liabilities that arise from emissions trading schemes.

Issues

7. To clarify the accounting for a liability to pay a levy, this Appendix addresses the following issues:
 - (a) what is the obligating event that gives rise to the recognition of a liability to pay a levy?
 - (b) does economic compulsion to continue to operate in a future period create a constructive obligation to pay a levy that will be triggered by operating in that future period?
 - (c) does the going concern assumption imply that an entity has a present obligation to pay a levy that will be triggered by operating in a future period?
 - (d) does the recognition of a liability to pay a levy arise at a point in time or does it, in some circumstances, arise progressively over time?
 - (e) what is the obligating event that gives rise to the recognition of a liability to pay a levy that is triggered if a minimum threshold is reached?
 - (f) are the principles for recognising in the annual financial statements and in the interim financial report a liability to pay a levy the same?

Principles

8. The 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. For example, if the activity that triggers the payment of the levy is the generation of revenue in the current period and the calculation of that levy is based on the revenue that was generated in a previous period, the obligating event for that levy is the generation of revenue in the current period. The

generation of revenue in the previous period is necessary, but not sufficient, to create a present obligation.

9. 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.
10. The preparation of financial statements under the going concern assumption does not imply that an entity has a present obligation to pay a levy that will be triggered by operating in a future period.
11. The liability to pay a levy is recognised progressively if the obligating event occurs over a period of time (ie if the activity that triggers the payment of the levy, as identified by the legislation, occurs over a period of time). For example, if the obligating event is the generation of revenue over a period of time, the corresponding liability is recognised as the entity generates that revenue.
12. If an obligation to pay a levy is triggered when a minimum threshold is reached, the accounting for the liability that arises from that obligation shall be consistent with the principles established in paragraphs 8–14 of this Appendix (in particular, paragraphs 8 and 11). For example, if the obligating event is the reaching of a minimum activity threshold (such as a minimum amount of revenue or sales generated or outputs produced), the corresponding liability is recognised when that minimum activity threshold is reached.
13. An entity shall apply the same recognition principles in the interim financial report that it applies in the annual financial statements. As a result, in the interim financial report, a liability to pay a levy:
 - (a) shall not be recognised if there is no present obligation to pay the levy at the end of the interim reporting period; and
 - (b) shall be recognised if a present obligation to pay the levy exists at the end of the interim reporting period.
14. An entity shall recognise an asset if it has prepaid a levy but does not yet have a present obligation to pay that levy.

Illustrative examples

These examples accompany, but are not part of, this Appendix.

IE1 The objective of these examples is to illustrate how an entity should account for a liability to pay a levy in its annual financial statements and in its interim financial report.

Example 1—A levy is triggered progressively as the entity generates revenue

Entity A has an annual reporting period that ends on 31 December. In accordance with legislation, a levy is triggered progressively as an entity generates revenue in 20X1. The amount of the levy is calculated by reference to revenue generated by the entity in 20X1.

In this example, the liability is recognised progressively during 20X1 as Entity A generates revenue, because the obligating event, as identified by the legislation, is the generation of revenue during 20X1. At any point in 20X1, Entity A has a present obligation to pay a levy on revenue generated to date.

Entity A has no present obligation to pay a levy that will arise from generating revenue in the future.

In the interim financial report (if any), the liability is recognised progressively as Entity A generates revenue. Entity A has a present obligation to pay the levy on revenue generated from 1 January 20X1 to the end of the interim period.

Example 2—A levy is triggered in full as soon as the entity generates revenue

Entity B has an annual reporting period that ends on 31 December. In accordance with legislation, a levy is triggered in full as soon as an entity generates revenue in 20X1. The amount of the levy is calculated by reference to revenue generated by the entity in 20X0. Entity B generated revenue in 20X0 and in 20X1 starts to generate revenue on 3 January 20X1.

In this example, the liability is recognised in full on 3 January 20X1 because the obligating event, as identified by the legislation, is the first generation of revenue in 20X1. The generation of revenue in 20X0 is necessary, but not sufficient, to create a present obligation to pay a levy. Before 3 January 20X1, Entity B has no present obligation to pay a levy. In other words, the activity that triggers the payment of the levy, as identified by the legislation, is the point at which Entity B first generates revenue in 20X1. The generation of revenue in 20X0 is not the activity that triggers the payment of the levy and the recognition of the liability. The amount of revenue generated in 20X0 only affects the measurement of the liability.

In the interim financial report (if any), the liability is recognised in full in the first interim period of 20X1 because the liability is recognised in full on 3 January 20X1.

Example 3—A levy is triggered in full if the entity operates as a bank at a specified date

Entity C is a bank and has an annual reporting period that ends on 31 December. In accordance with legislation, a levy is triggered in full only if an entity operates as a bank at the end of the annual reporting period. The amount of the levy is calculated by reference to the amounts in the balance sheet of the entity at the end of the annual reporting period. The end of the annual reporting period of Entity C is 31 December 20X1.

In this example, the liability is recognised on 31 December 20X1 because the obligating event, as identified by the legislation, is Entity C operating as a bank at the end of the annual reporting period. Before that point, Entity C has no present obligation to pay a levy, even if it is economically compelled to continue to operate as a bank in the future. In other words, the activity that triggers the payment of the levy, as identified by the legislation, is the entity operating as a bank at the end of the annual reporting period, which does not occur until 31 December 20X1. The conclusion would not change even if the amount of the liability is based on the length of the reporting period, because the obligating event is the entity operating as a bank at the end of the annual reporting period.

In the interim financial report (if any), the liability is recognised in full in the interim period in which 31 December 20X1 falls because the liability is recognised in full on that date.

Example 4—A levy is triggered if the entity generates revenue above a minimum amount of revenue

Entity D has an annual reporting period that ends on 31 December. In accordance with legislation, a levy is triggered if an entity generates revenue above Rs 50 million in 20X1. The amount of the levy is calculated by reference to revenue generated above Rs 50 million, with the levy rate at 0 per cent for the first Rs 50 million revenue generated (below the threshold) and 2 per cent above Rs 50 million revenue. Entity D's revenue reaches the revenue threshold of Rs 50 million on 17 July 20X1.

In this example, the liability is recognised between 17 July 20X1 and 31 December 20X1 as Entity D generates revenue above the threshold because the obligating event, as identified by the legislation, is the activity undertaken after the threshold is reached (ie the generation of revenue after the threshold is reached). The amount of the liability is based on the revenue generated to date that exceeds the threshold of Rs 50 million revenue.

In the interim financial report (if any), the liability is recognised between 17 July 20X1 and 31 December 20X1 as Entity D generates revenue above the threshold.

Variation:

Same fact pattern as above (ie a levy is triggered if Entity D generates revenue above Rs 50 million in 20X1), except that the amount of the levy is calculated by reference to all revenue generated by Entity D in 20X1 (ie including the first Rs 50 million revenue generated in 20X1).

In this example, the liability for the payment of the levy related to the first Rs 50 million revenue is recognised on 17 July 20X1 when the threshold is met, because the obligating event, as identified by the legislation, for the payment of that amount is the reaching of the threshold. The liability for the payment of the levy related to revenue generated above the threshold is recognised between 17 July 20X1 and 31 December 20X1 as the entity generates revenue above the threshold, because the obligating event, as identified by the legislation, is the activity undertaken after the threshold is reached (ie the generation of revenue after the threshold is reached). The amount of the liability is based on the revenue generated to date, including the first Rs 50 million revenue. The same recognition principles apply in the interim financial report (if any) as in the annual financial statements.

Consequential Amendments to Appendix E to Ind AS 12 *Income Taxes*

The following amendments to Ind AS 12 are necessary to ensure consistency with the revised Ind AS 37.

(New text is underlined and deleted text is struck through))
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This appendix lists the different appendices which are the part of other Indian Accounting Standards and make reference to Ind AS 12:

1. Appendix A, *Applying the Restatement Approach under Ind AS 29 Financial Reporting in Hyperinflationary Economies* contained in Ind AS 29 *Financial Reporting in Hyperinflationary Economies* ~~makes reference to Ind AS 12.~~
2. Appendix B-1 *Levis* contained in Ind AS 37 *Provisions, Contingent Liabilities and Contingent Assets*