OVERVIEW OF INDIAN ACCOUNTING STANDARDS (Ind ASs)

Dr. Rajkumar S. Adukia

Ph.D., B.Com (Hons.), FCA, FCS, ACMA, LL.B, DIPR, DLL&LW, MBA, Dip IFR(UK)

rajkumarradukia@caaa.in

9820061049

Preface

In this era of globalisation, corporate environment has seen many changes as entities operate around the world in widely extended networks, raises funds abroad, compete with international entities in open markets and thus are exposed to international reporting requirements as well. The highly diverge country specific accounting norms have come into pressure as multi- or transnational companies have share and stakeholders in many countries, who require information about the performance of their investments and about further investment opportunities. Uniformity in the reporting standards in the financial sector so as to ensure ease of comparison, universality, removal of redundancy, comprehensiveness etc, of financial reporting, is the need of the present world. **International Financial Reporting Standards** (**IFRS**) are designed as a common global language for business affairs so that company accounts are understandable and comparable across international boundaries. Approximately 140 nations and reporting jurisdictions permit or require IFRS for domestic listed companies.

Analyzing the benefits of IFRS, it became all the more pertinent for a country like India to adopt it as soon as possible so as to maintain investors' positive sentiments and also strengthen their faith and credibility in the Indian Market. Therefore, Ministry of Corporate Affairs (hereafter referred to as MCA) notified Company (Indian Accounting Standard) Rules 2015 vide its G.S.R dated 16 February 2015. Accordingly, it notified 39 Ind ASs and laid down an Ind AS transition road map for companies other than banking companies, insurance companies and non- banking finance companies. However, on 29 September 2015, Reserve Bank of India through its Fourth Bi-monthly Monetary Policy Statement, 2015-16 informed the stakeholders that it has recommended to the MCA a road map for the implementation of Ind AS for banks, insurance companies and NBFCs from 2018-19 onwards. Moreover, MCA also issued Companies Indian Accounting Standards (Amendment) Rules, 2016, which contains two more Standards viz. Ind AS 18 *Revenue*, and Ind AS 11 *Construction Contracts* which it proposes to make applicable in place of Ind AS 115 *Revenue from Contracts with Customers*. The implementation of Ind AS might lead to short term investments and initial challenges but the long term benefits are strong enough to justify the initial hassles of implementation and adoptability.

This book provides a brief insight on the subject and practical guide for implementing Ind AS in very lucid manner. Special care has been taken to ensure all recent amendments have been incorporated in the book. This book would help in understanding on the various methodologies adopted by Ind AS and will be useful to corporates, auditors, accountants, academicians and students at large.

Contents

Chapter No	Details
1.	Overview of Ind AS
2.	How to study Ind AS
3.	Fair Value Measurement
4.	Standards dealing with the Presentation of Financial Statements
5.	Financial Reporting by Group Entities
6.	Recognition, Measurement, Presentation & Disclosure of Assets
7.	Recognition, Measurement, Presentation & Disclosure of Income
8.	Recognition, Measurement, Presentation & Disclosure of Expenses & Liabilities
9.	Financial Instruments
10.	Industry Based Standards
11.	Disclosure Standards
12.	First Time Adoption of Indian AccountingStandards

Chapter 1

Overview of Indian Accounting Standards (Ind ASs)

In exercise of the powers conferred by section 133 read with section 469 of the Companies Act, 2013 (18 of 2013) and sub-section (1) of section 210A of the Companies Act, 1956 (1 of 1956), the Central Government, in consultation with the National Advisory Committee on Accounting Standards, Ministry of Corporate Affairs made Companies (Indian Accounting Standards) Rules, 2015. These Rules came into force from 1st April, 2015. The Rules has been further amended by The Companies Indian Accounting Standards) (Amendment) Rules, 2016.

Scope of Companies (Indian Accounting Standards) Rules, 2015

- **(i)** These Rules states the applicability of Ind ASs.
- **(ii)** Ind AS set out recognition, measurement, presentation and disclosure requirements of transaction and events in general purpose financial statements.
- **(iii)** Ind ASs apply to the general purpose financial statements and other financial reporting by profit-oriented entities -- those engaged in commercial, industrial, financial, and similar activities.
- **(iv)** Entities other than profit-oriented business entities may also find Ind ASs appropriate.
- **(v)** General purpose financial statements are intended to meet the common needs of shareholders, creditors, employees, and the public at large for information about an entity's financial position, performance, and cash flows.
- **(vi)** Other financial reporting includes information provided outside financial statements that assists in the interpretation of a complete set of financial statements or improves users' ability to make efficient economic decisions.
- **(vii)** Ind ASs apply to both separate and consolidated financial statements.
- **(viii)** A complete set of financial statements includes a balance sheet, a statement of profit and loss, a statement of cash flows, a statement showing either all changes in equity or changes in equity, notes consisting of a summary of accounting policies and other explanatory notes and a comparative information of the preceding period.
- **(ix)** Ind AS will present fundamental principles in bold face type and other guidance in non-bold type (the 'black-letter'/'grey-letter' distinction). Paragraphs of both types have equal authority.

The Conceptual Framework for Financial Reporting

Ind ASs refers to the *Framework for Preparation and Presentation of Financial Statements* issued by Institute of Chartered Accountants of India (ICAI).The purpose of the *Framework* is:

(a) To assist the Accounting Standards Board (ASB) in the development of future Ind ASs and in its review of existing Ind ASs;

(b) To assist the ASB in promoting harmonisation of regulations, accounting standards and procedures relating to the presentation of financial statements by providing a basis for reducing the number of alternative accounting treatments permitted by IFRS;

(c) To assist preparers of financial statements in applying Ind ASs and in dealing with topics that have yet to form the subject of an Ind AS;

(d) To assist auditors in forming an opinion on whether financial statements comply with Ind ASs; and

(e) To assist users of financial statements in interpreting the information contained in financial statements prepared in compliance with Ind ASs.

Scope of Framework

The Framework deals with:

(a) The objective of financial reporting which is:

I. To provide financial information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions about providing resources to the entity.

II. To assess how efficiently and effectively the entity's management and governing board have discharged their responsibilities to use the entities resources.

III. To provide information regarding the liquidity of the entity.

However, the financial statements need not provide all information, as they contain only financial information and not the non-financial information.

(b) The qualitative characteristics of useful financial information;

Qualitative characteristics are the attributes that make the information provided in financial statements useful to users. The fundamental qualitative characteristics are Relevance, Faithful Representation, Comparability, Verifiability, Timeliness, Understand ability, Constraints on Relevant and Reliable Information and True and Fair View.

(c) The definition, recognition and measurement of the elements from which financial statements are constructed;

Elements of Financial Statements include Assets, Liabilities, Equity, Income and Expenses.

Recognition of the Elements of Financial Statements is based on the probability of the future economic benefits and reliability of measurement. It involves the recognition of assets, liabilities, income and expense.

Measurement of the Elements of Financial Statements involves assigning monetary amounts at which the elements of the financial statements are to be recognised and reported. Measurement may be initial measurement or subsequent measurement. The Framework acknowledges that a variety of measurement bases are used today to different degrees and in varying combinations in financial statements, including: Historical cost; Current cost; Fair Value; Net realisable (settlement) value and Present value (discounted).

(d) Concepts of capital and capital maintenance.

The concept of capital maintenance is concerned with how an entity defines the capital that it seeks to maintain. It provides the linkage between the concepts of capital and the concepts of profit because it provides the point of reference by which profit is measured. Profit is the residual amount that remains after expenses (including capital maintenance adjustments, where appropriate) have been deducted from income. If expenses exceed income the residual amount is a loss.

Users of financial statement and their information needs

The Framework notes that financial statements cannot provide all the information that users may need to make economic decisions. For one thing, financial statements show the financial effects of past events and transactions, whereas the decisions that most users of financial statements have to make relate to the future. Further, financial statements provide only a limited amount of the non-financial information needed by users of financial statements. While all of the information needs of these user groups cannot be met by financial statements, there are information needs that are common to all users, and general purpose financial statements focus on meeting these needs.

Responsibility for Financial Statements

The management of an enterprise has the primary responsibility for preparing and presenting the enterprise's financial statements.

The Cost Constraint on useful Financial Reporting

Cost is a pervasive constraint on the information that can be provided by financial reporting. Reporting financial information imposes cost, and it is important that those costs are justified by the benefits of reporting that information.

LIST OF STANDARDS

1	Ind AS 101	First – Time Adoption of Indian Accounting Standards
2	Ind AS 102	Share-Based Payment
3	Ind AS 103	Business Combinations
4	Ind AS 104	Insurance Contracts
5	Ind AS 105	Non-current Assets Held for Sale and Discontinued Operations
6	Ind AS 106	Exploration for and Evaluation of Mineral Resources
7	Ind AS 107	Financial Instruments: Disclosures
8	Ind AS 108	Operating Segments
9	Ind AS 109	Financial Instruments
10	Ind AS 110	Consolidated Financial Statements
11	Ind AS 111	Joint Arrangements

12	Ind AS 112	Disclosure of Interests in Other Entities
13	Ind AS 113	Fair Value Measurement
14	Ind AS 114	Regulatory Deferral Accounts
15	Ind AS 1	Presentation of Financial Statements
16	Ind AS 2	Inventories
17	Ind AS 7	Statement of Cash Flows
18	Ind AS 8	Accounting Policies, Changes in Accounting Estimates and Errors
19	Ind AS 10	Events After the Reporting Period
20	Ind AS 11	Construction Contracts
21	Ind AS 12	Income Taxes
22	Ind AS 16	Property, Plant and Equipment
23	Ind AS 17	Leases
24	Ind AS 18	Revenue
25	Ind AS 19	Employee Benefits
26	Ind AS 20	Accounting for Government Grants and Disclosure of Government Assistance
27	Ind AS 21	The Effects of Changes in Foreign Exchange Rates
28	Ind AS 23	Borrowing Costs
29	Ind AS 24	Related Party Disclosures
30	Ind AS 27	Separate Financial Statements
31	Ind AS 28	Investments in Associates and Joint Ventures
32	Ind AS 29	Financial Reporting in Hyperinflationary Economies
33	Ind AS 32	Financial Instruments: Presentation
34	Ind AS 33	Earnings Per Share
35	Ind AS 34	Interim Financial Reporting

36	Ind AS 36	Impairment of Assets
37	Ind AS 37	Provisions, Contingent Liabilities and Contingent Assets
38	Ind AS 38	Intangible Assets
39	Ind AS 40	Investment Property
40	Ind AS 41	Agriculture

Chapter 2

How to Study Indian Accounting Standards?

Introduction

Indian Accounting Standards (Ind AS) are buzzing words in the arena of finance and accounting in India today. It is estimated nearly 10,000 companies in India would be required to file Ind AS compliant financial statements in coming years. Corporate, regulators, government, educational institutions etc are all geared up to take on the challenge of Ind AS adoption with full enthusiasm. Adopting Ind AS will bring about many positive changes in corporate world. However, the biggest bottleneck in adoption of Ind AS is meeting the human resource requirements to successfully implement this change. Hence the study of Ind AS is of immense significance these days for accounting professionals, business analysts, investors, regulators and people at helm of affairs of the entities required to comply with Ind AS.

Why Ind AS?

Financial Statement based on Ind AS will have multiple benefits for Indian entities especially those who aspire to go global. Some of the benefits of convergence with IFRS are listed below:

a) Accessibility to foreign capital markets

b) Reduced Cost

c) Enhance Comparability

d) Boon for multinational group entities

e) New Opportunities for the professionals

Besides Financial Statements based on Ind AS, with extensive disclosure requirements will be a great source of reliable information for creditors, financial institution, investors, and regulators.

When a Financial Statement is said to be Compliant with Ind AS

A Financial Statement is said to be Ind AS compliant only if adheres to principle prescribed by Ind AS literature in all its standards including appendixes. In extremely rare circumstances, a departure from a particular requirement of an Ind AS can be permitted in order to achieve such fair presentation, in which case comprehensive disclosure requirements would be imposed.

Feature of Financial Statements based on Ind AS

- Fair presentation and complete compliance with Ind AS with an *explicit and unreserved* statement of compliance given in the notes.
- Information should be relevant, reliable, comparable and understandable.
- Presentation and disclosures should not be misleading.
- The titles and captions used should be consistent with the definitions used in the standards.
- The financial statements may be supplemented by additional disclosures beyond Ind AS if required but those statements would be considered out of scope of Ind AS.
- Complete set of financial statements should be presented at least annually though shorter or longer period may be permitted with some disclosures.
- Comparative figure for corresponding previous period must be given.
- The Ind AS should be applied consistently. Entities which voluntarily comply with the standards even though not falling within threshold will have to compulsorily comply with Ind AS in all subsequent financial years.

Elements of Financial Statements

a. Assets:

- **Definition**: An asset is a resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity.
- **Recognition:** When it is probable that future economic benefits will flow to and the asset has cost or value that can be reliably measured.

b. Liabilities:

- **Definition**: It is the present obligation of an entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits.
- **Recognition:** When it is probable that an outflow of resources embodying economic benefits will result from the settlement of a present obligation and the amount at which the settlement will take place can be reliably measured.

c. Equity

- **Definition**: it is the residual interest in the asset of the entity after deducting all its liability.

d. Income

- **Definition:** Income is the increase in economic benefits during the accounting period in the form of inflows or enhancements of assets or decreases of liabilities those results in increase in equity, other than those relating to contribution from equity participants. It encompasses both revenue and gains.
- **Recognition:** When an increase in the future economic benefits related to an increase in an asset or decrease in a liability has arisen that can be reliably measured.

e. **Expenses**

- **Definition:** It is the decrease in economic benefits during the accounting period in the form of outflows or depletion of assets or incurrence of liabilities those results in decrease in equity, other than those relating to contribution to equity participants. It encompasses both losses and expenses that arise in the course of ordinary activity of the entity.
- **Recognition:** When a decrease in the future economic benefits related to a decrease in an asset or increase in a liability has arisen, that can be reliably measured.

The Principal Assumptions in Preparation of Financial Statements

- Going Concern
- Consistency
- Accruals
- Materiality
- Aggregation
- Offsetting

These principles are discussed in details in chapter dealing with Presentation of Financial Statements

Broad Based Principles of Ind AS

a. **Substance over Form**:
b. Fair Value Oriented
c. Principle based not Rule based
d. Predominance of Balance Sheet

Resources for Understanding Ind AS

There is no denying the fact that books are our best friends and can be most helpful in understanding the complex yet interesting principles of Ind AS. Bare acts are always best source of information in a crystallised form. Besides now there are lots of books in market both in condensed form and detail form which one can select as per the time available and requirement. However, before studying Ind AS one must first study the *Framework for Preparation and Presentation of Financial Statements* issued by ICAI.

Moreover, there are web sites like www.ifrs.org, www.iasbplus.com, icai.org, etc which provide very useful information on existing and prospective literature on Ind AS and IFRS. The study of Ind AS / IFRS compliant published Financial Statement can throw immense light on practical application of Ind AS. Moreover, there are online and classroom courses on Ind AS which can be done for through understanding of the subject. Institute of Chartered Accountants of India with its regional councils and various other professional bodies like ASSOCHAM and Chambers of commerce are regularly holding meeting and seminar on various topics on Ind AS. One can gain insight of the subject by attending them. For a person well conversed with Indian GAAP, the study of major and minor discrepancy between the standards can be of immense help in grasping the new reporting requirements.

Chronology of Study

A whole standard *Ind AS 101 First-time Adoption of Indian Accounting Standards* has been dedicated for the understanding the process of first time adoption of Ind AS. A novice may find very difficult to understand Ind AS 101. Therefore, one should attempt understanding this standard only after a thorough understanding of all other Ind ASs. As far as understanding other standards are concerned, the numbering of standards are not based on any particular logic. They have been so numbered to maintain their sync with the IFRS which is numbered based on chronology of its issue. So study of Ind AS one after the other may not help in grasping the statements comprehensively. Instead a reader may find it useful to study Ind ASs which are grouped in the following manner:

Ind AS 113: Fair Value Measurement
Ind ASs dealing with the Presentation of Financial Statements • Ind AS 1: Presentation of Financial Statements • Ind AS 7: Statement of Cash Flows • Ind AS 8: Accounting Policies, Changes in Accounting Estimates and Errors • Ind AS 10: Events after the Reporting Period • Ind AS 21: The Effects of the Changes in Foreign Exchange Rates • Ind AS 29: Financial Reporting in Hyperinflationary Economies • Ind AS 33: Earnings per Share • Ind AS 34: Interim Financial Reporting
Ind ASs dealing with Financial Reporting by Group Entities • Ind AS 103: Business Combinations • Ind AS 110: Consolidated Financial Statements, • Ind AS 111: Joint Arrangements, • Ind AS 27: Separate Financial Statements, • Ind AS 28: Investments in Associates and Joint Ventures; • Ind AS 112: Disclosure of Interests in Other Entities.
Recognition, Measurement, Presentation & Disclosure of Assets • Ind AS 2 Inventories, • Ind AS 16 Property, Plant and Equipment, • Ind AS 17 Leases, • Ind AS 23 Borrowing Costs

• Ind AS 36 Impairment of Assets • Ind AS 38 Intangible Assets, • Ind AS 40 Investment Property, • Ind AS 41 Agriculture, • Ind AS 105 Non-current Assets held for Sale and Discontinued Operations, • Ind AS 20 Accounting for Government Grants and Disclosure of Government Assistance.
Recognition, Measurement, Presentation & Disclosure of Income • Ind AS 11: Construction Contracts • Ind AS 18:Revenue • Ind AS 114: Regulatory Deferral Accounts.
Recognition, Measurement, Presentation & Disclosure of Expenses & Liabilities • Ind AS 19 – Employee Benefits • Ind AS 37 - Provisions, Contingent Liabilities and Contingent Assets • Ind AS 12- Income Taxes • Ind AS 102- Share-based Payment.
Standards dealing with Financial Instruments • Ind AS 32 Financial Instruments: Presentation • Ind AS 107 Financial Instruments: Disclosures • Ind AS 109 Financial Instruments
Industry Based Standards • Ind AS 104: Insurance Contracts • Ind AS 106: Exploration For And Evaluation Of Mineral Resources
Disclosure Standards • Ind AS 24 Related Party Disclosures • Ind AS 108 Operating Segments
Ind AS 101: First Time Adoption of Indian Accounting Standards

Chapter 3

Fair Value Measurement

Ind AS 113: Fair Value Measurement

Objective & Scope: The objective of Ind AS 113 is to define fair value and set out a single framework for measurement of fair value. It also prescribes disclosure requirements about fair value measurement. It applies when another Ind AS requires or permits fair value measurements or disclosures about fair value measurements (and measurements, such as fair value less costs to sell, based on fair value or disclosures about those measurements)

The essential features of fair value as set out in Ind AS 113 are as follows:

- The Ind AS 113 explains how to measure fair value for financial reporting.
- Fair value is a *market-based measurement*, not an entity-specific measurement.
- Fair value should be determined based on the *Exit price* i.e. the price to sell the asset or to transfer the liability (from the perspective of a market participant that holds the asset or owes the liability).
- The transaction forming basis of determination of fair value must be an *orderly transaction.*
- The transaction forming basis of determination of fair value must take place between *market participants* at the *measurement date* under current market conditions.
- When price for an identical asset or liability is not observable, an entity measures fair value using another valuation technique that maximises the use of relevant *observable inputs* and minimises the use of unobservable inputs.

Discussion on Ind AS 113

Fair Value is a price received when an asset is sold or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Requirements of Fair Value Measurement

The objective of a fair value measurement is to estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions.

Steps in application of Ind AS 113

- Step one: determine unit of account
- Step two: determine valuation premise
- Step three: determine markets for basis of valuation
- Step four: apply the appropriate valuation technique(s)
- Step five: determine fair value
- Step six: make appropriate disclosures

Unit of Account

- Fair value measurement is for a particular asset or liability.

- Therefore, when measuring fair value an entity should take into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Such characteristics include, for example, the following:
    (a) The condition and location of the asset; and
    (b) Restrictions, if any, on the sale or use of the asset.

The determination of the unit of account must be established prior to determining fair value and is defined as the level at which an asset or a liability is aggregated or disaggregated in an Ind AS for recognition purposes. There are few instances in which the unit of account is explicitly defined. However, in some cases, the unit of account may not be clear. Often, it is inferred from the recognition or measurement guidance in the applicable standard and/or from industry practice. Also, there are times when the unit of account varies depending on whether one is considering recognition, initial measurement, or subsequent measurement, including impairments.
Ind AS 113 also includes a "portfolio exception" allowing a specified level of grouping when a portfolio of financial assets and financial liabilities are managed together with offsetting markets risks or counterparty credit risk.

Orderly Transaction:

A fair value measurement assumes that the asset or liability is exchanged in an orderly transaction between market participants to sell the asset or transfer the liability at the measurement date under current market conditions. A transaction is regarded as orderly when it is not a forced transaction like in the case of distress sale or liquidation.

Place of Transaction: Market

Fair value measurement under Ind AS 113 assumes that a transaction to sell an asset or to transfer a liability takes place in the principal market (or the most advantageous market in the absence of the principal market). The **principal market** is the market with the greatest volume and level of activity for the asset or liability. The **most advantageous market** is the market that maximizes the amount that would be received to sell the asset or minimizes the amount that would be paid to transfer the liability, after taking into account transaction costs and transport costs. If there is a principal market, the price in that market must be used, either directly or as an input into a valuation technique. Ind AS 113 does not permit the use of a price in the most advantageous market if a principal market price is available. It is not necessary to perform an exhaustive search of all possible markets to identify the principal market (or, in the absence of a principal market, the most advantageous market). However, all information that is reasonably available should be considered and the basis for conclusions should be documented. There is a presumption in the standard that the market in which the entity normally transacts to sell the asset or transfer the liability is the principal or most advantageous market unless there is evidence to the contrary. Where an entity transacts in various markets, entity should document which particular market price is used and what process was followed to determine the appropriate market to use for determining fair value.

Assumptions of Market Participants in Determining Fair Value of an Asset or Liability

Fair value measurement under Ind AS 113, require an entity to consider the assumptions a market participant, acting in their economic best interest, would use when pricing the asset or a liability. Market participants are defined as having the following characteristics:

- Independent of each other (i.e. unrelated parties).
- Knowledgeable and using all available information.
- Able of entering into the transaction.
- Willing to enter into the transaction (i.e. not a forced transaction)

The standard requires the entity to put itself in the place of a market participant and exclude any entity-specific factors that might impact the price that it would be willing to accept in the sale of an asset or be paid in the transfer of a liability. Relevant characteristics of an asset might include or relate to the condition and location of the asset; and restrictions, if any, on the sale or use of the asset. Entity must consider the extent to which a market participant would take the above characteristics into account when pricing the asset or liability at the measurement date. The extent to which restrictions on the sale or use of the asset should be reflected in fair value are very much contingent on where the source of the restriction comes from and whether or not the restriction is separable from the asset.

Price for determination of Fair Value

- The price in the principal (or most advantageous) market used to measure the fair value of the asset or liability should not be adjusted for *transaction costs*.
- Transaction costs should be accounted for in accordance with otherInd ASs.
- Transaction costs do not include *transport costs*.

Measurement of Non-Financial Assets

Fair value measurement of a non-financial asset takes into account

- a market participant's ability
- to generate economic benefits
- by using the asset
- in its *highest and best* use or
- by selling it to another market participant
- that would use the asset in its highest and best use.

This requires that fair value be determined based on the highest and best use of the asset from the perspective of a market-participant participants that would maximise the value of the asset or the group of assets and liabilities, within which the asset would be used. Entity considers the current use and any other use that is financially feasible, legally permissible and physically possible. An entity can presume that the current use of an asset is its highest and best use. However, if the asset is being used defensively (e.g. to protect a competitive position), this presumption may be inappropriate.

Normally, the concept of highest and best use does not apply to financial assets and liabilities. However, there is an exception to the valuation premise when an entity manages its **market risk**(s) and/or counterparty **credit risk** exposure within a portfolio of financial instruments (including derivatives that meet the definition of a financial instrument),on a net basis. In such cases, Fair Value would be based on the price:

- Received to sell a net long position (i.e. an asset) for a particular risk exposure, or

- To transfer a net short position (i.e. a liability) for a particular risk exposure in an orderly transaction between market participants.

Fair value of this ‘offset group’ of financial assets and financial liabilities is determined consistently with how market participants would price the net risk exposure.

Portfolio offsetting exception can only be used if the entity does all the following:

- Manages the offset group on the basis of net exposure to a particular market risk (or risks) or to the credit risk of a particular counterparty in accordance with the **entity’s documented risk management or investment strategy**.
- Provides information on that basis about the offset group to the entity’s key management personnel, as defined in Ind AS 24 *Related Party Disclosures*.
- Is required (or has elected) to measure the offset group at fair value in the Balance Sheet at the end of each reporting period.

Moreover, the exception does not relate to presentation and Ind AS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* must be applied when using the offsetting exception.

Financial or Non-Financial Liabilities

A fair value measurement assumes that a financial or non-financial liability or an entity’s own equity instrument (eg equity interests issued as consideration in a business combination) is transferred to a market participant at the measurement date. The transfer of a liability or an entity’s own equity instrument assumes the following:

- A liability would remain outstanding and the market participanttransferee would be required to fulfil the obligation.
- An entity’s own equity instrument would remain outstanding andthe market participant transferee would take on the rights and responsibilities associated with the instrument.

Liabilities and equity instruments held by other parties as assets

When a quoted price for the transfer of an identical or a similar liability or entity’s own equity instrument is not available, then where the identical item is held by another party as an asset, an entity should measure the fair value of the liability or equity instrument from the **perspective of a market participant** that holds the identical item as an asset at the measurement date.

Liabilities and equity instruments not held by other parties as assets

When a quoted price for the transfer of an identical or a similar liability or entity’s own equity instrument is not available and the identical item is not held by another party as an asset, an entity should measure the fair value of the liability or equity instrument using a **valuation technique** from the perspective of a market participant that owes the liability or has issued the claim on equity.

Transaction Price Vs Fair Value

When an asset is acquired or a liability is assumed in an exchange transaction for that asset or liability, the transaction price is the price paid to acquire the asset or received to assume the liability (an *entry price*) In contrast, the fair value of the asset or liability is the price that would be received to sell the asset or paid to transfer the liability (an exit price).

Valuation Techniques

An entity should use valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimizing the use of unobservable inputs.

Types of Valuation Techniques

Three widely used valuation techniques are

- The market approach,
- The cost approach and
- The income approach.

An entity should use valuation techniques consistent with one or more of those approaches to measure fair value. Valuation techniques used to measure fair value should maximise the use of relevant observable inputs and minimise the use of unobservable inputs.

Fair Value Hierarchy

To increase consistency and comparability in fair value measurements and related disclosures, Ind AS 113 establishes a fair value hierarchy that categorises into three levels the inputs to valuation techniques used to measure fair value. The fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1 inputs) and the lowest priority to unobservable inputs (*Level 3 inputs*).
Level 1 Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.A quoted price in an active market provides the most reliable evidence of fair value and should be used without adjustment to measure fair value whenever available except

- When an entity holds a large number of similar (but not identical) assets or liabilities (eg debt securities) that are measured at fair value and a quoted price in an active market is available but not readily accessible for each of those assets or liabilities individually (ie given the large number of similar assets or liabilities held by the entity, it would be difficult to obtain pricing information for each individual asset or liability at the measurement date).
- When a quoted price in an active market does not represent fair value at the measurement date.
- When measuring the fair value of a liability or an entity’s own equity instrument using the quoted price for the identical item traded as an asset in an active market and that price needs to be adjusted for factors specific to the item or the asset.

Level 2 Inputs

Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. If the asset or liability has a specified (contractual) term, a Level 2 input must be observable for substantially the full term of the asset or liability. Level 2 Inputs includes:
(a) Quoted prices for similar assets or liabilities in active markets.

(b) Quoted prices for identical or similar assets or liabilities in market that are not active.

(c) Inputs other than quoted prices those are observable for the asset or liability,

(d) market-corroborated inputs.

Adjustments to Level 2 Inputs depends on the following factors

a) The condition or location of the asset;
b) The extent to which inputs relate to items that are comparable to the asset or liability and
c) The volume or level of activity in the markets within which the inputs are observed.

Level 3 Inputs

- Level 3 inputs are unobservable inputs for the asset or liability.
- Unobservable inputs should be used to measure fair value to the extent thatrelevant observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date.

Disclosure Requirements

Minimum Disclosure in Balance Sheet

1. For each class of asset and liability measured at Fair Value after initial recognition:
- for recurring and non-recurring FV measurements, the FV measurement at the end of the reporting period, and for non-recurring FV measurements, the reasons for the measurement.
- for recurring and non-recurring FV measurements, the level of the fair value hierarchy within which the FV measurements are categorised in their entirety (Level 1, 2 or 3).
- For recurring FV measurements, the amounts of any transfers between Level 1 and Level 2 of the FV hierarchy, the reasons for those transfers and the entity's policy for determining when transfers between levels are deemed to have occurred . Transfers into each level should be disclosed and discussed separately from transfers out of each level.
- for recurring and non-recurring FV measurements categorised within Level 2 and Level 3 of the FV hierarchy, a description of the valuation technique(s) and the inputs used in the FV measurement.

2. If there has been a change in valuation technique, the entity should disclose that change and the reason(s) for making it.
3. If the highest and best use of a non-financial asset differs from its current use, the fact and the reason thereof.
4. If portfolio exception used, the fact to be disclosed as accounting policy.
5. For a liability measured at FV and issued with an inseparable third-party credit enhancement, the existence of that credit enhancement and whether it is reflected in the FV measurement of the liability, should be disclosed
6. All the quantitative disclosures required to be presented in tabular format unless another format is more appropriate.
7. Additional Disclosures for Level 3 inputs

- quantitative information about the significant unobservable inputs;
- a description of the valuation processes used;
- for recurring FV measurement, a reconciliation from the opening balances to the closing balances disclosing separately changes during the period attributable to :
  - total gains or losses recognised in P/L, and the line item(s) in P/L in which they are recognised. If attributable to change in unreialised gains or losses amounts to be disclosed separately.

    - total gains or losses recognised in other comprehensive income, and the line item(s) which they are recognised
    - purchases, sales, issues and settlements
    - the amounts of any transfers into or out of Level 3, the reasons for those transfers and the entity's policy for determining when transfers between levels are deemed to have occurred.
- for recurring FV measurement
    - a narrative description of the sensitivity of the FV measurement to changes in unobservable inputs if a change in those inputs to a different amount might result in a significantly higher or lower FV measurement.
    - for financial A/L, if changing one or more of the unobservable inputs to reflect reasonably possible alternative assumptions would change FV significantly, the fact and the effect of those changes

Chapter 4

Standards dealing with the Presentation of Financial Statements

Presentation refers to how elements of financial statements viz. assets, liabilities, income and expenses, should appear in financial statements. Presentation standards prescribe principles for determining the categories and sub-categories under which each item of various components of financial statement should appear. Though most of Ind ASs contains some kind of guidance on presentation on respective items dealt in those standards, there are some standards which deal either solely or predominantly with the presentation requirements. The standards primarily focusing on the presentation of financial statements prepared under Ind AS are:

- Ind AS 1: Presentation of Financial Statements
- Ind AS 7: Statement of Cash Flows
- Ind AS 8: Accounting Policies, Changes in Accounting Estimates and Errors
- Ind AS 10: Events after the Reporting Period
- Ind AS 21: The Effects of the Changes in Foreign Exchange Rates
- Ind AS 29: Financial Reporting in Hyperinflationary Economies
- Ind AS 33: Earnings per Share
- Ind AS 34: Interim Financial Reporting

A. **Ind AS 1: Presentation of Financial Statements**

Ind AS 1 sets out the overall framework and responsibilities for the presentation of financial statements, guidelines for their structure and minimum requirements for the content of the financial statements. It does not however prescribe any fixed format for presentation of Financial Statements. It applies to all general purpose financial statements based on Ind AS.

To meet that objective, financial statements provide information about an entity's Assets; Liabilities; Equity; Income and expenses, including gains and losses; Other changes in equity; and Cash flows. This information, along with other information in the notes, assists users of financial statements in predicting the entity's future cash flows and, in particular, their timing and certainty.

Components of financial statements

Ind AS 1 defines a complete set of Financial Statements to include the following:

a) a Balance Sheet as at the end of the period;

b) a Statement of Profit and Loss for the period;

c) a statement of changes in equity for the period;

d) a statement of cash flows for the period; (earlier referred to as cash flow statement)

e) notes, comprising significant accounting policies and other explanatory information; and

f) comparative information in respect of the preceding period;

g) a Balance Sheet as at the beginning of the earliest comparative period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements

Reports that are presented outside of the financial statements -- including financial reviews by management, environmental reports, and value added statements -- are outside the scope of Ind ASs.

Basis of Preparation of Financial Statements

1. Fair presentation and Compliance with Ind AS: The financial statements must present fairly the financial position, financial performance and cash flows of an entity. Ind AS 1 requires that an entity whose financial statements comply with all the requirements of every Ind ASs, to make an explicit and unreserved statement of such compliance in the notes. In extremely rare circumstances, management may conclude that compliance with an Ind AS requirement would be so misleading that it would conflict with the objective of financial statements set out in the Framework. In such a case, the entity is required to depart from the Ind AS requirement, with detailed disclosure of the nature, reasons, and impact of the departure. However, inappropriate accounting policies cannot be rectified either by disclosure of the accounting policies used or by notes or explanatory material.

2. Going Concern: An entity preparing Ind AS financial statements is presumed to be a going concern. If management has significant concerns about the entity's ability to continue as a going concern, the uncertainties must be disclosed. If management concludes that the entity is not a going concern, a series of disclosures like the basis on which the financial statements are prepared and the reasons why the entity is not regarded as going concern should be stated.

3. Accrual basis of accounting: Ind AS 1 requires that an entity prepare its financial statements, except for cash flow information, using the accrual basis of accounting.

4. Consistency of Presentation: The presentation and classification of items in the financial statements should be retained from one period to the next unless a change is justified either by a change in circumstances or a requirement of a new Ind AS.

5. Materiality and Aggregation: Each material class of similar items must be presented separately in the financial statements. Dissimilar items may be aggregated only if they are individually immaterial and are of similar nature or function. The aggregation must not hamper the understandability of the financial statements by obscuring material information with immaterial once.

6. Offsetting: Assets and liabilities, and income and expenses, should not be offset unless required or permitted by a Standard.

7. Comparative Information: Ind AS 1 requires that comparative information must be disclosed in respect of the previous period for all amounts reported in the financial statements, both face of financial statements and notes, unless another Standard requires otherwise. When the presentation or classification of items in the financial statements is amended, comparative amounts should be reclassified unless the reclassification is impracticable.

8. Frequency of reporting: Financial statements are usually prepared annually. If the annual reporting period changes and financial statements are prepared for a different period, then the enterprise must disclose the reason for the change and a warning about problems of comparability.

Structure and Content

The financial statements should be identified clearly and each component of the financial statements should be identified clearly. The following information should also be displayed prominently and repeated when necessary for proper understanding of the information presented:

a) Name of the reporting entity and any change in that information from the preceding reporting date.
b) Whether the statements are for an entity or for a group.
c) The date or period covered.
d) The presentation currency
e) Level of rounding used in presenting amounts (thousands, millions etc).

Information to be presented in the Balance Sheet

As a minimum, the Balance Sheet should include line items that present the following amounts:

a) property, plant and equipment;

b) investment property;

c) intangible assets;

d) financial assets (excluding amounts shown under (e), (h) and (i) below);

e) investments accounted for using the equity method;

f) biological assets;

g) inventories;

h) trade and other receivables;

i) cash and cash equivalents;

j) the total of assets classified as held for sale and assets included in disposal groups classified as held for sale in accordance with Ind AS 105 *Non-current Assets Held for Sale and Discontinued Operations*;

k) trade and other payables;

l) provisions;

m) financial liabilities (excluding amounts shown under (k) and (l) above);

n) liabilities and assets for current tax, as defined in Ind AS 12 *Income Taxes*;

o) deferred tax liabilities and deferred tax assets, as defined in Ind AS 12;

p) liabilities included in disposal groups classified as held for sale in accordance with Ind AS 105;

q) minority interest, presented within equity; and

r) Issued capital and reserves attributable to owners of the parent.

Current/ Non- current distinction

Ind AS1 states that an entity should make a distinction between current and non- current assets and liabilities, except when the presentation based on liquidity provides information that is more reliable and relevant.

Information to be presented either in the Balance Sheet or in the notes

An entity should disclose further sub-classifications of the line items presented, classified in an appropriate manner. The details to be provided would depend on the requirements of Ind AS and on the size, nature and function of the amounts involved.

Regarding share capital and reserves, the entity should disclose the following on the face of the Balance Sheet or in the notes:

i. Number of shares authorised
ii. Number of shares issued and fully paid and issued but not fully paid
iii. Par value of shares or that shares have no par value

iv. reconciliation of shares outstanding at the beginning and the end of the period
v. description of rights, preferences, and restrictions
vi. Shares held by the entity, including shares held by subsidiaries and associates
vii. shares reserved for issuance under options and contracts
viii. a description of the nature and purpose of each reserve within owners' equity

Statement of Profit and Loss

Ind AS 1 requires all non-owner changes in equity to be presented in single Statement of Profit and Loss.

Information to be presented on the face of the Statement of Profit and Loss

The following information should be disclosed on the face of the Statement of Profit and Loss, together with any additional headings or sub-totals as may be required by individual standards or that may be required to give a fair presentation of the entity's performance

a) Revenue

b) Finance costs

c) Share of the profit or loss of associates and joint ventures accounted for using the equity method

d) Tax Expenses

e) a single amount comprising the total of

- the post-tax profit or loss of discontinued operations and
- the post-tax gain or loss recognised on the disposal of the assets or disposal group(s) constituting the discontinued operation

f) profit or loss

g) each component of other comprehensive income classified by nature

h) each component of other comprehensive income of associates and joint venture accounted using equity method; and

i) total comprehensive income

The following items must also be disclosed on the face of the Statement of Profit and Loss as allocations of

a) profit or loss for the period:

- profit or loss attributable to minority interest; and
- Profit or loss attributable to equity holders of the parent.

b) Total comprehensive income for the period as:

- comprehensive income attributable to minority interest; and

- Comprehensive income attributable to equity holders of the parent.

All items of income or expense recognised in a period must be included in profit or loss unless a Standard requires otherwise.

No items may be presented on the face of the Statement of Profit and Loss or in the notes as extraordinary items.

Following items need to be disclosed either on the face of the statement of profit & loss or in the notes, if material:

a) write-downs of inventories to net realisable value or of property, plant and equipment to recoverable amount, as well as reversals of such write-downs;
b) restructurings of the activities of an entity and reversals of any provisions for the costs of restructuring;
c) disposal of items of property, plant and equipment;
d) disposal of investments;
e) discontinued operations;
f) litigation settlements; and
g) other reversals of provisions.

Expenses should be analysed either by nature of expenses (raw materials, staffing costs, depreciation, etc.) or by function (cost of sales, selling, administrative, etc.) either on the face of the statement of profit & loss or in the notes. If an enterprise categorizes by function, additional information on the nature of expenses including depreciation, amortisation expense and employee benefits expense must be disclosed.

The amount of dividends recognised as distributions to equity holders during the period and the related amount per share should be disclosed on the face of the Statement of Profit and Loss or the statement of changes in equity or in the notes.

Statement of Cash Flows

The detailed requirements for preparation and presentation of Statement of Cash Flows have been dealt in Ind AS 7 and therefore has been discussed in forthcoming section.

Statement of Changes in Equity

An entity must present a statement of changes in equity showing in the statement:

a) total comprehensive income for the period, showing separately the total amounts attributable to owners of the parent and to non-controlling interests;
b) for each component of equity, the effects of retrospective application or retrospective restatement recognised in accordance with Ind AS 8; and
c) for each component of equity, a reconciliation between the carrying amount at the beginning and the end of the period, separately disclosing changes resulting from:

    - profit or loss;
    - each item of other comprehensive income: and

- transactions with owners in their capacity as owners, showing separately contributions by and distributions to owners and changes in ownership interests in subsidiaries that do not result in a loss of control.

Notes to the Financial Statements

The notes must:

- present information about the basis of preparation of the financial statements and the specific accounting policies used;
- disclose any information required by Ind ASs that is not presented on the face of the Balance Sheet, Statement of Profit and Loss, Statement of Changes in Equity, or Statement of Cash Flows;
- provide additional information regarding any item presented in above statements if that is deemed relevant to an understanding of that item; and
- be cross-referenced from the face of the financial statements to the relevant note.

Ind AS 1 suggests that the notes should normally be presented in the following order:

- a statement of compliance with Ind ASs;
- the significant accounting policies applied, including:
    - the measurement basis (or bases) used in preparing the financial statements and
    - the other accounting policies used that are relevant to an understanding of the financial statements ;
- supporting information for items presented on the face of the financial statements, in the order in which each statement and each line item is presented;
- other disclosures, including:
    - contingent liabilities and unrecognised contractual commitments and
    - non-financial disclosures, such as the entity's financial risk management objectives and policies.

B. Ind AS 7: Statement of Cash Flows

Objective & Scope: The statement of cash flows is an important primary statement. It shows a company's flow of cash. All enterprises that prepare financial statements in conformity with Ind ASs are required to present a statement of cash flows. The statement of cash flows analyses changes in cash and cash equivalents during a period. Cash and cash equivalents comprise cash on hand and demand deposits, together with short-term, highly liquid investments that are readily convertible to a known amount of cash, and that are subject to an insignificant risk of changes in value. An investment normally meets the definition of a cash equivalent when it has a maturity of three months or less from the date of acquisition. Equity investments are normally excluded, unless they are in substance a cash equivalent (e.g. preferred shares acquired within three months of their specified redemption date). Bank overdrafts which are repayable on demand and which form an integral part of an enterprise's cash management are also included as a component of cash and cash equivalents. Cash flows

exclude transfers between ‘cash’ and ‘cash equivalents’ hence, it is essential to determine what makes up cash.

Presentation of the Statement of Cash Flows

Cash flows must be analysed between operating, investing and financing activities.

Key principles specified by Ind AS 7 for the preparation of a statement of cash flows are as follows:

- Operating activities are the main revenue-producing activities of the enterprise that are not investing or financing activities. Separate disclosure is required as cash flow from operating activities is a key indicator of the extent to which the operation of the entity has generated sufficient cash flows for maintaining its operating capability etc.
- Investing activities are the acquisition and disposal of long-term assets and other investments that are not considered to be cash equivalents. Separate disclosure is important as they represent the extent to which expenditure has been made for resources intended to generate future income and cash flows.
- Financing activities are activities that alter the size and composition of equity capital and borrowing structure of the enterprise. Separate disclosure is useful in predicting claims on future cash flows by providers of capital to the entity.
- for operating cash flows, the direct method of presentation is encouraged, but the indirect method is acceptable

Direct and indirect method

The direct method shows each major class of gross cash receipts and gross cash payments. The indirect method adjusts accrual basis net profit or loss for the effects of non-cash transactions.

Foreign currency cash flows

The exchange rate used for translation of transactions denominated in a foreign currency and the cash flows of a foreign subsidiary should be the rate in effect at the date of the cash flows.

Cash flows of foreign subsidiaries should be translated at the exchange rates prevailing when the cash flows took place.

Investment in subsidiaries, associates and joint ventures

In case of associates and joint ventures, where the equity method is used, the statement of cash flows should report only cash flows between the investor and the investee; where proportionate consolidation is used, the cash flow statement should include the venturer's share of the cash flows of the investee

Aggregate cash flows relating to acquisitions and disposals of subsidiaries and other business units should be presented separately and classified as investing activities, with specified additional disclosures. The aggregate cash paid or received as consideration should be reported net of cash and cash equivalents acquired or disposed of

Other Accounting treatment

- In case of financial institutions, the interest paid and received and dividends received may be classified as cash flows from operating activity. Dividend paid is classified as cash flow from financing activity.
- In case of other entities, interest and dividend paid are classified as cash flow from financing activities whereas interest and dividend received are classified as cash flow from investing activities.
- Cash flows arising from taxes on income should be separately disclosed and are normally classified as operating, unless they can be specifically identified with financing or investing activities
- cash flows from investing and financing activities should be reported gross by major class of cash receipts and major class of cash payments except for the following cases, which may be reported on a net basis.
- cash receipts and payments on behalf of customers (for example, receipt and repayment of demand deposits by banks, and receipts collected on behalf of and paid over to the owner of a property)
- cash receipts and payments for items in which the turnover is quick, the amounts are large, and the maturities are short, generally less than three months (for example, charges and collections from credit card customers, and purchase and sale of investments)
- cash receipts and payments relating to fixed maturity deposits
- cash advances and loans made to customers and repayments thereof
- investing and financing transactions which do not require the use of cash should be excluded from the statement of cash flows, but they should be separately disclosed elsewhere in the financial statements
- the components of cash and cash equivalents should be disclosed, and a reconciliation presented to amounts reported in the Balance Sheet
- the amount of cash and cash equivalents held by the enterprise that is not available for use by the group should be disclosed, together with a commentary by management
- Additional information that may be lead to better understanding of financial statements.
- Amount of undrawn borrowing facilities available for future operating activities and to settle capital commitment.
- Aggregate amount of cash flows that represent increase in operating capacity separately from those cash flows required to maintain operating capacity
- Amount of cash flows arising from operating, investing and financing activities of each reportable segment.
- Aggregate amount of cash flows from each operating, investing and financing activities related to each joint venture reported using proportionate consolidation.

C. Ind AS 8 Accounting Policies, Changes In Accounting Estimates And Errors

Objective & Scope: Standard prescribes 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.

Accounting Policies

Accounting policies are the specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements. Hierarchy for choosing accounting policies are as follows:

- If a standard directly deals with a transaction, use that standard;
- If no standard deals with a transaction, judgment should be applied. The following sources should be referred to, to make the judgement:
  - Requirements and guidance in other standards dealing with similar issues
  - Definitions, recognition criteria in the *Framework for the Preparation and Presentation of Financial Statements* issued by ICAI
  - May use the most recent pronouncement by International Accounting Standards Board (IASB) and in absence of any such pronouncement relating to the transaction, other GAAP that use a similar conceptual framework and/or may consult other industry practice / accounting literature that is not in conflict with Ind AS.

Accounting policies are applied consistently to similar transactions. It is changed only if required by an Ind AS, or if the change results in reliable and more relevant information. If a change in accounting policy is required by an Ind AS, the pronouncement's transition requirements, if any, are followed. If none are specified, or if the change is voluntary, the new accounting policy is applied retrospectively by restating prior periods. If impractical to determine period-specific effects or cumulative effects of the error, then retrospectively apply to the earliest period that is practicable. If restatement is impracticable, the cumulative effect of the change is included in profit or loss. If the cumulative effect cannot be determined, the new policy is applied prospectively.

The following disclosures should be made for change in accounting policy:

- The title of the standard that caused the change
- Nature of the change in policy
- Description of the transitional provisions
- For the current period and each prior period presented, the amount of the adjustment to:
  - Each line item affected
  - Earnings per share.
- Amount of the adjustment relating to prior periods not presented
- If retrospective application is impracticable, explain and describe how the change in policy was applied
- Subsequent periods need not repeat these disclosures.

Accounting Estimate

A change in accounting estimate is an adjustment of the carrying amount of an asset or a liability, or the amount of the periodic consumption of an asset, that results from the assessment of the present status of, and expected future benefits and obligations associated with, assets and liabilities. Example: change in mortality rate of the employees. Changes in accounting estimates result from new information or new developments and, accordingly, are not corrections of errors. The effect of a change in an accounting estimate, should be recognised prospectively i.e. changes in accounting estimates are accounted for in the current year, or future years, or both and there is no restatement. The following disclosures should be made by the entity in case of changes in estimates:

- Nature and amount of change that has an effect in the current period (or expected to have in future)
- Fact that the effect of future periods is not disclosed because of impracticality
- Subsequent periods need not repeat these disclosures.

Prior Period Errors

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 mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud. All material errors are corrected by restating comparative prior period amounts and, if the error occurred before the earliest period presented, by restating the opening Balance Sheet for the earliest prior period presented. Omissions or misstatements of items are material if they could, individually or collectively; influence the economic decisions of users taken on the basis of the financial statements. Following disclosures must be made in relation to prior period error if detected:

- Nature of the prior period error
- For each prior period presented, if practicable, disclose the correction to:
    - Each line item affected
    - Earnings per share (EPS).
- Amount of the correction at the beginning of earliest period presented
- If retrospective application is impracticable, explain and describe how the error was corrected
- Subsequent periods need not to repeat these disclosures.

D. Ind AS 10 Events After The Reporting Period

Objective & Scope: The standard prescribes when an entity should adjust its financial statements for events after the reporting period and the disclosures that an entity should give about the date when the financial statements were approved for issue and about events after the reporting period.

Events after the end of the reporting period are those events, both favourable and unfavorable, that occur between the end of the reporting period and the date when the financial statements are approved for issue. Events may be adjusting or non-adjusting.

Adjusting events: The financial statements are adjusted to reflect those events that provide evidence of conditions that existed at the end of the reporting period. Examples of adjusting events are:

- Events that indicate that the going concern assumption in relation to the whole or part of the entity is not appropriate

- Settlement after reporting date of court cases that confirm the entity had a present obligation at reporting date
- Bankruptcy of a customer that occurs after reporting date that confirms a loss existed at reporting date on trade receivables
- Sales of inventories after reporting date that give evidence about their net realisable value at reporting date
- Determination after reporting date of cost of assets purchased or proceeds from assets sold, before reporting date
- Discovery of fraud or errors that show the financial statements are incorrect.

Non-adjusting events: The financial statements are not adjusted to reflect events that arose after the end of the reporting period (such as a decline in market prices after year end, which does not change the valuation of investments at the end of the reporting period). The nature and impact of such events are disclosed. Examples of non-adjusting events are:

- Major business combinations or disposal of a subsidiary
- Major purchase or disposal of assets, classification of assets as held for sale or expropriation of major assets by government
- Destruction of a major production plant by fire after reporting date
- Announcing a plan to discontinue operations
- Announcing a major restructuring after reporting date
- Major ordinary share transactions
- Abnormal large changes after the reporting period in assets prices or foreign exchange rates
- Entering into major commitments such as guarantees
- Commencing major litigation arising solely out of events that occurred after the reporting period.

Dividends proposed or declared on equity instruments after the end of the reporting period are not recognised as a liability at the end of the reporting period. However, disclosure is required.

Financial statements are not prepared on a going concern basis if events after the end of the reporting period indicate that the going concern assumption is not appropriate.

Disclosures

An entity must make following disclosures for adjusting and non-adjusting events:

- Date of authorisation of issue of financial statements and by whom
- If the entity's owners or others have the power to amend the financial statements after issue, the entity is required to disclose that fact
- For any information received about conditions that existed at reporting date, disclosure that relate to those conditions should be updated with the new information.
- For each material category of non-adjusting events, the nature of the event and an estimate of its financial effect or the statement that such estimate cannot be made should be given.

E. Ind AS 21: Effect Of Changes In Foreign Exchange Rates

Objective & Scope: The standard deals with three aspects namely Foreign Operation (FO), Foreign Currency Transaction (FCT) and Presentation of Financial Statements in Foreign Currency. Objectives of Ind AS 21 is to prescribing rules to include FCT and FO in the financial statements of an entity and to translate financial statement into Presentation Currency. It addresses the principle issues as to which exchange rate must be used and how to report the effects of changes in exchange rates in the financial statements.

The standard is applied in :

- **Accounting** – Transactions and Balances in Foreign Currencies (except derivative transactions and balances covered under **Ind AS 109)**
- **In Translating** – Results and Financial Position of Foreign Operations (included in the financial statements of the entity by Consolidation)
- **In Translating** – Results and Financial Position of the Entity – Into Presentation Currency

However, the standard does not apply to:

- Foreign Currency Derivatives (Ind AS 109) excluded from the scope of Ind AS 21
- Hedge Accounting for Foreign Currency Items and Hedging of Net Investment in FO excluded
- Does not apply to presentation in a Statement of Cash Flow of Foreign Currency Transaction or Translation of Cash Flows from FOs (Ind AS 7 Cash Flow Statements)
- Does not apply to long term foreign currency monetory items for which an entity has opted for exemptions given in Ind AS 101 *First Time Adoption of Ind AS.*

Discussion on Ind AS 21

- An entity's functional currency is the currency of the primary economic environment in which it operates
- Foreign Operation is an entity that is a subsidiary, an associate, a joint venture or a branch of the reporting entity, the activity of which are based or conducted in country or currency other than those of the reporting entity.
- Net Investment in a Foreign Operation is the amount of reporting entity's interest in that operation.
- Monetary items are units of currency held and assets and liabilities to be received or paid in a fixed or determinable number of units of currency. Eg: Pension and Other employee benefits to be paid in Cash,Provisions that are to be settled in Cash,Cash dividends that are recognized as liabilities
- **Example of Non-Monetary Items are** Prepaid rent, Goodwill, Intangible Assets, Inventories, Property Plant & Equipment

Approach of a Standard

Determination of Functional Currency: When determining the appropriate functional currency, management should give priority to the following factors (primary factors):

- Currency influencing sales prices for goods and services
- Currency of country whose competitive forces and regulations determine sale prices
- Currency mainly influencing input costs.

The primary indicators may be determinative. However, the following two indicators serve as supporting evidence. Currency in which funds/receipts from financing activities are generated and Currency in which funds/receipts from operating activities are retained

- Translation of Foreign Currency Items into Functional Currency and reporting the effects of translation

- Translation of Results and Financial Position of an individual entity within the Reporting Entity whose Functional Currency differs from the Presentation Currency should be translated

Reporting Foreign Currency Transactions in Functional Currency (of the Reporting Entity)

Nature of Foreign Currency Transactions

1. Buying and Selling of Goods or Services – Price denominated in FC
2. Borrowing or Lending of Funds – When amounts Payable or Receivable – Denominated in FC
3. Acquiring or Disposing of assets – Denominated in FC or Incurring or Settling of Liabilities – Denominated in FC

Initial Recognition: A foreign currency transaction should be recorded, on initial recognition in the functional currency, by applying to the foreign currency amount the **spot exchange rate** between the functional currency and the foreign currency **at the date of the transaction.** Ind AS 21 permits the use of an average rate if it is a reasonable approximation of the actual rate

Reporting at the ends of Subsequent Reporting Periods

At the end of every reporting period

- Foreign currency monetary items should be translated using the closing rate.
- Non-monetary items denominated in a foreign currency and measured at historical cost should be translated using the exchange rate at the transaction date.
- Non-monetary items denominated in a foreign currency and measured at fair value (for example, a property revalued under Ind AS 16, 'Property, plant and equipment') should be translated using the exchange rates at the date when the fair value is determined.

The carrying amount of an item is determined in conjunction with other relevant Ind ASs like Ind AS 16 for Property, plant & equipment, Ind AS 2 for inventories, Ind AS 36 for Impairment of assets etc. When the carrying amount of some items measured in foreign currency is determined by comparing two or more amounts say for example inventories whose carrying amount is lower of cost and net realizable value, the carrying amount is determined by comparing:

(a) the cost or carrying amount, as appropriate, translated at the exchange rate at the date when that amount was determined (i.e. the rate at the date of the transaction for an item measured in terms of historical cost); and
(b) the net realisable value or recoverable amount, as appropriate, translated at the exchange rate at the date when that value was determined (eg the closing rate at the end of the reporting period).

The effect of this comparison may be that an impairment loss is recognised in the functional currency but would not be recognised in the foreign currency, or vice versa.

Recognition of Exchange Differences

Exchange differences may arise on settlement of monetary items or on translating monetary items at rates different from that of initial recognition, during the period or in previous financial statements. Such exchange difference should be recognized in Profit or Loss Account.

Settlement of Monetary Items in Foreign Currency

Change in exchange rate between the transaction date and the date of settlement **results** in exchange differences. If the settlement in the same period**, a**ll exchange difference is recognized in that period. However, if the settlement is in subsequent period exchange difference is recognized in each period up to the date of settlement.

Monetary Items that forms part of a reporting entity's net interest in Foreign Operations

Exchange difference is recognized

- in Profit or Loss Account in Separate Financial Statement of Reporting Entity or
- in Profit or Loss Account in Individual Financial Statement of the Foreign Operation

In Consolidated Financial Statements

- Such Exchange Difference is should be recognized initially in other comprehensive income and reclassified from equity to profit or loss
- On disposal of Net Investment in Foreign Operations

Gain or Loss in Non Monetary Item that are **r**ecognized in other Comprehensive Income, the exchange component of that gain or loss is recognized in the other comprehensive income. (Ind AS 16 requires gains or losses on revaluation of Property Plant & Equipment to be recognized in other comprehensive income). However, where the gain or loss in non monetory items is recognized in Profit or Loss A/c, the exchange component of that gain or loss is recognized in Profit or Loss A/c

Change in Functional Currency

Functional Currency of an entity reflects the underlying transactions, events or conditions. Hence, Functional Currency once determine can be changed only if there is change to those underlying transactions, events or conditions

(For eg., Change in Currency that mainly influences the sale price of goods and services may lead to a change in an entity's functional currency)

If there is a change in Entity's Functional Currency

The entity should apply translation procedure applicable to the new functional currency prospectively from the date of change using the exchange rate at the date of change.

Use of Presentation Currency other than Functional Currency

- An entity may present its financial statement in any currency (or currencies)
- If the Presentation Currency differs from the functional currency of the entity, it translates its results and financial position to the presentation currency
- The results and financial position of an entity whose functional currency is not the currency of a hyper inflationary economy – should be translated into a different presentation currency using the following procedure
  - Assets and Liabilities of each Balance Sheet presented should be translated at the closing rate
    - At the date of that Balance Sheet

    - Income and expenses for each statement of profit & loss presented should be translated at exchange rates
        - At the dates of the transaction
    - All resulting exchange differences should be recognized in other comprehensive income

Translation of a Foreign Operation

- Follows normal Consolidation procedure
- Intra-group monetary assets or liability, whether short term or long term cannot be eliminated against corresponding intra group liability
- Treatment as assets and liabilities of the Foreign Operation
    - Any Goodwill arising on the acquisition of a foreign operation
    - Any fair value adjustments to the carrying amount of assets and liabilities on the acquisition of that foreign operation
    - They should be expressed in Functional Currency of the Foreign Operation
    - Should be translated at the closing rate

Disposal or Partial Disposal of a Foreign Operation

On Disposal of a Foreign Operation

- Exchange Differences relating to that Foreign Operation
- Recognized in Other Comprehensive Income and Accumulated in a Separate Component of Equity
- Should be reclassified from Equity to Profit or Loss A/c
- When the gain or loss on disposal is recognized (Ind AS 1)
- On partial disposal proportionate share of the cumulative amount should be reclassified to Profit or Loss A/c

The following accounted for as Disposals

- Loss of Control of Subsidiary (incl a Foreign Operation)
- Loss of Significant Influence over an Associate (incl a Foreign Operation)
- Loss of Joint Control over a Jointly Controlled Entity (incl a Foreign Operation)

Tax Effects of all Exchange Differences

- Tax effects on
    - Gains and loss on Foreign Currency Transactions and
    - Exchange Difference arising on translating the Results and Financial Position of an Entity into a different currency.
- Ind AS 12 Income Taxes applies to these tax effects

Disclosure Requirements

An entity should disclose

- Amount of Exchange Difference recognized in Profit or Loss A/c
- Net Exchange Differences recognized in other Comprehensive Income and Accumulated in a separate component of equity
- Reconciliation of the amount of such exchange difference at the beginning and end of the period
- Statement of fact

- when Presentation Currency is difference from that of the Functional Currency
- of Change in the Functional Currency of the Reporting Entity
- When entity presents its financial statements in a currency different from its functional currency
- When an entity displays its financial statement or other financial information in a currency that is different from either its functional currency or presentation currency.

F. Ind AS 29: Financial Reporting In Hyperinflationary Economies

Objective & Scope: Ind AS 29 is applied to the individual financial statements, and the consolidated financial statements, of any entity whose functional currency is the currency of a hyperinflationary economy.

Hyperinflation is indicated by characteristics of the economic environment of a country which include, but are not limited to, the following:

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

The financial statements of an entity whose functional currency is the currency of a hyperinflationary economy are stated in terms of the measuring unit current at the end of the reporting period. Corresponding figures in relation to prior periods are also restated. The gain or loss on the net monetary position is included in profit or loss and separately disclosed.

In case of historical cost financial statements all items in the statement of profit & loss are expressed in terms of the measuring unit current at the end of the reporting period. Therefore all amounts need to be restated by applying the change in the general price index from the dates when the items of income and expenses were initially recorded in the financial statements.

In Balance Sheet, amounts not already expressed in terms of the measuring unit current at the end of the reporting period are restated by applying a **general price index**. Assets and liabilities linked by agreement to changes in prices are adjusted in accordance with the agreement in order to ascertain the amount outstanding at the end of the reporting period. Monetary items are not restated because they are already expressed in terms of the monetary unit current at the end of the reporting period. All other assets and liabilities are non-monetary. Some non-monetary items are carried at amounts current at the end of the reporting period, such as net realisable value and market value, so they are not restated. All other non-monetary assets and liabilities are restated.

In case of current cost financial statements, items of balance sheet at current cost are not restated because they are already expressed in the unit of measurement current at the end of the reporting period. All amounts in the statement of profit & loss are restated into the measuring unit current at the end of the reporting period by applying a general price index.

All items in the statement of cash flows are expressed in terms of the measuring unit current at the end of the reporting period. Corresponding figures for the previous reporting period, whether based on either a historical cost approach or a current cost approach, are restated by applying a general price index.

When an economy ceases to be hyperinflationary and an entity discontinues the preparation and presentation of financial statements prepared in accordance with Ind AS 29, it treats the amounts expressed in the measuring unit current at the end of the previous reporting period as the basis for the carrying amounts in its subsequent financial statements.

G. Ind AS 33: Earnings Per Share

Objective & Scope: The principal objective of this standard is to prescribe principles for determining and presenting earnings per share (EPS) amounts in order to improve performance comparisons between different entities in the same period and between different accounting periods for the same entity. However, the prime focus of this Standard is on the denominator of the earnings per share calculation. This standard is not mandatory on all entities. However, in Indian context, this standard must be applied to all companies that have issued ordinary shares and to which Ind AS notified under Companies Act applies. Any other entity that voluntarily presents EPS must comply with this standard. In case where both consolidated and separate statements are prepared, disclosures pertaining to this standard must apply to **both** statements.

Important Terms

An ***ordinary share*** is an equity instrument that is subordinate to all other classes of equity instruments.

A ***potential ordinary share*** is a financial instrument or other contract that may entitle its holder to ordinary shares

Requirement of Ind AS 33

- An entity should present basic and diluted EPS for each class of ordinary share that has a different right to share in profit for the period. The EPS should be presented for all periods presented and with equal prominence.
- An entity that reports a discontinued operation should disclose the basic and diluted amounts per share for the discontinued operation either in the Statement of Profit and Loss or in the notes.
- In Ind AS, EPS is calculated both in case of Separate Financial Statements and Consolidated Financial Statements
- EPS is reported for profit or loss attributable to equity holders of the parent entity, for profit or loss from continuing operations attributable to equity holders of the parent entity, and for any discontinued operations.
- In consolidated financial statements, EPS reflects earnings attributable to the parent's shareholders.
- Basic earnings per share should be calculated by dividing profit or loss attributable to ordinary equity holders of the parent entity (the numerator) by the weighted average number of ordinary shares outstanding (the denominator) during the period. In other words, basic EPS=earnings numerator: after deduction of all expenses including tax, and after deduction of non-controlling interests and preference dividends/ denominator: weighted average number of shares outstanding during the period.
- The weighted average number of ordinary shares outstanding during the period and for all periods presented should be adjusted for events, other than the conversion of

potential ordinary shares, that have changed the number of ordinary shares outstanding without a corresponding change in resources

- Dilution is a reduction in EPS or an increase in loss per share on the assumption that convertible instruments are converted, that options or warrants are exercised, or that ordinary shares are issued when specified conditions are met.
- Diluted EPS calculated as follows:
  - earnings numerator: the profit for the period attributable to ordinary shares is increased by the after-tax amount of dividends and interest recognised in the period in respect of the dilutive potential ordinary shares (such as options, warrants, convertible securities and contingent insurance agreements), and adjusted for any other changes in income or expense that would result from the conversion of the dilutive potential ordinary shares;
  - denominator: adjusted for the number of shares that would be issued on the conversion of all of the dilutive potential ordinary shares into ordinary shares; and
  - anti-dilutive potential ordinary shares are excluded from the calculation.
- If the number of ordinary or potential ordinary shares outstanding increases as a result of a capitalization, bonus issue or share split, or decreases as a result of a reverse share split, the calculation of basic and diluted earnings per share for all periods presented should be adjusted retrospectively.

H.Ind AS 34: Interim Financial Reporting

Objective & Scope: The objective of this standard is to prescribe the minimum content of an interim financial report and the recognition and measurement principles for an interim financial report. This is not a mandatory statement for all enterprises. This Standard applies if an entity is required or elects to publish an interim financial report in accordance with International Financial Reporting Standards.

Important terms

Interim financial reportmeans a financial report containing either a complete set of financial statements or a set of condensed financial statements for an interim period.
Interim periodis a financial reporting period shorter than a full financial year.

Discussion on Ind AS 34

Minimum components of an interim financial report are:

- condensed Balance Sheet;
- condensed Statement of Profit and Loss
- condensed statement of changes in equity;
- condensed statement of cash flows; and
- selected explanatory notes.

The condensed statements are required to include at least:

- Headings and subtotals included in most recent annual financial statements
- Selected minimum explanatory notes - explaining events and transactions significant to an understanding of the changes in financial position/performance since last annual reporting date
- Selected line items or notes if their omission would make the condensed financial statements misleading

    - Basic and diluted earnings per share (if applicable) on the face of statement of profit & loss.
- Standard prescribes the comparative periods for which interim financial statements are required to be presented.
- Materiality is based on interim financial data, not forecasted annual amounts.
- Interim financial reporting requires greater use of estimates than annual reporting.
- The notes in an interim financial report provide an explanation of events and transactions significant to understanding the changes since the last annual financial statements.
- Same accounting policies as used in annual financial statements are used in preparation of interim financial statements unless there is a change in an accounting policy that is to be reflected in the next annual financial statements.
- Taxes on Income are recognised based on weighted average annual income tax rate expected for the full year. Tax rate changes during the year are adjusted in the subsequent interim period during the year.
- Revenue and costs are recognised when they occur, not anticipated or deferred.
- In case of cost Incurred unevenly, they are anticipated or deferred only if it would be possible to defer or anticipate at year end.
- In case of seasonal, cyclic or occasional revenue they are recognized when they occur. Revenue received during the year should not be anticipated or deferred where anticipation would not be appropriate at year end.
- For highly seasonal activities, entities should consider reporting additional information for 12 months.
- Interim reports require a greater use of estimates than annual reports.
- When there is change in accounting policy, restate previously reported interim periods of the current financial year and comparable interim period of any prior financial year that will be restated in the annual financial statement.

Chapter 5

Financial Reporting by Group Entities

T

he relevant standards in this context are

- Ind AS 103 Business Combinations
- Ind AS 110 Consolidated Financial Statements,
- Ind AS 111 Joint Arrangements,
- Ind AS 27 Separate Financial Statements,
- Ind AS 28 Investment in Associates in Joint Ventures
- Ind AS 112 Disclosure of Interests in other Entities.

These standards are discussed hereafter.

A. Ind AS 103: Business Combinations

The objective of Ind AS 103 *Business Combination,* which is based on *IFRS 3 Business Combinations,* is to improve the relevance, reliability and comparability of the information that a reporting entity provides in its financial statements about a business combination and its effects. Ind AS 103 applies to a transaction or other event that meets the definition of a business combination except:

- the formation of a joint venture.
- the acquisition of an asset or a group of assets that does not constitute a business.
- acquisition by the investment entity of an investment in subsidiary that is required to be measured at fair value through profit or loss.

.

Important Terms

ControlThe power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Business combination is a transaction or other event in which an acquirer obtains control of one or more businesses. Transactions sometimes referred to as 'true mergers' or 'mergers of equals' are also business combinations as that term is used in this Indian Accounting Standard.

Acquisition method

Steps in applying the acquisition method are:

- Identification of the 'acquirer' - the combining entity that obtains control of the acquiree.
- Determination of the 'acquisition date' - the date on which the acquirer obtains control of the acquiree.
- Recognition and measurement of the identifiable assets acquired, the liabilities assumed and any non-controlling interest (NCI) in the acquiree.
- Recognition and measurement of goodwill or a gain from a bargain purchase option.

Applying the acquisition method

A business combination must be accounted for by applying the acquisition method, unless it is a combination involving entities or businesses under common control where pooling of interest method is used. One of the parties to a business combination can always be identified as the acquirer, being the entity that obtains control of the other business (the acquiree). An investor controls an investee when the investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Ind AS 110 *Consolidated Financial Statements* is used to identify the acquirer – the entity that obtains control of the acquiree.

Any classifications or designations made in recognising these items must be made in accordance with the contractual terms, economic conditions, acquirer's operating or accounting policies and other factors that exist at the acquisition date. Acquisition costs are not to be capitalised, must instead be expensed in the period they are incurred. Any costs to issue debt or equity are recognised in accordance with Ind AS 109. Each identifiable asset and liability is measured at its acquisition-date fair value. Any non-controlling interest in an acquiree is measured at fair value or as the non-controlling interest's proportionate share of the acquiree's net identifiable assets. All other components of non-controlling interests (e.g., from Ind AS 102 *Share-based payments*) are required to be measured at their acquisition-date fair values.

There are certain exceptions to the recognition and/or measurement principles which cover contingent liabilities, income taxes, employee benefits, indemnification assets, reacquired rights, share-based payment and assets held for sale, which are as follows:

- **Contingent Liabilities:** The requirements of *Ind AS 37Provisions, Contingent Liabilities and Contingent Assets*, do not apply to the recognition of contingent liabilities arising in a business combination. Instead the acquirer must recognise as of the acquisition date a contingent liability assumed in a business combination if it is a present obligation that arises from past events and its fair value can be measured reliably. So in contrary to Ind As 37, the acquirer recognises a contingent liability assumed in a business combination at the acquisition date even if it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation.
- **Income Taxes:**The acquirer recognises and measures a deferred tax asset or liability arising from the assets acquired and liabilities assumed in a business combination in accordance with Ind AS 12 *Income Taxes*. The acquirer must also account for the potential tax effects of temporary differences and carry forwards of an acquiree that exist at the acquisition date or arise as a result of the acquisition in accordance with Ind AS 12.
- **Employee Benefits**: Any assets and liabilities arising from an acquiree's employee benefits arrangements are recognised and measured in accordance with Ind AS 19*Employee Benefits*
- **Indemnification Assets:** An acquirer recognises indemnification assets at the same time and on the same basis as the indemnified item subject to the need for a valuation allowance for uncollectible amounts.
- **Reacquired Rights** : An acquirer measures reacquired rights by reference to the remaining contractual term of related contracts without considering potential contract renewals.
- **Share-based payment**: A liability or equity instrument related to share-based payment transactions of the acquiree or the replacement of an acquiree's share-based payment transactions with share-based payment transactions of the acquirer in accordance with the method in Ind AS 102 *Share-based Payment* at the acquisition date.
- **Asset held for sale:** The acquirer should measure an acquired non-current asset (or disposal group) that is classified as held for sale at the acquisition date in accordance with

Ind AS 105 Non-current Assets Held for Sale and Discontinued Operations at fair value less costs to sell.

The acquirer, having recognised the identifiable assets, the liabilities and any non-controlling interests has to identify any difference between:

(a) the aggregate of the consideration transferred, any non-controlling interest in the acquiree and, in a business combination achieved in stages, the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree; and

(b) the net identifiable assets acquired.

The difference will, generally, be recognised as goodwill. If the acquirer has made a gain from a bargain purchase that gain is recognised in other comprehensive income and accumulated in equity as capital reserve. Goodwill can be grossed up to include the amounts attributable to Non-Controlling Interest.

The consideration transferred in a business combination (including any contingent consideration) is measured at fair value. Contingent consideration is either classified as a liability or an equity instrument on the basis of Ind AS 32 *Financial Instruments*: Presentation. Contingent consideration that is within the scope of Ind AS 109 (classified as a financial liability) needs to be re-measured at fair value at each reporting date with changes reported in profit or loss.

Business Combination in Stages

An acquirer sometimes obtains control of an acquiree in which it held an equity interest immediately before the acquisition date. This is known as a business combination achieved in stages or as a step acquisition. In such cases, obtaining control triggers remeasurement of previous investments (equity interests). The acquirer remeasures its previously held equity interest in the acquiree at its acquisition-date fair value. Any resulting gain/loss is recognised in other comprehensive income or profit or loss, as appropriate.

Business Combination without consideration

The acquisition method of accounting for a business combination also applies if no consideration is transferred. Such circumstances include:

- The acquiree repurchases a sufficient number of its own shares for an existing investor (the acquirer) to obtain control.
- Minority veto rights lapse that previously kept the acquirer from controlling an acquiree in which the acquirer held the majority voting rights.
- The acquirer and the acquiree agree to combine their businesses by contract alone.

Subsequent Measurement

In general, after the date of a business combination an acquirer measures and accounts for assets acquired and liabilities assumed or incurred in accordance with other applicable Ind ASs. However, Ind AS 103 includes accounting requirements for reacquired rights, contingent liabilities, contingent consideration and indemnification assets which are as follows:

- **Reacquired Rights:** A reacquired right recognised as an intangible asset should be amortised over the remaining contractual period of the contract in which the right was granted. If such rights are sold subsequently by the acquirer, the carrying amount of the intangible asset must be included in determining the gain or loss on the sale.
- **Contingent Liabilities:**The acquirer should subsequently measure a contingent liability recognised in a business combination at the higher of the amount that would be recognised in accordance with Ind AS 37 and the amount initially recognised less, if appropriate, cumulative amortisation recognised in accordance with Ind AS 18 *Revenue.*
- **Indemnification Assets:** Such assets are subsequently measured on the same basis as indemnifies asset or liability except where there is contractual limitation on its amount or management has doubt on its collectability.
- **Contingent Considerations:** Contingent Considerations classified as equity is not subsequently re-measured and its subsequent settlement is accounted for within equity. Other contingent considerations are measured at fair value at each reporting date and changes in fair value is recognised in profit or loss.

Disclosures

i. Disclosure of information about current business combinations that occur in current reporting period or after the current reporting period but before the financial statements are approved for issue.

ii. Disclosure of information about adjustments in current reporting period that relate to past business combinations.

B. Ind AS 27: Separate Financial Statements

Objective & Scope

When an entity elects (or is required by local regulations) to present separate financial statements, Ind AS 27 applies in accounting for investments in:

- Subsidiaries
- Joint ventures
- Associates

Ind AS 27 does not mandate which entities produce separate financial statements.

Important Terms

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

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

Discussion on Ind AS 27

Separate Financial Statements can, but are not required to be presented in addition to consolidated Financial Statements or, where an entity does not have subsidiaries, individual Financial Statements in which investments in associates and joint ventures are accounted for using the equity method. Separate financial statements do not need to be attached to, or accompany, those consolidated or individual financial statements. In separate financial statements investments are accounted for at cost; or in accordance with Ind AS 109 *Financial Instruments.*

An entity that is exempt in accordance with Ind AS 110 from consolidation or Ind AS 28 from applying the equity method may present separate financial statements as its only financial statements.

When investments in subsidiaries, joint ventures, and associates classified as held for sale or for distribution to owners (or included in a disposal group that is classified as held for sale or for distribution to owners), they are accounted for in accordance with Ind AS 105 *Non-current Assets Held for Sale and Discontinued Operations*, if previously accounted for at cost and otherwise in accordance with Ind AS 109. Investments in associates or joint ventures that are measured at fair value in accordance with Ind AS 109 are required to be measured in the same way in the separate and consolidated financial statements (i.e. at fair value).

Dividends received from subsidiaries, joint ventures, and associates are recognised in profit or loss when the right to receive the dividend is established.

Disclosure

An entity is required to apply all applicable Ind ASs when providing disclosures in its separate financial statements. When a parent qualifies and elects not to prepare consolidated financial statements and instead prepares separate financial statements, it is required to disclose:

- That the financial statements are separate financial statements
- That the paragraph 4(a) exemption has been used
- The name, principal place of business, address, and country of incorporation, of the entity whose Ind AS compliant consolidated financial statements are publicly available
- A list of significant investments in subsidiaries, joint ventures and associates, including:
    - The name of those investees
    - The investees principal place of business and country of incorporation
    - The proportion of the ownership interest and its proportion of the voting rights held in those investees.
- A description of the method used to account for the investments listed under the previous bullet point.

When a parent (other than a parent using the consolidation exemption) or an investor with joint control of, or significant influence over, an investee prepares separate financial statements, it is required to disclose:

- That the financial statements are separate financial statements

- A list of significant investments in subsidiaries, joint ventures and associates, including:
  - The name of those investees
  - The investees principal place of business and country of incorporation
  - The proportion of the ownership interest and the proportion of voting rights held in those investees.
- A description of the method used to account for the investments listed
- The financial statements prepared in accordance with Ind AS 110, Ind AS 111, or Ind AS 28 to which they relate.

C. Ind AS 28 – Investment in Associates And Joint Ventures

Objective & Scope

The standard prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. The standard is to be applied by all entities that are investors with joint control of, or significant influence over, an investee.

Important Terms

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

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

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

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

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

A ***joint venturer*** is a party to a joint venture that has joint control of that joint venture.

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

Significant Influence

If an entity holds, directly or indirectly (eg through subsidiaries), 20 per cent or more of the voting power of the investee, it is presumed that the entity has significant influence

Test of Significant Influence

(a) Representation on the board of directors or equivalent governing body of the investee;

(b) Participation in policy-making processes, including participation in decisions about dividends or other distributions;

(c) Material transactions between the entity and its investee;

(d) Interchange of managerial personnel; or

(e) Provision of essential technical information.

Application of Equity Method

An entity uses the equity method to account for its investments in associates or joint ventures in its consolidated financial statements. An entity that does not have any subsidiaries also uses the equity method to account for its investments in associates or joint ventures in its financial statements even though those are not described as consolidated financial statements. The only financial statements to which an entity does not apply the equity method are separate financial statements, which it presents in accordance with Ind AS 27 *Separate Financial Statements.*

Under the equity method, on initial recognition the investment in an associate or a joint venture is recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The investor's share of the investee's profit or loss is recognised in the investor's profit or loss. Distributions received from an investee reduce the carrying amount of the investment

An entity need not apply the equity method to its investment in an associate or a joint venture if

- The entity is a parent that is exempt from preparing consolidated financial statements by the scope exception in paragraph 4(a) of Ind AS 110 or
- If all the following apply:

(a) The entity is a wholly-owned subsidiary, or is a partially-owned subsidiary of another entity and its other owners, including those not otherwise entitled to vote, have been informed about, and do not object to, the entity not applying the equity method.

(b) The entity's debt or equity instruments are not traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets).

(c) The entity did not file, nor is it in the process of filing, its financial statements with a securities commission or other regulatory organization, for the purpose of issuing any class of instruments in a public market.

(d) The ultimate or any intermediate parent of the entity produces financial statements available for public use that comply with Ind Ass in which subsidiaries are consolidated or measured at Fair Value Through Profit or Loss Account.

Points to note under Equity Method

- An investment is accounted for using the equity method from the date on which it becomes an associate or a joint venture.

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

  (a) Goodwill relating to an associate or a joint venture is included in the carrying amount of the investment. Amortisation of that goodwill is not permitted.

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

- The most recent available financial statements of the associate or joint venture are used by the entity in applying the equity method.

- If an entity's share of losses of an associate or a joint venture equals or exceeds its interest in the associate or joint venture, the entity discontinues recognising its share of further losses.

Discontinuing Application of Equity Method

An entity should discontinue the use of the equity method from the date when its investment ceases to be an associate or a joint venture as follows:

(a) If the investment becomes a subsidiary, the entity should account for its investment in accordance with Ind AS 103 *Business Combinations* and Ind AS 110.

(b) If the retained interest in the former associate or joint venture is a financial asset, the entity should measure the retained interest at fair value. The fair value of the retained interest should be regarded as its fair value on initial recognition as a financial asset in accordance with Ind AS 109. The entity should recognise in profit or loss any difference between:

  (i) The fair value of any retained interest and any proceeds from disposing of a part interest in the associate or joint venture; and

  (ii) The carrying amount of the investment at the date the equity method was discontinued.

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

D. Ind AS 110: Consolidated Financial Statements

Objective & Scope: The standard establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. Ind AS 110

- Requires an entity (the *parent*) that controls one or more other entities (subsidiaries) to present consolidated financial statements;

- Defines the principle of *control*, and establishes control as the basis for consolidation;

- Sets out how to apply the principle of control to identify whether an investor controls an investee and therefore must consolidate the investee;
- Sets out the accounting requirements for the preparation of consolidated financial statements; and
- Defines an investment entity and sets out an exception to consolidating particular subsidiary of an investment entity.

Ind AS 110 does not deal with accounting requirements for business combinations and their effect on consolidation, including goodwill arising on a business combination.

Ind AS 110 does apply to aparent if it meets all the following conditions:

(i) It is a wholly-owned subsidiary or is a partially-owned subsidiary of another entity and all its other owners, including those not otherwise entitled to vote, have been informed about, and do not object to, the parent not presenting consolidated financial statements;

(ii) Its debt or equity instruments are not traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets);

(iii) It did not file, nor is it in the process of filing, its financial statements with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market; and

(iv) Its ultimate or any intermediate parent produces financial statements that are available for public use and comply with Ind ASs in which subsidiaries are consolidated or measured at fair value through profit or loss account.

(v) This Ind AS does not apply to post-employment benefit plans or other long-term employee benefit plans to which Ind AS 19, Employee Benefits, applies.

(vi) A parent that is an investment entity should not present consolidated financial statements if it is required, to measure all of its subsidiaries at fair value through profit or loss.

Important Definitions

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

Control of an Investee – An investor controls an investee when the investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Decision Maker – An entity with decision-making rights that is either a principal or an agent for other parties.

Group – A parent and its subsidiaries.

Non-controlling Interest – Equity in a subsidiary not attributable, directly or indirectly, to a parent.

Parent – An entity that controls one or more entities.

Power – Existing rights that give the current ability to direct the relevant activities.

Protective Rights – Rights designed to protect the interest of the party holding those rights without giving that party power over the entity to which those rights relate.

Relevant Activities – For the purpose of this Ind AS, relevant activities are activities of the investee that significantly affect the investee's returns.

Removal Rights – Rights to deprive the decision maker of its decision-making authority.

Subsidiary – An entity that is controlled by another entity.

Determination of Control

- An investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.
- An investor controls an investee if and only if the investor has all the following:

a) Power over the investee

b) Exposure, or rights, to variable returns from its involvement with the investee and

c) The ability to use its power over the investee to affect the amount of the investor's returns

Consideration of the following factors may assist in making that determination:

1. The purpose and design of the investee

In assessing the purpose and design of the investee, consider:

- The **relevant activities**
- How **decisions** about relevant activities are made
- Who has the **current ability** to direct those activities
- Who **receives returns** from those activities

In some cases, **voting rights** (i.e., if unrelated to relevant activities) may not be the dominant factor of control of the investee.

2. Relevant Activities

Relevant activities include (but are not limited to):

- Selling and purchasing of goods or services
- Managing financial assets during their life
- Selecting, acquiring or disposing of assets
- Researching/developing new products or processes
- Determining a funding structure or obtaining funding.

Decisions on relevant activities include (but are not limited to):

- Establishing operating and capital decisions & budgets
- Appointing, remunerating, and terminating an investee's key management personnel (KMP) or service providers.

3. Right to direct the relevant activities

Rights that, either individually or in combination, can give an investor power include (but are not limited to):

- Rights in the form of voting rights (or potential voting rights) of an investee
- Rights to appoint, reassign or remove members of an investee's key management personnel (KMP), or another entity that has the ability to direct the relevant activities
- Rights to direct the investee into (or veto any changes to) transactions for the benefit of the investor
- Other rights (such as decision-making rights specified in a management contract) that give the holder the ability to direct the relevant activities.

Special relationships beyond a passive interest

- Sometimes there may be indicators present that an investor has more than simply a passive interest
- The presence of indicators alone may not satisfy the power criteria, but may add to other considerations:
  - The investee's KMP who direct relevant activities are current or previous employees of the investor
  - Investee operations are dependent on the investor (e.g. funding, guarantees, services, materials, etc.)
  - A significant portion of the investee activities involve, or are conducted on behalf of, the investor
  - Investee's exposure or rights to returns is disproportionally greater that it's voting (or similar) rights.

Substantive rights

- Only substantive rights (i.e., rights that can be practically exercised) are considered in assessing power
- Factors to consider whether rights are substantive include (but are not limited to):
  - Whether there are barriers that prevent the holder from exercising (e.g. financial penalties, detrimental exercise or conversion price, detrimental terms and conditions, laws and regulations)
  - Whether there is a practical mechanism to facilitate multiple parties exercising rights
  - Whether the party holding the rights would benefit from the exercise of those rights
  - Whether the rights are actually exercisable when decisions about relevant activities need to be made

Protective rights

- Are designed to protect the interests of the holder, but do not give the holder power over the investee, e.g. – operational lending covenants; non-controlling interest rights to approve significant transactions of capital expenditure, debt, and equity; seizure of assets by a borrower upon default
- Franchise arrangements are generally considered protective rights

Voting rights

Power with a majority of voting rights, occurs where

- Relevant activities are directed by vote; or
- A majority of the governing body is appointed by vote

Majority of voting right but no power occurs where

- Relevant activities are not directed by vote
- Such voting rights are not substantive

De-facto control

Power without a majority of voting rights, occurs where

- Contractual arrangements with other vote holders exist
- Relevant activities directed by arrangements held
- The investor has practical ability to unilaterally direct relevant activities, considering all facts and circumstances:
  - Relative size and dispersion of other vote holders
  - Potential voting rights held – by the investor and other parties
  - Rights arising from contractual arrangements
  - Any additional facts or circumstances (i.e., voting patterns).

Potential voting rights

- Potential voting rights are only considered if substantive
- Must consider the purpose and design of the instrument

4. Exposure, or rights, to variable returns (i.e. returns that are not fixed, and vary as a result of performance of an investee)

Based on the substance of the arrangement (not the legal form) assessees whether investee returns are variable, and how variable they are. Variable returns can be: only positive; only negative; or both positive and negative. Including:

- Dividends, other distributions of economic benefits from an investee (e.g. interest from debt securities issued by the investee) and changes in the value of the investor's investment in that investee
- Fees from servicing assets or liabilities, fees and exposure to loss from providing credit or liquidity support, residual interests in net assets on liquidation, tax benefits, and access to future liquidity
- Returns unavailable to other interest holders – synergies, economies of scale, cost savings, sourcing scarce products, access to proprietary knowledge, limiting operations or assets to enhance the value of the investor's other assets.

5. Link between power and returns – delegated power

- When an investor with decision-making rights assesses whether it controls an investee, it determines whether it is a principal or an agent. An agent is primarily engaged to act on behalf of the principal and therefore does not control the investee when it exercises its decision-making authority

- An investor may delegate its decision-making authority to an agent on specific issues or on all relevant activities. When assessing whether it controls an investee, the investor treats the decision-making rights delegated to its agent as held by itself directly
- A decision maker considers the relationship between itself, the investee and other parties involved, in particular the following factors below, in determining whether it is an agent:
  - o Scope of decision making authority
  - o Rights held by other parties
  - o Remuneration
  - o Returns from other interests

Relationship with Other Parties

In assessing **control** an investor considers the nature of relationships with other parties and whether they are acting on the investor's behalf (*de facto* agents). Such a relationship need not have a contractual arrangement, examples may be:

- o The investor's related parties
- o A party whose interest in the investee is through a loan from the investor
- o A party who has agreed not to sell, transfer, or encumber its interests in the investee without the approval of the investor
- o A party that cannot fund its operations without investor (subordinated) support
- o An investee where the majority of the governing body or key management personal are the same as that of the investor
- o A party with a close business relationship with the investor.

Control of Specified Assets

An investor considers whether it treats a portion of an investee as a deemed separate entity and whether it controls it. Control exists if and only if, the following conditions are satisfied:

- Specified assets of the investee (and related credit enhancements, if any) are the only source of payment for specified liabilities of, or specified other interests in, the investee
- Parties other than those with the specified liability do not have rights or obligations related to the specified assets or to residual cash flows from those assets
- In substance, returns from the specified assets cannot be used by the remaining investee and none of the liabilities of the deemed separate entity are payable from the assets of the remaining investee. Thus, in substance, all the assets, liabilities and equity of that deemed a separate entity are ring-fenced from the overall investee. Such a deemed separate entity is often called a 'silo'

Continuous Reassessment

An investor must reassess whether it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control.

Consolidation Procedure

Consolidated financial statements:

- Combine like items of assets, liabilities, equity, income, expenses and cash flows of the parent with those of its subsidiaries.
- Offset (eliminate) the carrying amount of the parent's investment in each subsidiary and the parent's portion of equity of each subsidiary (Ind AS 103 explains how to account for any related goodwill).
- Eliminate in full intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between entities of the group (profits or losses resulting from intragroup transactions that are recognised in assets, such as inventory and fixed assets, are eliminated in full). Intragroup losses may indicate an impairment that requires recognition in the consolidated financial statements. Ind AS 12 Income Taxes applies to temporary differences that arise from the elimination of profits and losses resulting from intragroup transactions.
- Parent and subsidiaries must have uniform accounting policies and reporting dates. If not, alignment adjustments must be quantified and posted to ensure consistency. Reporting dates cannot vary by more than 3 months.
- Consolidation of an investee begins from the date the investor obtains control of the investee and ceases when the investor loses control of the investee.

Non-Controlling Interests

- A parent presents non-controlling interests in the consolidated Balance Sheet within equity, separately from the equity of the owners of the parent
- Changes in a parent's ownership interest in a subsidiary that do not result in the parent losing control of the subsidiary are equity transactions.

Loss of Control

- Derecognition of the assets and liabilities of the former subsidiary from the consolidated Balance Sheet
- Recognition of any investment retained in the former subsidiary at its fair value when control is lost and subsequently accounts for it and for any amounts owed by or to the former subsidiary in accordance with relevant Ind ASs.
- Where subsidiary constitutes a business, recognise the gain or loss associated with the loss of control in profit or loss
- Where subsidiary does not constitute a business than Ind AS requires:

- o Recognition of the gain or loss in profit or loss to the extent of the unrelated investors interest in the associate or joint venture. The remaining part is eliminated against the carrying amount of the investment
- o Retained interest is an associate or joint venture using the equity method: Recognition of the gain or loss in profit or loss to the extent of the unrelated investors
- o Retained interest accounted for at fair value in accordance with Ind AS 109: Recognition of the gain or loss in full in profit or loss.

Investment Entities

Investment entities are required to measure interests in subsidiaries at fair value through profit or loss in accordance with Ind AS 109 *Financial Instruments*, instead of consolidating them. Investment entity

- Obtains funds from one or more investors for the purpose of providing those investor(s) with investment management services
- Commits to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both
- Measures and evaluates performance of substantially all of its investments on a fair value basis.

Other typical characteristics (not all have to be met, but if not met additional disclosures are required):

- More than one investment
- More than one investor
- Investors not related parties of the entity
- Ownership interests in the form of equity or similar interests.

E. Ind AS 111: Joint Arrangements

Objective & Scope: An entity applies Ind AS 111 to determine the type of joint arrangement in which it is involved. This standard establishes principles for the financial reporting of parties to joint arrangements. A party to the joint arrangement is required to

- Determine the type of joint arrangement in which it is involved
- By assessing its rights and obligations arising from the arrangement.

Important Terms

Party to a joint arrangement – An entity that participates in a **joint arrangement,** regardless of whether that entity has **joint control** of the arrangement.

Separate vehicle – A separately identifiable financial structure, including separate legal entities or entities recognised by statute, regardless of whether those entities have a legal personality.

Joint Arrangement

- A joint arrangement binds the parties by way of contractual agreement (does not have to be in writing, instead it is based on the substance of the dealings between the parties). It gives two (or more) parties joint control.
- The Ind AS defines joint control as the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities (i.e., activities that significantly affect the returns of the arrangement) require the unanimous consent of the parties sharing control.
- This can be explicit or implicit:
  - E.g., joint control exists if two parties hold 50% voting rights, and a 51% majority is required to make decisions regarding relevant activities
  - E.g., joint control does not exist if, after considering all contractual agreements, the minimum required majority of voting rights can be achieved by more than one combination of parties agreeing together.
- Joint *de facto* control is based on the same *de facto* control principle as Ind AS 110. Joint *de facto* control only exists if the parties are contractually bound to vote together in relation to decisions on relevant activities. In assessing joint *de-facto* control, an entity may consider previous voting attendance, but not previous voting results (i.e. whether other parties historically voted the same way as the entity).
- The assessment of substantive and protective rights is based on the same principles as Ind AS 110:
  - Substantive rights (rights that can be practically exercised) are considered in assessing power
  - Protective rights (rights designed to protect the interests of the holder) are not considered in assessing power.
- **Arrangements are not within the scope of Ind AS 111, if joint control (or joint *de facto* control) does not exist (i.e., no contractual unanimous consent required for decisions that relate to the relevant activities of the arrangement).**
- In a joint arrangement, no single party controls the arrangement on its own.
- An arrangement can be a joint arrangement even though not all of its parties have joint control of the arrangement.
- Joint arrangements are classified either as:
  - **Joint operation**
  - **Joint venture**
- **Joint operations** – A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement (i.e., joint operators) have rights to the assets, and obligations for the liabilities, relating to the arrangement. A joint arrangement that is not structured through a separate vehicle is a joint operation. The parties are called Joint Operators.

- **Joint ventures –** A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement (i.e., joint venturers) have rights to the net assets of the arrangement. A joint arrangement in which the assets and liabilities relating to the arrangement are held in a separate vehicle can be either a joint venture or a joint operation. The parties are called Joint Venturers.
- Joint operations and joint ventures can coexist when the parties undertake different activities that form part of the same framework agreement.
- Classification depends upon the assessment of the rights and obligations of the parties, and considers the Joint Arrangements

  a) Structure: Joint arrangements (JA) not structured through a separate vehicle are classified as a **joint operation**. JAs structured through a separate vehicle may be classified as a either a joint operation or joint venture depending on analysis of factors below.

  b) Legal form: The legal form of the separate vehicle may be relevant in determining whether parties have rights to assets and obligations for liabilities, or the rights to net assets of the JA. However, must consider whether any contractual terms and/or other facts and circumstances impact the rights of the parties conferred by the legal form. **Partnerships** give parties rights to assets and liabilities, rather than net assets. JA is therefore classified as a joint operation. Whereas **unlimited liability vehicles** do not give parties rights to assets, merely guarantees liabilities. JA in such legal forms are therefore classified as a joint ventures.

  c) Contractual terms: Usually, the rights and obligations agreed in the contractual terms are consistent, or do not conflict, with those conferred by legal form. However parties must assess contractual terms to confirm is in fact the case. On their own, guarantees provided to third parties, and obligations for unpaid or additional capital do not result in an obligation for liabilities and hence classification as a joint operation

  d) Other facts and circumstances: Other facts and circumstances may give parties rights to substantially all economic benefits from the JA or cause the JA to depend on the parties to continuously settle its liabilities. E.g. JAs designed to primarily sell output to the parties give the parties substantially all economic benefits, and means the JA relies on cash flows from the parties to settle its liabilities. JA is therefore classified as a joint operation.

Recognition And Measurement: Joint Controlling Parties

Joint Operator

- A joint operator should recognise in relation to its interest in a joint operation:
  - Its assets, including its share of any assets held jointly;
  - Its liabilities, including its share of any liabilities incurred jointly;
  - Its revenue from the sale of its share of the output arising from the joint operation;

- Its share of the revenue from the sale of the output by the joint operation; and
- Its expenses, including its share of any expenses incurred jointly.

- A joint operator should account for the assets, liabilities, revenues and expenses relating to its interest in a joint operation in accordance with the Ind ASs applicable to the particular assets, liabilities, revenues and expenses.

Joint Venturer

- A joint venturer is required to recognise an investment and to account for that investment using the equity method in accordance with Ind AS 28 *Investments in Associates and Joint Ventures*, unless the entity is exempted from applying the equity method as specified in that standard.
- Party that participates in, but does not have joint control of, a joint venture should account for its interest in the arrangement in accordance with Ind AS 109 *Financial Instruments*

Important Points

- An enforceable contractual arrangement is often, in writing, usually in the form of a contract or documented discussions between the parties
- The contractual arrangement generally deals with such matters as:
    - The purpose, activity and duration of the joint arrangement.
    - How the members of the board of directors, or equivalent governing body, of the joint arrangement, are appointed.
    - The decision-making process: the matters requiring decisions from the parties, the voting rights of the parties and the required level of support for those matters. The decision-making process reflected in the contractual arrangement establishes joint control of the arrangement.
    - The capital or other contributions required of the parties.
- How the parties share assets, liabilities, revenues, expenses or profit or loss relating to the joint arrangement.

F. Ind AS 112 Disclosure of Interests in Other Entities

Objective & Scope The objective of Ind AS 112 *Disclosure of Interests in Other Entities,* which is based on IFRS 12, is to require an entity to disclose information that enables users of its financial statements to evaluate:

(a) the nature of, and risks associated with, its interests in other entities; and
(b) the effects of those interests on its financial position, financial performance and cash flows.

Ind AS 112 applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. However, it does not apply to:

(a) post-employment benefit plans or other long-term employee benefit plans to which Ind AS 19, *Employee Benefits*, applies.

(b) an entity's separate financial statements to which Ind AS 27 *Separate Financial Statements* applies. However, if an entity has interests in unconsolidated structured entities and prepares separate financial statements as its only financial statements, it should apply the certain requirements when preparing those separate financial statements.
(c) an interest held by an entity that participates in, but does not have joint control of, a joint arrangement unless that interest results in significant influence over the arrangement or is an interest in a structured entity.
(d) an interest in another entity that is accounted for in accordance with Ind AS 109 *Financial Instruments*.

Discussion on Ind AS 112

Disclosures of significant judgements and assumptions: An entity must disclose the significant judgements and assumptions it has made in determining the nature of its interest in another entity or arrangement, and in determining the type of joint arrangement in which it has an interest. To this effect, an entity should particularly disclose significant judgements and assumptions made in determining that:

- it holds more than half of the voting rights of another entity where it does not have control;
- it holds less than half of the voting rights of another entity where it has control; and
- it is an agent or principal with respect to another entity

Disclosures of Interest in Subsidiaries:

Ind AS 112 requires the following disclosures for each of an entity's subsidiaries that have material non-controlling interests:

- The subsidiary's name .
- Its principal place of business (and country of incorporation, if different)1.
- The proportion of ownership interests held by non-controlling interests1.
- The proportion of voting rights held by non-controlling interests, if different from the proportion of ownership interests held1.
- The profit or loss allocated to non-controlling interests of the subsidiary during the reporting period.
- The accumulated non-controlling interests of the subsidiary at the end of the reporting period.
- Summarised financial information about the subsidiary.

Non-controlling interests: The summarised financial information helps users to understand the interest that non-controlling interests have in the group's activities and cash flows. It includes the assets, liabilities, profit or loss and cash flows of the subsidiary. It might include, but is not limited to, current/non-current assets, current/non-current liabilities, revenue, profit or loss, and total comprehensive income. Dividends paid to non-controlling interests should also be disclosed. The amounts disclosed should be given before inter-company eliminations.

Significant restrictions: If there are any significant restrictions on its ability to access or use the assets and settle the liabilities of the group the entity must explain the restrictions adequately.

Nature of the risks in consolidated structured entities: Structured entities are those entities that are designed so that voting or similar rights are not the dominant factor in deciding who controls the entity. Where the entity holds interests in consolidated structured entities, it must disclose information that enables users of its financial statements to evaluate the nature of, and changes in, the risks associated with its interests in consolidated structured entities including:

- the terms of any contractual arrangements that could require any entity within the group to provide financial support to a consolidated structured entity;
- the type and amount of financial or other support provided to a consolidated structured entity during the reporting, and the reasons thereof;
- if an entity within the group has provided financial or other support to a previously unconsolidated structured entity (without the obligation to do so) which resulted in the entity controlling the structured entity, an explanation of the relevant factors in reaching this decision; and
- disclosure of any current intentions to provide financial or other support to a consolidated structured entity (including intentions to assist the structured entity in obtaining financial support).

Changes in ownership interest of parent entity: If there is a change in a parent's ownership interest in a subsidiary that does not result in loss of control, like in the case of share buyback, an entity should present a schedule that shows the effects on the equity attributable to the parent’s owners. On the other hand, if the entity has lost control of a subsidiary during the reporting period, it must disclose:

- the gain or loss on such loss of control; and
- the portion of that gain or loss that is attributable to measuring any investment retained in the former subsidiary at its fair value at the date when control is lost, and the line item(s) in profit or loss in which the gain or loss is recognised (if not presented separately).

Interest in unconsolidated subsidiary: An investment entity that, in accordance with Ind AS 110, is required to apply the exception to consolidation and instead account for its investment in a subsidiary at fair value through profit or loss must disclose that fact. Besides for each such unconsolidated subsidiary, an investment entity sould disclose:

(a) the subsidiary’s name;
(b) the principal place of business (and country of incorporation if different from the principal place of business) of the subsidiary;
(c) the proportion of ownership interest held by the investment entity and, if different, the proportion of voting rights held;
(d) the nature and extent of any significant restrictions, if any, on the ability of an unconsolidated subsidiary to transfer funds to the investment entity in the form of cash dividends or to repay loans or advances made to the unconsolidated subsidiary by the investment entity;
(e) any current commitments or intentions to provide financial or other support to an unconsolidated subsidiary, including commitments or intentions to assist the subsidiary in obtaining financial support;

(f) Details with reasons for support if any , provided by the investment entity or any of its subsidiaries, during the year , without having a contractual obligation to do so; and
(g) the terms of any contractual arrangements that could require the entity or its unconsolidated subsidiaries to provide financial support to an unconsolidated, controlled, structured entity, including events or circumstances that could expose the reporting entity to a loss.

Disclosure of Interests In Joint Arrangements And Associates: An entity should disclose information that enables users of its financial statements to evaluate:

(a) The nature, extent and financial effects of its interests in joint arrangements and associates, including the nature and effects of its contractual relationship with the other investors with joint control of, or significant influence over, joint arrangements and associates; and
(b) The nature of, and changes in, the risks associated with its interests in joint ventures and associates.

Entity must disclose the following in relation to its involvement with joint arrangements and associates:

- significant judgements and assumptions made (and changes to those judgements and assumptions) in determining:
  - whether there is joint control of an arrangement;
  - whether there is significant influence over another entity; and
  - the type of joint arrangement (that is, joint operation or joint venture) where the arrangement is structured through a separate vehicle;
- the nature, extent and financial effects of an entity's interest in joint arrangements and associates, including the nature and effects of its contractual relationship with other investors with joint control of, or significant influence over, joint arrangements and associates; and
- the nature of, and changes in, the risks associated with its interests in joint ventures and associates.

Disclosure of Interests in Unconsolidated Structured Entities: If the entity has any interests in unconsolidated structured entities, it must disclose information that enables users of its financial statements:
- to understand the nature and extent of its interests in unconsolidated structured entities; and
- to evaluate the nature of, and changes in, the risks associated with its interests in unconsolidated structured entities (including an entity's exposure to risk from involvement with unconsolidated structured entities in previous periods, even if the contractual involvement had ceased at the reporting date).

To achieve this, the entity should provide:

- qualitative information (in tabular form) and quantitative information about its interest in unconsolidated structured entities (nature, purpose, size and activities of the entity, and how the entity is financed);

- the carrying amounts of assets and liabilities recognised in its financial statements relating to its interests in unconsolidated structured entities, and the line items in the balance sheet in which those assets and liabilities are recognised;
- the amount that best represents its maximum exposure to loss from its interests in unconsolidated structured entities, including how the maximum amount is determined;
- a comparison of the amounts from the last two points above;
- if it has provided financial or other support to an unconsolidated structured entity (without having a contractual obligation to do so) in which it previously had or currently has an interest, an explanation of the type of and amount of support provided and the reasons for providing the support;
- any current intentions to provide financial or other support to an unconsolidated structured entity, including intentions to assist the entity in obtaining financial support; and
- information about sponsored unconsolidated structured entities which are not included in the disclosures above including income from those entities and the carrying amount of assets transferred to those entities during the reporting period.

Chapter 6

Recognition, Measurement, Presentation & Disclosure of Assets

Relevant Ind ASs on Assets are as follows:

- Ind AS 2 Inventories,
- Ind AS 16 Property, plant and equipment,
- Ind AS 17 Leases,
- Ind AS 23 Borrowing Costs
- Ind AS 36 Impairment of Assets
- Ind AS 38 Intangible Assets,

- Ind AS 40 Investment Property,
- Ind AS 41 Agriculture,
- Ind AS 105 Non-current Assets held for sale and discontinued operations,
- Ind AS 20 Accounting for Government Grants and Disclosure of Government Assistance.

A. Ind AS 2: Inventories

Objective & Scope Inventories are assets which are

- held for sale in the ordinary course of business [e.g., merchandise held by a retailer],
- in the process of production for sale; [e.g. finished goods, work in progress, and raw material held by manufacturer], or
- in the form of materials or supplies to be consumed in production or in rendering services.

In the case of a service provider, inventories include the costs of the service for which the entity has not yet recognised the related revenue.

Ind AS 2 *Inventories* prescribes the accounting treatment for inventories including issues in determination of costs and its subsequent recognition as an expense. It deals with all types of inventories except:

i. Work-in-progress arising under Construction contracts, including directly related service contracts

ii. Financial Instruments, and

iii. Biological Assets related to agricultural activity and agricultural produce at the point of harvest.

Measurement of Inventories: Inventories are measured at the lower of cost and net realisable value (NRV).

Cost of Inventories includes costs of purchase, costs of conversion, and other costs to bring inventory into its present condition and location.

Net Realisable Value (NRV) is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs to make the sale.

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

Cost of Conversion for manufactured goods includes costs directly related to the units of production, such as direct labour and overheads. The allocation of overheads must be systematic and rational. The allocation of fixed overheads (i.e., expenses which are fixed in amount irrespective of quantum of production), should be based on normal production levels. In the periods of drastically low production certain portion of the fixed overheads should be directly taken to operations and should not be charged to inventory as these would inflate the amount at which the inventories are carried. However, in periods of abnormally high production, the amount of fixed overhead allocated to each unit of production is decreased so that inventories are not measured above cost. On the other hand, variable production overheads, i.e., expenses which vary in direct proportion to quantum of production, are allocated to each unit of production on the basis of the actual use of the production facilities.

Other Costs: Beside the purchase cost and the cost of conversion there are certain other costs which are added to the cost of inventory. However, the prerequisite condition for recognizing these in inventories is that it should be essential to incur these expenses to bring the inventories to its present location and condition. Certain examples of such costs would be costs of designing products for specific customers or non production overheads.

Cost which are not part of inventories are:

i. abnormal amounts of wasted materials, labour or other production costs;

ii. storage costs, unless those costs are necessary in the production process before a further production stage;

iii. administrative overheads that do not contribute to bringing inventories to their present location and condition;

iv. selling costs;

v. Research cost;

vi. Some development cost;

vii. Borrowing cost except for certain circumstances as specified in Ind AS 23 *Borrowing Cost.*

The above expenses are usually not included in the costs of inventory rather they are expensed in the period in which they are incurred.

Entity may purchase inventories on deferred settlement terms. In such cases, 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 recognized as interest expense over the period of the financing and not recognized in cost of inventories.

Certain Exceptions to measurement principle

Agricultural produce, such as wool, logs and grapes are the harvested product of biological assets and are recognized as inventory. The cost of such agricultural produce at initial recognition is its fair value less estimated point-of-sale costs at the point of harvest. Similarly, when an investment property is reclassified as inventory i.e. when an entity proposes to develop the property for sale, the property's cost at initial recognition would be its cost less accumulated depreciation or fair value at the date of transfer, depending on the measurement alternative the entity previously adopted in accounting for the investment property.

Cost of inventories of a service provider

To the extent that service providers have inventories, they measure them at the costs of their production. These costs generally includes

i. labour and other costs of personnel directly engaged in providing the service, including supervisory personnel, and

ii. attributable overheads.

Joint products and by-products

Sometimes, an entity may produce more than one product simultaneously in a production process. The inventory valuation in these cases would greatly depend on the significance of the products produced during the process. Usually, when each of the products has significant values they are considered as joint products and where one product has significant value and others are relatively insignificant they are referred to as by-products.In case of joint products, when the costs of conversion of each product are not separately identifiable, they are allocated between the products on a rational and consistent basis. On the other hand, in case of by-products, the by-products are measured at net releasable value and this value is deducted from the cost of the main product.

Methods of inventory costing permitted under Ind AS

1. Specific Identification
2. First in First out Method (FIFO)
3. Weighted Average Cost
4. Standard Cost
5. Retail Method
6. Net Realizable Value

Disclosures

Inventories should be presented as a line item on the face of the balance sheet.

The financial statements should disclose:

i. The accounting policies adopted in measuring inventories, including the cost formula used;

ii. The total carrying amount of inventories and the carrying amount in classifications appropriate to the entity;

iii. The carrying amount of inventories carried at fair value less costs to sell;

iv. The amount of inventories recognised as an expense during the period;

v. The amount of any write-down of inventories recognised as an expense in the period;

vi. The amount of any reversal of any write-down that is recognised as a reduction in the amount of inventories recognised as expense in the period;

vii. The circumstances or events that led to the reversal of a write-down of inventories; and

viii. The carrying amount of inventories pledged as security for liabilities.

The most common classifications are supplies, raw materials, work-in-progress and finished goods. The inventory of service provider may be described as work in progress. Inventory of service provider may be classified as work-in-progress. An entity adopts a format for profit or loss that results in amounts being disclosed other than the cost of inventories recognised as an expense during the period.

B. Ind AS 16: Property, Plant And Equipment

Objective & Scope

Property, plant and equipment, hereafter also referred to as PPE, are long lived non-financial and tangible asset that holds the promise of providing economic benefits to an enterprise for a period greater than that covered by entity's current year financial statement. Therefore, these assets are capitalized and not expensed as when the costs are incurred. The costs of these assets are allocated over expected periods of benefit.

Biological assets, intangible assets (including computer software, trademarks, licences), investment property, investments in subsidiaries, associates and joint ventures are not PPE. However, land and separable assets used in agricultural activity should be considered as PPE. Ind AS 16 *Property, Plant and Equipment* prescribe the accounting treatment for property, plant and equipment. The standard deals with recognition of the assets, the determination of their carrying amounts and the depreciation charges and impairment losses to be recognised in relation to them. However, the standard does not apply in the following cases:

- property, plant and equipment classified as held for sale in accordance with Ind AS 105 *Non-current Assets Held for Sale and Discontinued Operations;*
- biological assets related to agricultural activity;
- the recognition and measurement of exploration and evaluation assets; or
- mineral rights and mineral reserves such as oil, natural gas and similar non-regenerative resources.

Recognition

Items of property, plant, and equipment should be recognised as assets when it is probable that:

•The future economic benefits associated with the asset will flow to the enterprise; and

•The cost of the asset can be measured reliably.

This recognition principle is applied to all property, plant, and equipment costs at the time they are incurred. These costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it.The carrying amount of those parts that are replaced is derecognised in accordance with the derecognition provisions of Ind AS 16.

Also, continued operation of an item of property, plant, and equipment (for example, an aircraft) may require regular major inspections for faults regardless of whether parts of the item are replaced. When each major inspection is performed, its cost is recognised in the carrying amount of the item of property, plant, and equipment as a replacement if the recognition criteria are satisfied. If necessary, the estimated cost of a future similar inspection may be used as an indication of what the cost of the existing inspection component was when the item was acquired or constructed.

Initial Measurement

They should be initially recorded at cost. Cost includes all costs necessary to bring the asset to working condition for its intended use. This would include not only its original purchase price but also costs of site preparation, delivery and handling, installation, related professional fees for architects and engineers, and the estimated cost of dismantling and removing the asset and restoring the site.

If payment for an item of property, plant, and equipment is deferred, interest at a market rate must be recognised or imputed. If an asset is acquired in exchange for another asset (whether similar or dissimilar in nature), the cost will be measured at the fair value unless (a) the exchange transaction lacks commercial substance or (b) the fair value of neither the asset received nor the asset given up is reliably measurable. If the acquired item is not measured at fair value, its cost is measured at the carrying amount of the asset given up.

Measurement Subsequent to Initial Recognition

Ind AS 16 permits two accounting models:

i. Cost Model. The asset is carried at cost less accumulated depreciation and impairment.

ii. Revaluation Model. The asset is carried at a revalued amount, being its fair value at the date of revaluation less subsequent depreciation, provided that fair value can be measured reliably.

The Revaluation Model

Under the revaluation model, revaluations should be carried out regularly, so that the carrying amount of an asset does not differ materially from its fair value at the reporting date.If an item is revalued, the entire class of assets to which that asset belongs should be revalued.Revalued assets are depreciated in the same way as under the cost model (see below).If a revaluation results in an increase in value, it should be credited to other comprehensive income and accumulated in equity under the heading "revaluation surplus" unless it represents the reversal of a revaluation decrease of the same asset previously recognised as an expense, in which case it should be recognised as income in profit or loss.

A decrease arising as a result of a revaluation should be recognised as an expense to the extent that it exceeds any amount previously credited to the revaluation surplus relating to the same asset.When a revalued asset is disposed of, any revaluation surplus may be transferred directly to retained earnings, or it may be left in equity under the heading revaluation surplus. The transfer to retained earnings should not be made through the Statement of Profit and Loss (that is, no "recycling" through profit or loss).

Depreciation (Cost and Revaluation Models)

For all depreciable assets the depreciable amount (cost less prior depreciation, impairment, and residual value) should be allocated on a systematic basis over the asset's useful life. The residual value and the useful life of an asset should be reviewed at least at each financial year-end and, if expectations differ from previous estimates, any change is accounted for prospectively as a change in estimate under Ind AS 8.The depreciation method used should reflect the pattern in which the asset's economic benefits are consumed by the enterprise. The depreciation method should be reviewed at least annually and, if the pattern of consumption of benefits has changed, the depreciation method should be changed prospectively as a change in estimate under Ind AS 8.

Depreciation should be charged to the Statement of Profit and Loss, unless it is included in the carrying amount of another asset. Depreciation begins when the asset is available for use and continues until the asset is derecognised, even if it is idle.

Recoverability of the Carrying Amount

Ind AS 36 requires impairment testing and, if necessary, recognition for property, plant, and equipment. An item of property, plant, or equipment should not be carried at more than recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell and its value in use.Any claim for compensation from third parties for impairment is included in profit or loss when the claim becomes receivable.

Derecognition (Retirements and Disposals)

An asset should be removed from the Balance Sheet on disposal or when it is withdrawn from use and no future economic benefits are expected from its disposal. The gain or loss on disposal is the difference between the proceeds and the carrying amount and should be recognised in the Statement of Profit and Loss.

C. Ind AS 40: Investment Property

Objective & Scope

Investment property is property (land or a building—or part of a building—or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both, rather than for use in the production or supply of goods or services or for administrative purposes; or sale in the ordinary course of business.Examples of investment property:

- Land held for long-term capital appreciation
- Land held for undecided future use
- Building leased out under an operating lease
- Vacant building held to be leased out under an operating lease
- Property that is being constructed or developed for future use as investment property

The following are not investment property and, therefore, are outside the scope of Ind AS 40

- property held for use in the production or supply of goods or services or for administrative purposes;
- property held for sale in the ordinary course of business or in the process of construction of development for such sale;
- property being constructed or developed on behalf of third parties;
- owner-occupied property,
- property leased to another entity under an finance lease.

Recognition

Investment property should be recognised as an asset when and only when:

(a) it is probable that the future economic benefits that are associated with the investment property will flow to the entity; and

(b) the cost of the investment property can be measured reliably.

Measurement

An investment property should be measured initially at its cost. Transaction costs should be included in the initial measurement. The initial cost of a property interest held under a lease and classified as an investment property should be as prescribed for a finance lease by para 20 of Ind AS 17, i.e. the asset should be recognised at the lower of the fair value of the property and the present value of the minimum lease payments. An equivalent amount should be recognised as a liability in accordance with that same paragraph.

The Standard requires Investment Properties to be measured subsequently in accordance with cost model as prescribed in Ind AS 16 for all investment properties other than those that meet the criteria of classification as held for sale as specified in Ind AS 105. Unlike, Ind AS, IFRS permit use of fair value model except in some situations for measurement of investment after initial recognition.

An investment property should be derecognised (eliminated from the Balance Sheet) on disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal. Gains or losses arising from the retirement or disposal of investment property should be determined as the difference between the net disposal proceeds and the carrying amount of the asset and should be recognised in profit or loss (unless Ind AS 17 requires otherwise on a sale and leaseback) in the period of the retirement or disposal.Compensation from third parties for investment property that was impaired, lost or given up should be recognised in profit or loss when the compensation becomes receivable.

Disclosures

An entity must disclose:

(a) its accounting policy for measurement of investment property.

(b) when classification is difficult, the criteria it uses to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of business.

(c) the extent to which the fair value of investment property (or disclosed in the financial statements) is based on a valuation by an independent valuer who holds a recognised and relevant professional qualification and has recent experience in the location and category of the investment property being valued. If there has been no such valuation, that fact should be disclosed.

(d) the amounts recognised in profit or loss for:

- rental income from investment property;
- direct operating expenses (including repairs and maintenance) arising from investment property that generated rental income during the period; and
- direct operating expenses (including repairs and maintenance) arising from investment property that did not generate rental income during the period.

(e) the existence and amounts of restrictions on the realisability of investment property or the remittance of income and proceeds of disposal.

(f) contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements.

(g) the depreciation methods used;

(h) the useful lives or the depreciation rates used;

(i) the gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period;

(j) a reconciliation of the carrying amount of investment property at the beginning and end of the period, showing the following:

- additions, disclosing separately those additions resulting from acquisitions and those resulting from subsequent expenditure recognised as an asset;
- additions resulting from acquisitions through business combinations;
- assets classified as held for sale or included in a disposal group classified as held for sale in accordance with Ind AS 105 and other disposals;
- depreciation;
- the amount of impairment losses recognised, and the amount of impairment losses reversed, during the period in accordance with Ind AS 36;
- the net exchange differences arising on the translation of the financial statements into a different presentation currency, and on translation of a foreign operation into the presentation currency of the reporting entity;
- transfers to and from inventories and owner-occupied property; and
- other changes; and

(k) the fair value of investment property. In the exceptional cases when an entity cannot determine the fair value of the investment property reliably, it should disclose:

- a description of the investment property;
- an explanation of why fair value cannot be determined reliably; and
- if possible, the range of estimates within which fair value is highly likely to lie.

IV. Ind AS 17: Leases

Objective & Scope

Lease is an agreement whereby the lessor conveys to lessee in return for a payment or series of payments the right to use an asset for an agreed period of time including contracts giving hirer an option to acquire title to asset by paying an extra amount usually at end of the contract (as in the case of hire purchase contracts).

Ind AS 17 applies to all leases other than lease agreements for minerals, oil, natural gas, and similar regenerative resources and licensing agreements for films, videos, plays, manuscripts, patents, copyrights, and similar items.

However, Ind AS 17 does not apply as the basis of measurement for the following leased assets:

- Property held by lessees that are accounted for as investment property under Ind AS 40
- Investment property provided by lessors under operating leases
- Biological assets held by lessees under finance leases
- Biological assets provided by lessors under operating leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership.

A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

Accounting by Lessees

Lease payments under an operating lease should be recognised as an expense on a straight-line basis over the lease term unless another systematic basis is more representative of the time pattern of the user's benefit. At commencement of the lease term, finance leases should be recorded as an asset and a liability at the lower of the fair value of the asset and the present value of the minimum lease payments (discounted at the interest rate implicit in the lease, if practicable, or else at the enterprise's incremental borrowing rate). Finance lease payments should be apportioned between the finance charge and the reduction of the outstanding liability (the finance charge to be allocated so as to produce a constant periodic rate of interest on the remaining balance of the liability). The depreciation policy for assets held under finance leases should be consistent with that for owned assets. If there is no reasonable certainty that the lessee will obtain ownership at the end of the lease - the asset should be depreciated over the shorter of the lease term or the life of the asset.

Accounting by Lessors

Operating Leases: Lessors should present assets subject to operating leases in their Balance Sheet according to the nature of the asset.The depreciation policy for depreciable leased assets should be consistent with the lessor's normal depreciation policy for similar assets, and depreciation should be calculated in accordance with Ind AS 16 and Ind AS 38.Lease income from operating leases should be recognised in income on a straight-line basis over the lease term, unless another systematic basis is more representative of the time pattern in which use benefit derived from the leased asset is diminished.

Finance Leases: Lessors should recognise assets held under a finance lease in their Balance Sheet and present them as a receivable at an amount equal to the net investment in the lease. The recognition of finance income should be based on a pattern reflecting a constant periodic rate of return on the lessor's net investment in the finance lease. Manufacturer or dealer lessors should recognise selling profit or loss in the period, in accordance with the policy followed by the entity for outright sales. If artificially low rates of interest are quoted, selling profit should be restricted to that which would apply if a market rate of interest were charged. Costs incurred by manufacturer or dealer lessors in connection with negotiating and arranging a lease should be recognised as an expense when the selling profit is recognised.

E. Ind AS 38: Intangible Assets

An intangible asset is an identifiable non-monetary asset without physical substance.The three critical attributes of an intangible asset are identifiability; control (power to obtain benefits from the asset) and future economic benefits (such as revenues or reduced future costs). An intangible asset is identifiable when it:

- is separable (capable of being separated and sold, transferred, licensed, rented, or exchanged, either individually or as part of a package) or
- arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations

Recognition and Measurement

Initial Recognition

The recognition of an item as an intangible asset requires an entity to demonstrate that the item meets the definition of an intangible asset and the recognition criteria.This requirement applies to costs incurred initially to acquire or internally generate an intangible asset and those incurred subsequently to add to, replace part of, or service it. An intangible asset should be recognised if, and only if:

a) It is probable that the expected future economic benefits that are attributable to the asset will flow to the entity; and

b) The cost of the asset can be measured reliably.

The probability recognition criterion is always considered to be satisfied for intangible assets that are acquired separately or in a business combination. An intangible asset should be measured initially at cost.The cost of a separately acquired intangible asset comprises:

a) its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates; and

b) any directly attributable cost of preparing the asset for its intended use.

In accordance with Ind AS 103 *Business Combinations*, if an intangible asset is acquired in a business combination, the cost of that intangible asset is its fair value at the acquisition date. If an asset acquired in a business combination is separable or arises from contractual or other legal rights, sufficient information exists to measure reliably the fair value of the asset.

Internally generated intangible assets

Internally generated goodwill should not be recognised as an asset. No intangible asset arising from research (or from the research phase of an internal project) should be recognised. Expenditure on research (or on the research phase of an internal project) should be recognised as an expense when it is incurred.An intangible asset arising from development (or from the development phase of an internal project) should be recognised if, and only if, an entity can demonstrate all of the following:

(a) the technical feasibility of completing the intangible asset so that it will be available for use or sale.

(b) its intention to complete the intangible asset and use or sell it.

(c) its ability to use or sell the intangible asset.

(d) how the intangible asset will generate probable future economic benefits. Among other things, the entity can demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset.

(e) the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset.

(f) its ability to measure reliably the expenditure attributable to the intangible asset during its development.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance should not be recognised as intangible assets.

Measurement after recognition

An entity should choose either the cost model or the revaluation model as its accounting policy. If an intangible asset is accounted for using the revaluation model, all the other assets in its class should also be accounted for using the same model, unless there is no active market for those assets.

Cost model: After initial recognition, an intangible asset should be carried at its cost less any accumulated amortisation and any accumulated impairment losses.

Revaluation model: After initial recognition, an intangible asset should be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated amortisation and any subsequent accumulated impairment losses.

For the purpose of revaluations under this Standard, fair value should be determined by reference to an active market. Revaluations should be made with such regularity that at the end of the reporting period the carrying amount of the asset does not differ materially from its fair value.

Definition of active market and useful life

An active market is a market in which all the following conditions exist:

(a) the items traded in the market are homogenous;

(b) willing buyers and sellers can normally be found at any time; and

(c) prices are available to the public.

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

Useful life

An entity should assess whether the useful life of an intangible asset is finite or indefinite and, if finite, the length of, or number of production or similar units constituting, that useful life. An intangible asset should be regarded by the entity as having an indefinite useful life when, based on an analysis of all of the relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the entity.*Useful life is:*

(a) the period over which an asset is expected to be available for use by an entity; or

(b) the number of production or similar units expected to be obtained from the asset by an entity.

The useful life of an intangible asset that arises from contractual or other legal rights should not exceed the period of the contractual or other legal rights, but may be shorter depending on the period over which the entity expects to use the asset. If the contractual or other legal rights are conveyed for a limited term that can be renewed, the useful life of the intangible asset should include the renewal period(s) only if there is evidence to support renewal by the entity without significant cost. To determine whether an intangible asset is impaired, an entity applies Ind AS 36.

Intangible assets with finite useful lives

The depreciable amount of an intangible asset with a finite useful life should be allocated on a systematic basis over its useful life. *Depreciable* amount is the cost of an asset, or other amount substituted for cost, less its residual value. Amortisation should begin when the asset is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Amortisation should cease at the earlier of the date that the asset is classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with Ind AS 105 *Non-current AssetsHeld for Sale and Discontinued Operations* and the date that the asset is derecognised. The amortisation method used should reflect the pattern in which the asset's future economic benefits are expected to be consumed by the entity. If that pattern cannot be determined reliably, the straight line method should be used. The amortisation charge for each period should be recognised in profit or loss unless this or another Standard permits or requires it to be included in the carrying amount of another asset.

The *residual value* of an intangible asset is the estimated amount that an entity would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The residual value of an intangible asset with a finite useful life should be assumed to be zero unless:

a) There is a commitment by a third party to purchase the asset at the end of its useful life; or

b) There is an active market for the asset and:

   (i) Residual value can be determined by reference to that market; and

   (ii) It is probable that such a market will exist at the end of the asset’s useful life.

The amortisation period and the amortisation method for an intangible asset with a finite useful life should be reviewed at least at each financial year-end. If the expected useful life of the asset is different from previous estimates, the amortisation period should be changed accordingly. If there has been a change in the expected pattern of consumption of the future economic benefits embodied in the asset, the amortization method should be changed to reflect the changed pattern. Such changes should be accounted for as changes in accounting estimates in accordance with Ind AS 8.

Intangible assets with indefinite useful lives

An intangible asset with an indefinite useful life should not be amortised. In accordance with Ind AS 36 *Impairment of Assets*, an entity is required to test an intangible asset with an indefinite useful life for impairment by comparing its recoverable amount with its carrying amount annually, and whenever there is an indication that the intangible asset may be impaired.The useful life of an intangible asset that is not being amortised should be reviewed each period to determine whether events and circumstances continue to support an indefinite useful life assessment for that asset. If they do not, the change in the useful life assessment from indefinite to finite should be accounted for as a change in an accounting estimate.

F. Ind AS 36: Impairment Of Assets

An asset is impaired when its carrying amount exceeds its recoverable amount. Ind AS 36 is intended to ensure that assets are carried at no more than their recoverable amount, and to define how recoverable amount is calculated.

Ind AS 36 applies to all assets except inventories; assets arising from construction contracts; deferred tax assets; assets arising from employee benefits; financial assets; certain agricultural assets carried at fair value less cost to sell; insurance contract assets; assets held for sale.

Identifying an Asset that may be impaired

At each reporting date, review all assets to look for any indication that an asset may be impaired (its carrying amount may be in excess of the greater of its net selling price and its value in use). Ind AS 36 has a list of external and internal indicators of impairment. If there is an indication that an asset may be impaired, then entity must calculate the asset's recoverable amount.The recoverable amounts of the following types of intangible assets should be measured annually whether or not there is any indication that it may be impaired. In some cases, the most recent detailed calculation of recoverable amount made in a preceding period may be used in the impairment test for that asset in the current period:

- an intangible asset with an indefinite useful life.
- an intangible asset not yet available for use.
- goodwill acquired in a business combination.

Determining Recoverable Amount

If fair value less costs to sell or value in use is more than carrying amount, it is not necessary to calculate the other amount. The asset is not impaired.If fair value less costs to sell cannot be determined, then recoverable amount is value in use.For assets to be disposed of, recoverable amount is fair value less costs to sell.

Fair Value less Costs to Sell

- If there is a binding sale agreement, use the price under that agreement less costs of disposal.
- If there is an active market for that type of asset, use market price less costs of disposal. Market price means current bid price if available, otherwise the price in the most recent transaction.
- If there is no active market, use the best estimate of the asset's selling price less costs of disposal.
- Costs of disposal are the direct added costs only (not existing costs or overhead).

Value in Use

The calculation of value in use should reflect the following elements:

- an estimate of the future cash flows the entity expects to derive from the asset in an arm's length transaction;
- expectations about possible variations in the amount or timing of those future cash flows;
- the time value of money, represented by the current market risk-free rate of interest;
- the price for bearing the uncertainty inherent in the asset; and
- other factors, such as illiquidity, that market participants would reflect in pricing the future cash flows the entity expects to derive from the asset.

Cash flow projections should be based on reasonable and supportable assumptions, the most recent budgets and forecasts, and extrapolation for periods beyond budgeted projections.Cash flow projections should relate to the asset in its current condition. Estimates of future cash flows should not include cash inflows or outflows from financing activities, or income tax receipts or payments.In measuring value in use, the discount rate used should be the pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the asset.For impairment of an individual asset or portfolio of assets, the discount rate is the rate the company would pay in a current market transaction to borrow money to buy that specific asset or portfolio.If a market-determined asset-specific rate is not available, a surrogate must be used that reflects the time value of money over the asset's life as well as country risk, currency risk, price risk, and cash flow risk. The following would normally be considered:

- the enterprise's own weighted average cost of capital;
- the enterprise's incremental borrowing rate; and
- other market borrowing rates.

Recognition of an Impairment Loss: An impairment loss should be recognised whenever recoverable amount is below carrying amount.The impairment loss is an expense in the Statement of Profit and Loss (unless it relates to a revalued asset where the value changes are recognised directly in equity). Depreciation for future periods should be adjusted accordingly.

Cash-Generating Units: Recoverable amount should be determined for the individual asset, if possible.If it is not possible to determine the recoverable amount (fair value less cost to sell and value in use) for the individual asset, then determine recoverable amount for the asset's cash-generating unit (CGU). The CGU is the smallest identifiable group of assets that generates cash inflows from continuing use, andthat are largely independent of the cash inflows from other assets or groups of assets.

Impairment of Goodwill: Goodwill should be tested for impairment annually.To test for impairment, goodwill must be allocated to each of the acquirer's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated should:

- represent the lowest level within the entity at which the goodwill is monitored for internal management purposes; and
- not be larger than a segment based on either the entity's primary or the entity's secondary reporting format determined in accordance with Ind AS 108 Operating Segments.

A cash-generating unit to which goodwill has been allocated should be tested for impairment at least annually by comparing the carrying amount of the unit, including the goodwill, with the recoverable amount of the unit:

- If the recoverable amount of the unit exceeds the carrying amount of the unit, the unit and the goodwill allocated to that unit is not impaired.

- If the carrying amount of the unit exceeds the recoverable amount of the unit, the entity must recognise an impairment loss.

The impairment loss is allocated to reduce the carrying amount of the assets of the unit (group of units) in the following order:

- first, reduce the carrying amount of any goodwill allocated to the cash-generating unit (group of units); and
- then, reduce the carrying amounts of the other assets of the unit (group of units) pro rata on the basis.

The carrying amount of an asset should not be reduced below the highest of:

  - its fair value less costs to sell (if determinable);
  - its value in use (if determinable); and
  - zero.

If the preceding rule is applied, further allocation of the impairment loss is made *pro rata* to the other assets of the unit (group of units).

Reversal of an Impairment Loss

- Same approach as for the identification of impaired assets: assess at each Balance Sheet date whether there is an indication that an impairment loss may have decreased. If so, calculate recoverable amount.
- No reversal for unwinding of discount.
- The increased carrying amount due to reversal should not be more than what the depreciated historical cost would have been if the impairment had not been recognised.
- Reversal of an impairment loss is recognised as income in the Statement of Profit and Loss.
- Adjust depreciation for future periods.
- Reversal of an impairment loss for goodwill is prohibited.

G. Ind AS 23: Borrowing Costs

Borrowing costs are interest and other costs that an entity incurs in connection with the borrowing of funds. Ind AS 23 prescribes the accounting treatment for borrowing costs.

Key Definitions

Borrowing cost is:

- interest expense (calculated by the effective interest method),
- finance charges in respect of finance leases recognised in accordance with Ind AS 17 Leases, and
- exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs.

Borrowing cost does not include amortisation of ancillary costs incurred in connection with borrowings. Nor does it include actual or imputed cost of equity capital, including any preferred capital not classified as a liability pursuant to Ind AS 32.

A ***qualifying asset*** is an asset that takes a substantial period of time to get ready for its intended use. That could be property, plant, and equipment and investment property during the construction period, intangible assets during the development period, or "made-to-order" inventories.

With regard to exchange difference required to be treated as borrowing costs:

a) the adjustment should be of an amount which is equivalent to the extent to which the exchange loss does not exceed the difference between the cost of borrowing in functional currency when compared to the cost of borrowing in a foreign currency.

b) where there is an unrealised exchange loss which is treated as an adjustment to interest and subsequently there is a realised or unrealised gain in respect of the settlement or translation of the same borrowing, the gain to the extent of the loss previously recognised as an adjustment should also be recognised as an adjustment to interest.

Recognition

- An entity should capitalise borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset.
- An entity should recognise other borrowing costs as an expense in the period in which it incurs them.
- To the extent that an entity borrows funds specifically for the purpose of obtaining a qualifying asset, the entity should determine the amount of borrowing costs eligible for capitalisation as the actual borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of those borrowings.
- To the extent that an entity borrows funds generally and uses them for the purpose of obtaining a qualifying asset, the entity should determine the amount of borrowing costs eligible for capitalisation by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate should be the weighted average of the borrowing costs applicable to the borrowings of the entity that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset.
- The amount of borrowing costs that an entity capitalises during a period should not exceed the amount of borrowing costs it incurred during that period.

An entity should begin capitalising borrowing costs as part of the cost of a qualifying asset on the commencement date. The commencement date for capitalisation is the date when the entity first meets all of the following conditions:

a) it incurs expenditures for the asset;

b) it incurs borrowing costs; and

c) it undertakes activities that are necessary to prepare the asset for its intended use or sale.

An entity should suspend capitalisation of borrowing costs during extended periods in which it suspends active development of a qualifying asset.An entity should cease capitalising borrowing costs when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are completed.

H. Ind AS 41 : Agriculture

Objective & Scope Ind AS 41 prescribes the accounting treatment and disclosures related to agricultural activity for the following:

a) Biological assets

b) Agricultural produce at the point of harvest

c) Government grants covered in para 34-35 of Ind AS 41

The standard **does not** apply to:

a) Land related to agricultural activity [Ind AS 16] or

b) Intangible assets related to agricultural activity [Ind AS 38]

Key concepts

Agricultural activity is the management by an entity of the biological transformation of biological assets for sale, into agricultural produce, or into additional biological assets.

Biological assets are living animals and plants.

Agricultural produce is the harvested product from biological assets.

Point of sale costs: Commissions to brokers and dealers, levies by regulatory agencies and commodity exchanges, and transfer taxes. Point of sale costs do not include transport and other costs necessary to get assets to a market.

Harvest is the detachment of produce from a biological asset or the cessation of a biological asset's life processes.

Accounting Treatment

An enterprise should recognise a biological asset or agriculture produce only when the enterprise controls the asset as a result of part events, it is probable that future economic benefits will flow to the enterprise, and the fair value or cost of the asset can be measured reliably.Biological assets should be measured on initial recognition and at subsequent reporting dates at ***fair value less estimated point-of-sale costs***, unless fair value cannot be reliably measured. Because harvested produce is a marketable commodity, there is no 'measurement reliability' exception for produce.The gain on initial recognition of biological assets at fair value, and changes in fair value of biological assets during a period, are reported in net profit or loss.Ind AS 41 presumes that fair value can be reliably measured for most biological assets. However, that presumption can be rebutted for a biological asset that, at the time it is initially recognised in financial statements, does not have a quoted market price in an active market and for which other methods of reasonably estimating fair value are determined to be clearly inappropriate or unworkable. In such a case, the asset is measured at cost less accumulated depreciation and impairment losses. But the enterprise must still measure all of its other biological assets at fair value. If circumstances change and fair value becomes reliably measurable, a switch to fair value less point-of-sale costs is required.

The following guidance is provided on the measurement of fair value:

- a quoted market price in an active market for a biological asset or agricultural produce is the most reliable basis for determining the fair value of that asset. If an active market does not exist, Ind AS 41 provides guidance for choosing another measurement basis.

First choice would be a market-determined price such as the most recent market price for that type of asset, or market prices for similar or related assets;

- if reliable market-based prices are not available, the present value of expected net cash flows from the asset should be use, discounted at a current market-determined pre-tax rate;
- in limited circumstances, cost is an indicator of fair value, where little biological transformation has taken place or the impact of biological transformation on price is not expected to be material; and
- The fair value of a biological asset is based on current quoted market prices and is not adjusted to reflect the actual price in a binding sale contract that provides for delivery at a future date.

Other Issues

The change in fair value of biological assets is part physical change (growth, etc.) and part unit price change. Separate disclosure of the two components is encouraged, not required.Fair value measurement stops at harvest. Ind AS 2, *Inventories,* applies after harvest.Agricultural land is accounted for under Ind AS 16, *Property, Plant and Equipment*. However, biological assets that are physically attached to land are measured as biological assets separate from the land. Intangible assets relating to agricultural activity (for example, milk quotas) are accounted for under Ind AS 38, *Intangible Assets.*

Government Grants

Unconditional Government grants received in respect of biological assets measured at fair value are reported as income when the grant becomes receivable. If such a grant is conditional (including where the grant requires an entity not to engage in certain agricultural activity), the entity recognises it as income only when the conditions have been met.

Disclosure

Disclosure requirements in Ind AS 41 include:

- description of an enterprise's biological assets, by broad group
- change in fair value during the period
- fair value of agricultural produce harvested during the period
- description of the nature of an enterprise's activities with each group of biological assets and non-financial measures or estimates of physical quantities of output during the period and assets on hand at the end of the period
- information about biological assets whose title is restricted or that are pledged as security
- commitments for development or acquisition of biological assets
- financial risk management strategies
- methods and assumptions for determining fair value
- reconciliation of changes in the carrying amount of biological assets, showing separately changes in value, purchases, sales, harvesting, business combinations, and foreign exchange differences.

Disclosure of a quantified description of each group of biological assets, distinguishing between consumable and bearer assets or between mature and immature assets, is encouraged but not required.

If fair value cannot be measured reliably, additional required disclosures include:

- description of the assets
- an explanation of the circumstances
- if possible, a range within which fair value is highly likely to fall
- gain or loss recognised on disposal
- depreciation method
- useful lives or depreciation rates
- gross carrying amount and the accumulated depreciation, beginning and ending

If the fair value of biological assets previously measured at cost now becomes available, certain additional disclosures are required.Disclosures relating to government grants include the nature and extent of grants, unfulfilled conditions, and significant decreases in the expected level of grants.

I. Ind AS 105: Non-Current Assets Held For Sale And Discontinued Operations

Non-current assets are those assets that do not meet the criteria of current asset as defined in Ind AS 1. The standard lays down the criteria to be met for classification of such assets as held for sale and principle governing measurement of such assets and requisite disclosures.This standard applies to all recognised non-current assets and disposal groups of an entity that are held for sale; orheld for distribution to owners.

Assets classified as non-current in accordance with Ind AS 1 *Presentation of Financial Statements*should not be reclassified as current assets until they meet the criteria of Ind AS 105. If an entity disposes of a group of assets, possibly with directly associated liabilities (i.e., an entire cash-generating unit), together in a single transaction and if a non-current asset in the group meets the measurement requirements in Ind AS 105, then Ind AS 105 applies to the group as a whole. However, non-current assets to be abandoned cannot be classified as held for sale.

Exclusions to measurement requirements of Ind AS 105 (Disclosure requirements still to be complied with):

- Deferred tax assets (Ind AS 12 *Income Taxes*)
- Assets arising from employee benefits (Ind AS 19 *Employee Benefits*)
- Financial assets in the scope of Ind AS 109 *Financial Instruments*
- Non-current assets that are measured at fair value less cost to sale (Ind AS 41 *Agriculture*)
- Contractual rights under insurance contracts (Ind AS 104 *Insurance Contracts*).

Important Terms

Cash-generating unit – The smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

Discontinued operation – A component of an entity that either has been disposed of or is classified as held for sale and either:

- Represents a separate major line of business or geographical area
- Is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations
- Is a subsidiary acquired exclusively with a view to resale.

Classification of Non-Current Assets (Or Disposal Groups) Held For Sale Or Distribution To Owners

Entity should classify a non-current asset (or disposal group) as **held for sale** if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. The following criteria must be met:

- The asset (or disposal group) is available for immediate sale
- The terms of asset sale must be usual and customary for sales of such assets
- The sale must be highly probable
- Management is committed to a plan to sell the asset
- Asset must be actively marketed for a sale at a reasonable price in relation to its current fair value
- Sale should be completed within one year from classification date
- Sale transactions include exchanges of non-current assets for other non-current assets when the exchange has commercial substance in accordance with Ind AS 16
- When an entity acquires a non-current asset exclusively with a view to its subsequent disposal, it should classify the non-current asset as held for sale at the acquisition date only if the one year requirement is met
- There are special rules for subsidiaries acquired with a view for resale

It should be noted herein that the classification criteria also apply to non-current assets (or disposal groups) held for distribution to owners. A reclassification from held for sale to held for distribution to owners is not a change to a plan and therefore not a new plan.

Measurement

Immediately prior to classification as held for sale/distribute, carrying amount of the asset is measured in accordance with applicable Ind ASs. After classification, it is measured at the lower of carrying amount and fair value less costs to sell/distribute. Assets covered under certain other Ind ASs are scoped out of measurement requirements of this standard as stated above. Impairment must be considered both at the time of classification as held for sale and subsequently. Subsequent increases in fair value cannot be recognised in profit or loss in excess of the cumulative impairment losses that have been recognised with this Standard or with Ind AS 36 *Impairment of Assets*. Non-current assets (or disposal groups) classified as held for sale are not depreciated.

Discontinued Operations

Classification as a discontinued operation depends on when the operation also meets the requirements to be classified as held for sale. Results of discontinued operations are presented as a single amount in the statement of profit & loss. An analysis of the single amount is presented in the notes or in the statement of profit & loss. Cash flow disclosure is required – either in the notes or statement of cash flows. Comparatives are restated accordingly.

J. Ind AS 20: Accounting For Government Grants and Disclosure Of Government Assistance

Objective &Scope

This standard applies in accounting for and disclosure of Government Grants and in the disclosure of other forms of government assistance. However, the standard does not deal with:

- Government assistance that is provided for an entity in the form of benefits that are available in determining taxable income or are determined or limited to the basis of income tax liability;
- Government participation in the ownership of an entity;
- Government grants covered by Ind AS 41 *Agriculture*.

Important Terms

Government refers to Government, Government agencies and similar bodies whether local, national or international.

Government assistance is action by Government designed to provide an economic benefit specific to an entity or range of entities qualifying under certain criteria. **Government assistance** for the purpose of this Standard does not include benefits provided only indirectly through action affecting general trading conditions, such as the provision of infrastructure in development areas or the imposition of trading constraints on competitors.

Government grants:

- Assistance by government
- In the form of transfers of resources to an entity
- In return for past or future compliance with certain conditions relating to the operating activities of the entity
- Exclude forms of Government assistance which cannot reasonably have a value placed on them and which cannot be distinguished from the normal trading transactions of the entity.

Types of Government Grants

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

Recognition & Measurement of Government Grants

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

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

A **forgivable loan** from Government is treated as a Government grant when there is reasonable assurance that the entity will meet the terms for forgiveness of the loan.Government grants should be recognised in profit or loss on a systematic basis over the periods in which the entity recognises as expenses the related costs for which the grants are intended to compensate. Grants related to **depreciable assets** are usually recognised in profit or loss over the periods and in the proportions in which depreciation expense on those assets is recognised. A Government grant that becomes receivable as **compensation for expenses** or losses already incurred or for the purpose of giving immediate financial support to the entity with no future related costs should be recognised in profit or loss of the period in which it becomes receivable.

A **Non-monetary Government grant**: the fair value of the non-monetary asset is assessed and both grant and asset are accounted for at that fair value.

Presentation of Government Grants

(a) Grants related to assets

- Government grants related to assets, including non-monetary grants at fair value, should be presented in the balance sheet by setting up the grant as deferred income.
- The grant set up as deferred income is recognised in profit or loss on a systematic basis over the useful life of the asset.
- The purchase of assets and the receipt of related grants can cause major movements in the cash flow of an entity. For this reason and in order to show the gross investment in assets, such movements are disclosed as separate items in the statement of cash flows.

(b)Grants related to Income

Grants related to income are sometimes presented as a credit in the statement of profit and loss, either separately or under a general heading such as 'Other income'; alternatively, they are deducted from the related expense.

Repayment of Government grants: A Government grant that becomes repayable should be accounted for as a change in accounting estimate as set out in Ind AS 8 *Accounting Policies, Changes in Accounting Estimates and Errors.*Repayment of a grant related to incomeshould be applied first against any unamortised deferred credit recognised in respect of the grant. To the extent that the repayment exceeds any such deferred credit, or when no deferred credit exists, the repayment should be recognised immediately in profit or loss. Repayment of a grant related to an asset should be recognised by reducing the deferred income balance by the amount repayable**.**

Disclosures

The following matters should be disclosed:

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

Chapter 7

Recognition, Measurement, Presentation & Disclosure of Income

The standards dealt in this section are:

- Ind AS 11: Construction Contracts
- Ind AS 18: Revenue
- Ind AS 114: Regulatory Deferral Accounts

A. Ind AS 11: Construction Contracts

A construction contract is a contract specifically negotiated for the construction of an asset, or a combination of assets that are closely interrelated or interdependent in terms of their design, technology and function or their ultimate purpose or use. In the absence of a contract, Ind AS 11 does not apply.

The two types of contracts are:

1. Fixed Price contracts- in which the contractor agrees to a fixed contract price, or a fixed rate per unit of output, which in some cases is subject to cost escalation clauses.
2. A cost plus contract - in which the contractor is reimbursed for allowable or otherwise defined costs, plus a percentage of these costs or a fixed fee.

Construction contracts include:

(a) Contracts for the rendering of services which are directly related to the construction of the asset, for example, those for the services of project managers and architects; and

(b) Contracts for the destruction or restoration of assets, and the restoration of the environment following the demolition of assets.

Contract revenue and contract costs

Contract revenue comprise:

(a) The initial amount of revenue agreed in the contract; and

(b) Variations in contract work, claims and incentive payments:

(i) To the extent that it is probable that they will result in revenue; and

(ii) They are capable of being reliably measured.

Contract costs should include costs that relate

a) Directly to the specific contract [e.g. site labour costs, costs of materials used in construction, depreciation of plant and equipment used in construction, costs of hiring equipment, costs of moving equipment to and fro from site, costs of design and technical assistance directly related to contract and claims from third parties], and

b) Costs that are attributable to the contractor's general contracting activity to the extent that they can be reasonably allocated to the contract, and

c) Such other costs that can be specifically charged to the customer under the terms of the contract.

Accounting treatment

If the outcome of a construction contract can be estimated reliably, revenue and costs should be recognised in proportion to the stage of completion of contract activity. This is known as the percentage of completion method of accounting. To be able to estimate the outcome of a contract reliably, the enterprise must be able to make a reliable estimate of total contract revenue, the stage of completion, and the costs to complete the contract. The stage of completion of a contract can be determined in a variety of ways - including

- The proportion that contract costs incurred for work performed to date bear to the estimated total contract costs,
- Surveys of work performed, or
- Completion of a physical proportion of the contract work.

Uncertainty of income

If the outcome cannot be estimated reliably, no profit should be recognised. Instead, contract revenue should be recognised only to the extent that contract costs incurred are expected to be recoverable and contract costs should be expensed as incurred. An expected loss on a construction contract should be recognised as an expense as soon as such loss is probable.

Single or separate contracts

A group of contracts, whether with a single customer or with several customers, should be treated as a single construction contract when:

(a) The group of contracts is negotiated as a single package;

(b) The contracts are so closely interrelated that they are, in effect, part of a single project with an overall profit margin; and

(c) The contracts are performed concurrently or in a continuous sequence.

When a contract covers a number of assets, the construction of each asset should be treated as a separate construction contract when:

(a) Separate proposals have been submitted for each asset;

(b) Each asset has been subject to separate negotiation and the contractor and customer have been able to accept or reject that part of the contract relating to each asset; and

(c) The costs and revenues of each asset can be identified.

An additional asset constructed at the option of the customer should be treated as a separate construction contract when:

(a) The asset differs significantly in design, technology or function from the asset or assets covered by the original contract; or

(b) The price of the asset is negotiated without regard to the original contract price.

Disclosure

i. Amount of contract revenue recognised;

ii. Method used to determine revenue;

iii. Method used to determine stage of completion; and

iv. For contracts in progress at reporting date:

   a) Aggregate costs incurred and recognised profit

   b) Amount of advances received

   c) Amount of retentions

Presentation

i. The gross amount due **from** customers for contract work should be shown as an asset. This is the net amount of

   (a) Costs incurred plus recognised profits; less

   (b) The sum of recognised losses and progress billings for all contracts in progress for which costs incurred plus recognised profits (less recognised losses) exceeds progress billings

ii. The gross amount due **to** customers for contract work should be shown as a liability. This is the net amount of:

   (a) Costs incurred plus recognised profits; less

   (b) The sum of recognised losses and progress billings for all contracts in progress for which progress billings exceed costs incurred plus recognised profits (less recognised losses).

B. Ind AS 18: Revenue

Revenue is defined as the gross inflow of economic benefits (cash, receivables, other assets) arising from the ordinary operating activities of an enterprise (such as sales of goods, sales of services, interest, royalties, and dividends). Revenue excludes:

a) Lease agreements (Ind AS 17 Leases);

b) Dividends arising from investments which are accounted for under the Equity method (Ind AS 28 Investments in Associates);

c) Insurance contracts within the scope of Ind AS 104 Insurance Contracts;

d) Changes in the fair value of financial assets and financial liabilities or their Disposal (Ind AS 109 Financial Instruments: Recognition and Measurement);

e) Changes in the value of other current assets;

f) Initial recognition and from changes in the fair value of biological assets Related to agricultural activity (Ind AS 41 Agriculture);

g) Initial recognition of agricultural produce (Ind AS 41); and

h) The extraction of mineral ores.

Measurement of revenue

Revenue should be measured at the fair value of the consideration receivable.

- Trade discounts and volume rebates allowed by the entity are deducted to determine fair value.
- When the inflow of cash or cash equivalents is deferred, the fair value of the consideration may be less than the nominal amount of cash received or receivable. When the arrangement effectively constitutes a financing transaction, the fair value of the consideration is determined by discounting all future receipts using an imputed rate of interest.
- An exchange for goods or services of a similar nature and value is not regarded as a transaction that generates revenue.
- Exchanges for dissimilar items are regarded as generating revenue.

Recognition of Revenue

Recognition means incorporating an item that meets the definition of revenue in the Statement of Profit and Loss when it meets the following criteria:

- It is probable that any future economic benefit associated with the item of revenue will flow to the entity, and
- The amount of revenue can be measured with reliability

Ind AS 18 provides guidance for recognising the following specific categories of revenue:

(a) The sale of goods;

(b) The rendering of services; and

(c) The use by others of entity assets yielding interest, royalties and dividends.

Sale of Goods

Revenue arising from the sale of goods should be recognised when all of the following criteria have been satisfied:

a) The seller has transferred to the buyer the significant risks and rewards of ownership;

b) The seller retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;

c) The amount of revenue can be measured reliably;

d) It is probable that the economic benefits associated with the transaction will flow to the seller; and

e) The costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of Services

For revenue arising from the rendering of services, provided that all of the following criteria are met, revenue should be recognised by reference to the stage of completion of the transaction at the reporting date (the percentage-of-completion method):

a) The amount of revenue can be measured reliably;

b) It is probable that the economic benefits will flow to the seller;

c) The stage of completion at the reporting date can be measured reliably; and

d) The costs incurred, or to be incurred, in respect of the transaction can be measured reliably.

When the above criteria are not met, revenue arising from the rendering of services should be recognised only to the extent of the expenses recognised that are recoverable (a "cost-recovery approach").

Interest, Royalties, and Dividends

For interest, royalties and dividends, provided that it is probable that the economic benefits will flow to the enterprise and the amount of revenue can be measured reliably, revenue should be recognised as follows:

a) Interest: on a time proportion basis that takes into account the effective yield;

b) Royalties: on an accruals basis in accordance with the substance of the relevant agreement; and

c) Dividends: when the shareholder's right to receive payment is established.

C. Ind AS 114: Regulatory Deferral Accounts

Regulatory deferral account balances arise when an entity provides goods or services to customers at a price or rate that is subject to rate regulation. The standard permits the rate regulated entity to account for ‘regulatory deferral account balances’ in accordance with the previous GAAP in its initial adoption and the subsequent financial periods. In Indian Scenario, the *Guidance Note on Accounting for Rate Regulated Activities* issued by ICAI is the previous GAAP. An entity subject to rate regulation coming into existence after the Ind AS comes into force or an entity whose activities become subject to rate regulation subsequent to preparation and presentation of its first Ind AS financial statements should be entitled to apply the requirements of the previous GAAP in respect of such rate regulated activities.

Summary of requirements of Ind AS 114

Recognition and Measurement

This standard, therefore, provides an exemption from para 11 of Ind AS 8, ‘Accounting Policies, Changes in Accounting Estimates and Errors’, which requires an entity to consider the requirement of Ind AS dealing with similar matters and the requirement of conceptual framework when setting its accounting policies. An entity within the scope of Ind AS 114 is able to make a voluntary irrevocable election in its first annual Ind AS compliant financial statements whether or not to recognise regulatory deferral balances in accordance with this Standard. An entity that has elected to apply Ind AS 114 in its first annual Ind AS compliant financial statements continues to apply the recognition, measurement, impairment and derecognition requirements in accordance with its previous GAAP to **all** its regulatory deferral account balances. Changes are only permitted if they result in the financial statements being either:

- More relevant and no less reliable, or
- More reliable and no less relevant.

Presentation

However, the presentation of such amounts should comply with the presentation requirements of this standard, which may require changes in the entity's previous GAAP presentation policies.

Balance Sheet

The total of regulatory deferral account debit balances, and regulatory deferral account credit balances, are presented separately from, and after, all other items. They are not split into current and non-current portions.

Statement of Profit & Loss

The net movements in regulatory deferral account balances related to both profit or loss, and other comprehensive income are presented separately from, and after, all other items and subtotalled appropriately.

Chapter 8

Recognition, Measurement, Presentation & Disclosure of Expenses & Liabilities

Relevant standards dealt in this chapter are:

- Ind AS 19 – Employee Benefits
- Ind AS 37 - Provisions, Contingent Liabilities and Contingent Assets
- Ind AS 12- Income Taxes
- Ind AS 102- Share-based Payment.

A. Ind AS 102: Share-Based Payment

A share-based payment is a transaction in which the entity receives or acquires goods or services either as consideration for its equity instruments or by incurring liabilities for amounts based on the price of the entity's shares or other equity instruments of the entity. The accounting requirements for the share-based payment depend on how the transaction will be settled, that is, by the issuance of equity, cash, or option of equity or cash. Subsidiaries using their parent's or fellow subsidiary's equity as consideration for goods or services are within the scope of the Standard. There are two exemptions to the general scope principle.

1. The issuance of shares in a business combination should be accounted for under Ind AS 103 Business Combinations. However, care should be taken to distinguish share-based payment related to the acquisition from those related to employee services.
2. Ind AS 102 does not address share-based payment within the scope of Ind AS 32 Financial Instruments: Disclosure and Presentation, or Ind AS 109 Financial Instruments. Therefore, Ind AS 32 and 109 should be applied for commodity-based derivative contracts that may be settled in shares or rights to shares.

Ind AS 102 does not apply to share-based payment transactions other than for the acquisition of goods and services. Share dividends, the purchase of treasury shares, and the issuance of additional shares are therefore outside its scope.

Recognition and Measurement

The issuance of shares or rights to shares requires an increase in a component of equity. Ind AS 102 requires the offsetting debit entry to be expensed when the payment for goods or services does not represent an asset. The expense should be recognised as the goods or services are consumed. For example, the issuance of shares or rights to shares to purchase inventory would be presented as an increase in inventory and would be expensed only once the inventory is sold or impaired.

The issuance of fully vested shares, or rights to shares, is presumed to relate to past service, requiring the full amount of the grant-date fair value to be expensed immediately. The issuance of shares to employees with, say, a three-year vesting period is considered to relate to services over the vesting period. Therefore, the fair value of the share-based payment, determined at the grant date, should be expensed over the vesting period.

As a general principle, the total expense related to equity-settled share-based payments will equal the multiple of the total instruments that vest and the grant-date fair value of those instruments. In short, there is truing up to reflect what happens during the vesting period. However, if the equity-settled share-based payment has a market related performance feature, the expense would still be recognised if all other vesting features are met. The following example provides an illustration of a typical equity-settled share-based payment.

B. Ind AS 19: Employee Benefits

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees. Ind AS 19 applies to (among other kinds of employee benefits):

- Wages and salaries
- Compensated absences (paid vacation and sick leave)
- Profit sharing plans
- Bonuses
- Medical and life insurance benefits during employment
- Housing benefits
- Free or subsidised goods or services given to employees
- Pension benefits
- Post-employment medical and life insurance benefits
- Long-service or sabbatical leave
- 'Jubilee' benefits
- Deferred compensation programmes
- Termination benefits.

Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service. When an employee has rendered service to an entity during an accounting period, the entity should recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

(a) As a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, an entity should recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and

(b) As an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset

Post-employment benefits

Post-employment benefits are employee benefits (other than termination benefits) which 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. Post-employment benefit plans are classified as either defined contribution plans or defined benefit plans, depending on the economic substance of the plan as derived from its principal terms and conditions

Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. Under defined contribution plans:

(a) The entity's legal or constructive obligation is limited to the amount that it agrees to contribute to the fund.and

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

When an employee has rendered service to an entity during a period, the entity should recognise the contribution payable to a defined contribution plan in exchange for that service:

(a) As a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the end of the reporting period, an entity should recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and

(b) As an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset

Defined benefit plans are post-employment benefit plans other than defined contribution plans. Under defined benefit plans:

(a) The entity's obligation is to provide the agreed benefits to current and former employees; and

(b) Actuarial risk (that benefits will cost more than expected) and investment risk fall, in substance, on the entity. If actuarial or investment experience are worse than expected, the entity's obligation may be increased.

Other long-term employee benefits

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.The Standard requires a simpler method of accounting for other long-term employee benefits than for post-employment benefits: actuarial gains and losses and past service cost are recognised immediately.

Termination benefits

Termination benefits are employee benefits payable as a result of either:

(a) An entity's decision to terminate an employee's employment before the normal retirement date; or

(b) An employee's decision to accept voluntary redundancy in exchange for those benefits.

An entity should recognise termination benefits as a liability and an expense when, and only when, the entity is demonstrably committed to either:

(a) Terminate the employment of an employee or group of employees before the normal retirement date; or

(b) Provide termination benefits as a result of an offer made in order to encourage voluntary redundancy.

Where termination benefits fall due more than 12 months after the reporting period, they should be discounted.In the case of an offer made to encourage voluntary redundancy, the measurement of termination benefits should be based on the number of employees expected to accept the offer

C. Ind AS 12: Income Taxes

Ind AS 12 Income Taxes prescribes the accounting treatment for income taxes being the accounting for the current and deferred tax consequences of

(a) The future recovery (settlement) of the carrying amount of assets (liabilities) that are recognised in an entity's Balance Sheet; and

(b) Transactions and other events of the current period that are recognised in an entity's financial statements.

Current Tax

The tax payable to (or receivable from) the tax authorities in the jurisdiction(s) in which an entity operates is accounted for according to the basic principles of accounting for liabilities and assets. Current tax (for current and prior periods) should, to the extent unpaid, be recognised as a liability. If the amount already paid in respect of current and prior period exceeds the amount due for those periods, the excess should be recognised as an asset. The benefit relating to a tax loss that can be carried back to recover current tax of a previous period should be recognised as an asset.

Deferred Taxation

A deferred tax liability should be recognised when there is a taxable temporary difference between the tax base of an asset or liability and its corresponding carrying amount in the Balance Sheet. This arises when the carrying amount of an asset exceeds it tax base. Consequently, the future recovery of the carrying amount will generate taxable profit; e.g.

- Accumulated depreciation of an asset in the financial report is less than the cumulative depreciation allowed up to the reporting date for tax purposes, e.g. depreciation of an asset is accelerated for tax purposes
- Development costs have been capitalized and will be amortized to the Statement of Profit and Loss but were deducted in calculating taxable amounts in the reporting period in which they were incurred.

A taxable temporary difference also arises when the carrying amount of a liability is less than its tax base, because the future settlement of its tax base will generate taxable profit (e.g. a loan initially recognised at fair value net of borrowing costs incurred in the loan establishment but the tax deductions for the costs are amortised over the life of the loan).

A deferred tax liability will not be recognised if arising from:

i. The initial recognition of goodwill or goodwill which amortisation is not deductible for tax purposes.

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

Deferred tax asset

A deferred tax asset is recognised when there is a deductible temporary difference between the tax base of an asset or liability and its carrying amount in the Balance Sheet, but only to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised. A deductible temporary difference arises when the carrying amount of a liability exceeds its tax base, as the future settlement of its carrying amount will be deductible (e.g., provision for warranty is recognised in the accounts at the point of sale but it is only recognised as a tax deduction when the expense is incurred and paid). Further, a deductible temporary difference arises when the carrying amount of an asset is less than its tax base, as its future recovery will generate a tax deduction (e.g., a depreciable asset where accumulated depreciation is greater for accounting than tax purposes, or an asset is revalued downwards but the unrealised loss is not tax deductible until the loss is crystallised by disposal). A deferred tax asset will not be recognised if arising from the initial recognition of an asset or liability in a transaction that is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).

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

Allocation

This standard requires an entity to account for the tax consequences of transactions and other events in the same way that it accounts for the transactions and other events themselves. Thus, for transactions and other events recognised in profit or loss, any related tax effects are also recognised in profit or loss. For transactions and other events recognised outside profit or loss (either in other comprehensive income or directly in equity), any related tax effects are also recognised outside profit or loss (either in other comprehensive income or directly in equity, respectively). Similarly, the recognition of deferred tax assets and liabilities in a business combination affects the amount of goodwill arising in that business combination or the amount of the bargain purchase gain recognised.

D. Ind AS 37: Provisions, Contingent Liabilities and Contingent Assets

Ind AS 37 prescribes the accounting and disclosure for all provisions, contingent liabilities and contingent assets, except:

(a) Those resulting from financial instruments that are carried at fair value;

(b) Those resulting from executory contracts, except where the contract is onerous. Executory contracts are contracts under which either none of the parties has performed any of its obligations or both parties have partially performed their obligations to an equal extent;

(c) Those arising in insurance entities from contracts with policy holders; or

(d) Those covered by another Standard.

Ind AS 37 represents a very important standard in Ind AS as it is necessary to be aware of the principle of past obligating events, the transfer of economic benefits and the principles of estimation.

Provisions:

A provision is a liability of uncertain timing or amount. A provision should be recognised when:

a) An entity has a present obligation (legal or constructive) as a result of a past event;

b) It is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and

c) A reliable estimate can be made of the amount of the obligation.

If these conditions are not met, no provision should be recognised.In rare cases it is not clear whether there is a present obligation. In these cases, a past event is deemed to give rise to a present obligation if, taking account of all available evidence, it is more likely than not that a present obligation exists at the end of the reporting period.

Measurement

The amount recognised as a provision should be the best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The best estimate of the expenditure required to settle the present obligation is the amount that an entity would rationally pay to settle the obligation at the end of the reporting period or to transfer it to a third party at that time.Where the provision being measured involves a large population of items, the obligation is estimated by weighting all possible outcomes by their associated probabilities. Where a single obligation is being measured, the individual most likely outcome may be the best estimate of the liability. However, even in such a case, the entity considers other possible outcomes.

Contingent Liabilities

A *contingent liability* is:

a) A possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or

b) A present obligation that arises from past events but is not recognised because:

    i. It is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or

    ii. The amount of the obligation cannot be measured with sufficient reliability.

An entity should not recognise a contingent liability. An entity should disclose a contingent liability, unless the possibility of an outflow of resources embodying economic benefits is remote.

Contingent Assets

A *contingent asset* is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.An entity should not recognise a contingent asset. However, when the realisation of income is virtually certain, then the related asset is not a contingent asset and its recognition is appropriate.

Chapter 9

Standards on Financial Instruments

The relevant standards are:

- Ind AS 32 Financial Instruments: Presentation
- Ind AS 109 Financial Instruments
- Ind AS 107 Financial Instruments: Disclosures

A. Ind AS 32: Presentation Of Financial Instruments

Ind AS 32 *Financial Instruments: Presentation*, addresses the presentation of financial instruments as financial liabilities or equity. Ind AS 32 includes requirements for

- The presentation of financial instruments as either financial liabilities or equity, including when a financial instrument should be presented as a financial liability or equity instrument by the issuing entity;
- How to separate and present the components of compound financial instruments that contains both liability and equity elements;
- The accounting treatment of reacquired equity instruments of the entity;
- The presentation of interests, dividends, losses, and gains related to financial instruments;
- The circumstances in which financial assets and financial liabilities should be offset; and
- Ind AS 32 complements the requirements for recognizing and measuring financial assets and financial liabilities in Ind AS 109, *Financial Instruments*, and the disclosure requirements for financial instruments in Ind AS 107, *Financial Instruments: Disclosures.*

Debt/Equity Classification

Financial Instruments should be presented based on their substance rather than their legal form. Any liability that is a contractual obligation to deliver cash or other financial assets, or to exchange financial assets or liabilities with other entity in terms that are potentially unfavourable to the entity, is a financial liability. Moreover, a contract that will or may be settled in the entity's own equity instruments and is non-derivative for which the entity is or may be obliged to deliver a variable number of entity's own equity is also a financial liability.

On the other hand, an equity instrument is any contract that evidences residual interest in the assets of an entity after deducting all its liabilities. Therefore, an instrument is an equity instrument if, and only if both the conditions in (a) and (b) are satisfied.

(a) The instrument contains no contractual obligation

- to deliver cash or another financial asset to another entity; or
- to exchange financial assets or financial liabilities with another entity under conditions that is potentially unfavourable to the issuer.

(b) If the instrument will or may be settled in the company's own shares, it is

- A non-derivative for which the entity is not obliged to deliver a variable number of the entity's own equity instruments; or
- A derivative that will or may be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments. For this purpose the entity's own equity instruments do not include instruments that are themselves contracts for the future receipt or delivery of the entity's own equity instruments.

Proper presentation and classification of an issued financial instrument as either a financial liability or an equity instrument determines whether interest, dividends, gains, and losses relating to that instrument are recognized in profit or loss or directly in equity.

Financial Assets are any asset that is:

- Cash

- An equity instrument of another entity
- A contractual right
  - To receive cash or another financial asset from another entity
  - Exchange financial assets and liabilities with another entity under conditions that are potentially favourable to the entity
- A contract that will or may be settled in the entity's own equity instruments and is:
  - Non derivative for which the entity is or may be obliged to receive a variable number of entities own equity instrument; or
  - A derivatives that will or may be settled other than by the exchange of a fixed amount of cash or other financial asset for a fixed number of the entity own equity instruments. For this purpose the entity’s own equity instrument does not include instruments that are themselves contracts for future receipt or delivery of the entity’s own equity instruments.

Some of the examples of financial assets are cash, bank balance, trade account receivables, loans, debt securities, etc.

Contracts and contractual rights

The terms 'contract', 'contractual right' and 'contractual obligation' is fundamental to the definitions of financial instruments, financial assets and financial liabilities. The reference to a 'contract' is to an agreement between two or more parties that have clear economic consequences and which the parties have little, if any, discretion to avoid, usually because the agreement is enforceable at law. Contracts, and thus financial instruments, may take a variety of forms and need not be in writing. Contractual rights and contractual obligations are rights and obligations that arise out of a contract. Assets and liabilities that are not contractual in nature are not financial assets or financial liabilities even though it may result in the receipt or delivery of cash.

Most contracts give rise to a variety of rights and obligations, and the rights and obligations arising from a contract will often change or be added to as the contract is performed. Some of these rights and obligations may fall within the definition of financial instruments and some may not. For example, an unperformed contract for the purchase or sale of tangible assets usually gives rise to rights and obligations to exchange a physical asset for a financial asset (although it is possible that, if the contract is breached, the exchange will involve the payment of compensation). These rights and obligations do not represent a financial instrument. Under the same contract, once the physical asset has been delivered, a debtor or creditor will usually arise and this will be a financial instrument.

In each case, one party's contractual right to receive (or obligation to pay) cash is matched by the other party's corresponding obligation to pay (or right to receive), meaning that each case is an example of a financial instrument. A company holding a convertible bond has a contractual right to receive another financial asset (shares, with cash as an alternative) from the issuer.

In very broad terms, financial assets will, or are likely to, lead to a company receiving cash in the future; financial liabilities will, or are likely to, lead to a company paying out cash in the future. But the cash may be received, or paid, via a whole chain of contractual rights or obligations – for example, a company may hold an option to acquire a convertible bond that can be converted into shares that can be sold for cash. So the definitions of financial asset and financial liability in Ind AS 32 are in general terms.

Exclusions from Financial Assets

There are several exclusions from the normal classification and accounting rules for financial assets. The items excluded are:

i. A hedged item in a fair value hedge;

ii. Interests in subsidiaries, associates and joint ventures, except where they are held temporally for disposal in near future.

iii. Rights and obligations under leases, except for embedded derivatives included in lease contracts

iv. Employers' assets and liabilities under employee benefit plans

v. Rights and obligations under an insurance contract

vi. Financial instruments issued by the entity that meet the definition of an equity instrument

vii. Contracts for contingent consideration in a business combination. This exemption applies only to the acquirer

viii. Contracts between an acquirer and a vendor in a business combination to buy or sell an acquiree at a future date

ix. Financial instruments, contracts and obligations under share based payment transactions, except for contracts that can be settled net in cash or another financial instrument

x. Loan commitments that cannot be settled net in cash and which the entity has not designated as at fair value through profit or loss

Financial Liability as per the standard is any liability that is

- A contractual obligation
    - To deliver cash or other financial assets to another entity; or
    - To exchange financial assets or liabilities with other entity in terms that are potentially unfavourable to the entity; or
- A contract that will or may be settled in the entity’s own equity instrument and is
    - A non-derivative for which the entity is or may be obliged to deliver a variable number of entity’s own equity instruments; or
    - Is a derivative that will or may be settled other than by fixed amount of cash or another financial asset for a fixed number of entities own equity instruments.

The standard defines **equity instrument** as any contract that represents a residual interest in assets of the entity after deducting all its liability. Sometimes the terms of financial instrument are such that they contain components of both equity and liability such instruments are called **compound instruments.** The liability and equity components of a compound instrument are required to be accounted for separately.

Equity - Liability Classification

Many instruments that have the legal form of equity are, in substance, liabilities. A financial instrument should be classified as a financial liability or an equity instrument depending on the substance of the arrangement rather than the legal form. Liabilities arise when the issuer is contractually obligated to deliver cash or another financial asset to the holder of the instrument. An instrument is an equity instrument only if the issuer has no such obligation, i.e. it has an unconditional right to avoid settlement in cash or another financial asset. The ability to defer payment is not enough to achieve equity classification, unless payment can be deferred indefinitely. Generally, an obligation for the entity to deliver its own shares is not a financial liability because an entity's own shares are not considered its financial assets. An exception to this is where an entity is obliged to deliver a variable number of its own equity instruments.

A potential inability or restriction on the ability of an entity to satisfy its obligation to transfer financial assets does not mean the entity has an unconditional right to avoid payment. For instance, an instrument requiring fixed payments only if there are distributable profits but not otherwise, is not an equity instrument. The presence or absence of distributable profits is not within management's control, and therefore does not give management the discretion to avoid payment of dividends.

The terms of some instruments may give rise to an obligation to pay cash or transfer another financial asset only on the occurrence of one or more uncertain future events. For instance, an instrument may include clauses which call for redemption in the event of changes in tax legislation or failure to comply with financial performance measures or covenants etc. Where such specified events are beyond the entity's control, the entity does not have the unconditional right to avoid payment, and hence the instrument is classified as a liability. Liability treatment may be avoided only where an entity can demonstrate that either:

- The related contingent settlement provision is not genuine. An example may be where settlement is contingent upon the occurrence of an event that is extremely rare, highly abnormal and very unlikely to occur
- Settlement in cash or another financial asset is only required in the event of liquidation of the issuer.

Settlement in entity’s own shares

Since the entity's own equity instruments do not represent financial assets of the entity, an entity's obligation to deliver its own equity instruments is generally not a financial liability. However, where there is an obligation of an entity to deliver a variable number of its own equity instruments or to exchange a fixed number of its own equity instruments for a variable amount of cash or other assets is a financial liability. In such cases, the entity is using its own shares as currency to settle an obligation that is either fixed in amount or those changes with a variable other than the price of the entity's own shares. As a result, the holder of the contract is not fully exposed to changes in the entity's share price and the contract does not evidence a residual interest in the entity's assets after deducting all of its liabilities. Offsetting a Financial Asset and a Financial Liability

A financial asset and liability should be offset against each other, to present net amount in the Balance Sheet only when an enterprise has a currently enforceable right to set off the recognised amounts and intends to either settle on net basis or simultaneously settle the liability and realize the asset. Otherwise, in case of transfer of a financial asset that does not qualify for derecognition the entity should not offset the transferred asset and associated liability. It is important to note that the existence of an enforceable right to set off financial asset and financial liability is by itself not sufficient basis for offsetting. Together with it, there should also be an intention to do so. When offset is applied entity has the right to pay or receive a single net amount in relation to two instruments and if it intends to do so, in effect the entity has single financial asset or financial liability.

B. Ind AS 107: Financial Instruments: Disclosures

An entity must group its financial instruments into classes of similar instruments and, when disclosures are required, make disclosures by class. The two main categories of disclosures required by Ind AS 107 are:

i. Information about the significance of financial instruments

ii. Information about the nature and extent of risks arising from financial instruments.

Financial Instruments are very important part of any entities financial statements. One of the purpose of these disclosure requirements are to enable the users of the financial statements to evaluate the significance of financial instruments held or issued by entity, in assessing its financial position and performance. Certain minimum disclosures requirement has been prescribed by the standards. However, the location for the required Balance Sheet disclosures has not been specified. The disclosures may be given at the face of the Balance Sheet or by the way of notes to the financial statements.

Financial assets as at fair value through profit or loss

Entities are required to give extensive disclosures when it designates a loan or receivable as at fair value though profit or loss. This is because, applying fair value option to these instruments makes a significant impact on financial statements as fair value movements are recognised in the financial statements. The required disclosure include maximum amount of credit exposure, the impact of credit derivatives on the credit exposure, and changes in fair value of loans or receivables (or group of loans and receivables) and any related credit derivatives due to changes in credit risk, both during the period and cumulatively. Since it is difficult for many entities to identify and reliably measure changes in fair value of loans and receivables attributable to change in own credit risks, entities are allowed to calculate the amount of change in fair value that is not attributable to change in market condition that give rise to market risks. Entities are allowed to use other methods if it represents the effect of credit risks more faithfully. However, entities need to disclose the method used and if entity believes that the disclosures does not faithfully represent the changes in fair value of financial asset attributable to changes in its credit risk, it should give the reason for such conclusion and **other relevant factors.**

Financial liabilities at fair value through profit or loss

Extensive disclosures are required when an entity designates a financial liability as at fair value through profit or loss, particularly about the credit worthiness. The change in fair value of financial liability during the period and cumulative, due to change in the credit risk of that liability should be disclosed. Since it is difficult for many entities to identify and reliably measure changes in fair value of financial liabilities attributable to change in own credit risks, entities are allowed to calculate the amount of change in fair value that is not attributable to change in market condition that give rise to market risks. Entities may use other methods, if they can demonstrate that it results in more faithful representation of change in fair value attributable to changes in credit risk of the liability. Entities need to disclose the method used and if entity believes that the disclosures does not faithfully represent the changes in fair value of financial asset attributable to changes. Moreover, entities are also required to disclose the carrying amount of the financial liability at fair value through profit or loss and the amount entity would contractually liable to pay at maturity to the holder of the instrument.

Other Disclosures in Balance Sheet

Reclassification: Entities are required to disclose the amount and reason for reclassification of financial assets from cost or amortised cost to fair value or vice versa, for each category of financial assets.

Transferred assets not derecognized: As discussed earlier, some transfers of financial assets do not qualify for derecognition. In such cases, it is important that user of the financial statements are able to evaluate the extent and nature of the risk and rewards entity continues to be exposed to and extent of its continuing involvement with the asset. The disclosures for derecognition are required for each class of financial assets, which can be either be according to type of financial asset or according to nature of risk and reward retained. The entities are required to disclose for each class of such financial assets:

- The nature of the assets
- The nature of the risk and rewards of ownership to which entity remain exposed
- The carrying amount of the assets and associated liabilities when entity continues to recognise all of the assets and in case entity continues to recognise to the extent of its continuing involvement, the total carrying amount of the original assets are also disclosed

Collateral Received: An entity should disclose the fair value and terms and condition of use of financial or non financial assets received as collateral which the company has right to sell or re-pledge in the collateral in the absence of default. It should also disclose the fair value of any such collateral sold or repledged and whether the entity has an obligation to return it.

Collateral Given: In respect to collateral pledged by the entity it should disclose the carrying amount and terms and conditions of financial assets pledged as collateral. Moreover, in respect of collateral given, for which counterparty has, right to sell or re-pledge, it should be classified separately from other financial assets.

Compound Financial Instruments with Multiple Embedded Derivatives: If an entity issues a compound instrument i.e. an instrument with both liability and equity component, with multiple derivatives (as in the case of callable convertible debentures), it should disclose the existence of such features.

Defaults and Breaches: Entities are required to disclose details of any defaults of principal, interest, sinking fund, or redemption terms during the period of any financial liability that is loan payable by the entity. Moreover, the carrying amount of any such loans that are in default at the reporting date is required and whether the default was remedied or the terms of the loans payable were renegotiated before the issue of financial statements should also be stated. Similar disclosures are also required for breaches of other loan agreement if those breaches permit the lender to demand accelerated repayment. However, disclosure need not be given if the breaches are remedied or terms of loan are renegotiated on or before the reporting date. This information is relevant to users for determining the entities credit worthiness and affects the future fund raising prospects of the company.

Financial Instruments in Statement of Profit and Loss and equity

As in the case of minimum Balance Sheet related disclosures, an entity is permitted to present the required Statement of Profit and Loss disclosures on either the face of the Statement of Profit and Loss or in the notes to financial statements. Disclosures in respect to following item of income, expense, gains and losses should be disclosed by the entity:

- Net gains or losses for each financial instrument category of financial instrument as defined earlier. The financial assets and liabilities mandatorily required to be measured as FVTPL has to be shown separately from those designated as at fair value through profit or loss on initial recognition.
- Total interest income and total interest expense, calculated using effective interest method for financial assets or financial liabilities other than not at fair value through profit or loss, should be disclosed.
- Fee income and expense, other than those included in determining effective interest rate, arising from financial assets and liabilities other than financial assets and liabilities as at fair value -through profit or loss should be disclosed. Moreover, the disclosure should be provided of trust and other fiduciary activities that result in the holding or investing of assets on behalf of individuals, trusts, retirement benefit plans, and other institutions. Such information is useful in assessing the level of such activities by entity and in estimating probable future income of the entity.
- Interest income on impaired financial assets that is determined using the rate of interest used to discount the future cash flows for measuring impairment loss.
- The amount of any impairment loss for each class of financial asset.

Nature and extent of risks arising from financial instruments and how the risks are managed

Ind AS 107 requires certain quantitative and qualitative disclosures to be made in financial instruments to enable the users to make appropriate assessment of nature and extent of risks arising from financial instrument and strategy adopted to manage them.

Qualitative disclosure

- Exposure to risk and how it arises
- Objectives, policies and processes for managing risk and method used to measure risk.

Quantitative disclosure

- Summary of quantitative data about exposure to risk based on information given to key management.
- Concentrations of risks.

Liquidity Risk It is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The following disclosures are required in respect of liquidity risk:

- Maturity analysis for financial liabilities that shows the remaining contractual maturities.
- Time bands and increment are based on the entities' judgment
- How liquidity risk is managed.

Credit Risk: Credit Risk refers to the risk that one party to the financial instrument will cause a financial loss for the other party by failing to discharge an obligation. As regards Credit Risk following disclosures should be made:

- Maximum exposure to credit risk without taking into account collateral
- Collateral held as security and other credit enhancements
- Information of financial assets that are either past due (when a counterparty has failed to make a payment when contractually due) or impaired
- Information about collateral and other credit enhancements obtained

Market Risk: This is the risk that the fair value or the future cash flow of the financial instrument will fluctuate because of the changes in the market price. It comprises of three types of risks, which are currency risk, interest rate risk and other price risk.For proper depiction of Market Risks, Ind AS 107 requires the following:

- A sensitivity analysis (including methods and assumptions used) for each type of market risk exposed, showing impact on profit or loss and equity; or
- If a sensitivity analysis is prepared by an entity, showing interdependencies between risk variables and it is used to manage financial risks, it can be used in place of the above sensitivity analysis.

Currency Risk: It is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Interest Rate Risk: It is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rate.

Other Price Risk: It is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in the market price other than those arising from interest rate risk and currency risk. These changes may be caused by the factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

Other Disclosures

1. Accounting Policies

Normally, measurement bases and accounting policies used in preparation and understanding of financial statements are disclosed. For financial instruments these requirement would include the following:

- Criteria for designating financial assets and financial liabilities as at fair value through profit or loss

- Nature of financial assets or liabilities that have been designated as at fair value through profit or loss
- Narrative description of justification of designation of financial asset or financial liability as at fair value through profit or loss
- Criteria for designating financial asset as fair value through OCI
- Determining when the carrying amount of impaired financial assets are reduced directly and when allowance account has to be used
- Criteria for writing off the amount charged to allowance account against the carrying amount of impaired financial assets
- Whether trade date or settlement date accounting model is used for accounting of regular way purchases and sales of financial assets
- Method of determining net gains or net losses on each category of financial instrument. For example, whether the net gains or net losses on items at fair value through profit or loss includes interest or dividend income
- The criteria for determining the objective evidence of impairment loss
- When the terms of financial assets that would otherwise be past due or impaired have been renegotiated, the accounting policy for financial assets that are subject to renegotiation

2. Hedge Accounting Disclosures

Hedging activities are integral and a very significant part of many entities. These activities are integral to entity's financial risk management policy. Hedge accounting is not mandatory for an enterprise. It is adopted to remove the difference in timing of recognition of gains and losses on exposure that is being hedged and the hedging instrument. This accounting choice can have significant effect on the financial statement. For all hedges, entity must disclose a description of each type of hedge, description and fair values at reporting date of the financial instruments designated as hedging instruments date and nature of the risks being hedged. Since, in cash flow hedges, entity has to make significant judgments about expectation of the cash flow and these hedges also requires recognition of gains and losses directly in equity which are recycled to profit or loss, greater transparency is required. Therefore, some additional disclosures are required for cash flow hedges, which are:

- The expected period of cash flows and timing of their effect in profit or loss
- Description of any forecast transaction which was hedged previously, but no longer expected to occur
- The amount recognised in appropriate equity account during the period
- Amount recycled from equity to profit or loss for the period
- The amount removed from appropriate equity account and included in the initial cost or other carrying amount of non-financial asset or non-financial liability whose acquisition or incurrence was a hedged highly probable forecast transaction.
- The ineffectiveness recognised in profit or loss that arises from cash flow hedges.

In case of fair value hedges the gain or loss on the hedging instrument and gain or loss on the hedged item are immediately recognised in profit or loss in all periods. The net of these represents the effective portion of the fair value hedge. Therefore, the gain or loss on the hedging instrument and gain or loss on the hedged item attributable to hedged risk are separately disclosed either on the face of the financial statement or in the notes to financial statements.The ineffectiveness recognised in profit or loss that arises from hedges of net investment in foreign operation is also disclosed.Information about the fair values of each class of financial asset and financial liability, along with:

- Comparable carrying amounts.
- Description of how fair value was determined.
- Detailed information if fair value cannot be reliably measured.

Reclassification

If the entity has reclassified a financial asset to other category, it should disclose:

- The date of reclassification
- A detailed explanation of change in business model and a qualitative description of its effect on entity’s financial statements
- The amount reclassified into and out of each category;

For each reporting period until derecognition, for asset reclassified out of fair value through profit and loss, the entity must disclose

a) The effective interest rate and on date of reclassification of the financial asset and

b) Interest/ revenue recognised

All financial instruments measured at fair value must be classified into the levels:

- **Level 1:** Quoted prices, in active markets
- **Level 2**: Fair value is based on observable market data
- **Level 3:** Inputs that are not based on observable market data.

A financial Instrument will be categorised based on the lowest level of any one of the inputs used for its valuation. The following disclosures are also required:

- Significant transfers of financial instruments between each category – and reasons why
- For level 3, a reconciliation between opening and closing balances, incorporating; gains/losses, purchases/sales/settlements, transfers
- Amount of gains/losses and where they are included in profit and loss
- For level 3, if changing one or more inputs to a reasonably possible alternative would result in a significant change in FV, disclose this fact.

Clarify that the current maturity analysis for non-derivative financial instruments should include issued financial guarantee contracts. Add disclosure of a maturity analysis for derivative financial liabilities.

C. Ind AS 109 - Financial Instruments

Ind AS 109 is based on IFRS 9 which will replace IAS 39 and has not yet been made effective though earlier adoption has been allowed by IASB. This is one standard that would be adopted in early in India than rest of the world.The standards' scope is broad. The standards cover all types of financial instruments, including receivables, payables, investments in bonds and shares, borrowings and derivatives. They also apply to certain contracts to buy or sell non-financial assets (such as commodities) that can be net-settled in cash or another financial instrument.Ind AS 109 introduces single classification and measurement model for financial assets dependent on both:

- The entity's business model objective for managing financial assets;
- The contractual cash flow characteristics of financial assets.

Important Definitions

A **financial asset** is cash; a contractual right to receive cash or another financial asset; a contractual right to exchange financial assets or liabilities with another entity under potentially favourable conditions; or an equity instrument of another entity.

A **financial liability** is a contractual obligation to deliver cash or another financial asset; or to exchange financial instruments with another entity under potentially unfavourable conditions; or is a contract that will or may be settled in entity's own instrument under certain circumstances.

An **equity instrument** is any contract that evidences a residual interest in the entity's assets after deducting all of its liabilities.

A **derivative** is a financial instrument that derives its value from an underlying price or index; requires little or no initial net investment; and is settled at a future date.

Initial Recognition of Financial Assets and Liabilities

A financial asset or liability is recognised in the Balance Sheet when and only when, an entity becomes party to the contractual provisions of the instrument.

Initial Measurement of Financial Assets and Liabilities

A financial asset (except for certain trade receiveables) or liability is measured at its fair value. For those financial assets and liabilities not classified at fair value through profit or loss, directly attributable transaction costs should be added/subtracted to fair value. The fair value of a financial instrument is normally the transaction price, that is, the fair value of the consideration given or received. However, in some circumstances, the transaction price may not be indicative of fair value. Ind AS permits departure from the transaction price only if fair value is evidenced by a quoted price in an active market for an identical asset or liability (that is, a Level 1 input) or based on a valuation technique that uses only data from observable markets.

Classification of Financial Assets

Based on the entity's business model objective for managing financial assets and the contractual cash flow characteristics of financial assets they are classified as financial assets measured at either amortised cost, fair value through profit or loss, or fair value through other comprehensive income.

Financial Assets Subsequently Measured at Amortised cost: To classify a financial asset as subsequently measured at amortised cost **both** of the below conditions must be met:

- The financial assets held within a **business model** whose objective is to hold financial assets in order to collect contractual cash flows;
- The contractual term of the financial asset give rise on specified dates to **cash flow** that are solely payments of principal and interest on the principal amount outstanding.

Such financial assets are subsequently measured at amortised cost using effective interest rate.

Financial Assets measured at Fair Value through Other Comprehensive Income (FVTOCI):

A financial asset should be measured at fair value through other comprehensive income if both of the following conditions are met:

- The financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Such assets are subsequently measured at fair value with all gains and losses recognised in other comprehensive income Changes in fair value are not subsequently recycled to profit and loss. Dividends are recognised in profit or loss.

Financial Assets measured at Fair value through profit or loss (FVTPL)

A financial asset should be measured at fair value through profit or loss unless it is measured at amortised cost in or at fair value through other comprehensive income. However an entity may make an irrevocable election at initial recognition for particular investments in equity instruments that would otherwise be measured at fair value through profit or loss to present subsequent changes in fair value in other comprehensive income Note: the option to designate is irrevocable. Such financial assets are subsequently measured at fair value, with all gains and losses recognised in profit or loss.

Financial assets: Equity instruments

Investments in equity instruments are always measured at fair value. Equity instruments are those that meet the definition of equity from the perspective of the issuer as defined in Ind AS 32. Equity instruments that are held for trading are required to be classified as FVPL. For all other equities, management has the ability to make an irrevocable election on initial recognition, on an instrument-by-instrument basis, to present changes in fair value in OCI rather than profit or loss. If this election is made, all fair value changes, excluding dividends that are a return on investment, will be included in OCI. There is no recycling of amounts from OCI to profit and loss (for example, on sale of an equity investment), nor are there any impairment requirements.However, the entity might transfer the cumulative gain or loss within equity.

Financial liabilities

Financial liabilities are measured at the amortised cost using effective interest rate method unless they are classified as FTVPL. Financial liabilities are classified as FTVPL if they are designated at initial recognition as such (subject to various conditions), if they are held for trading or are derivatives (except for a derivative, that is, a financial guarantee contract or a designated and effective hedging instrument). For liabilities designated at FVPL, changes in fair value related to changes in own credit risk are presented separately in OCI. Amounts in OCI relating to own credit are not recycled to profit or loss even when the liability is derecognised and the amounts are realised. However, the standard does allow transfers within equity.

Derivatives

Derivatives (including separated embedded derivatives) are measured at fair value. All fair value gains and losses are recognised in profit or loss except where the derivatives qualify as hedging instruments in cash flow hedges or net investment hedges.

Regular way purchase or sale of financial assets

Appendix A of Ind AS 109 defines *a regular way purchase or sale* of financial assets as follows: *A purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned*. Therefore, a contract that requires or permits net settlement of the change in the value of the contract is not a regular way contract. Instead, such a contract is accounted for as a derivative in the period between the trade date and the settlement date

A regular way purchase or sale of financial assets is recognised using either trade date accounting or settlement date accounting. Here trade date refers to the date that an entity commits itself to purchase or sell an asset whereas settlement date is the date that an asset is delivered to or by an entity.

Trade date accounting refers to

- the recognition of an asset to be received and the liability to pay for it on the trade date, and
- derecognition of an asset that is sold, recognition of any gain or loss on disposal and the recognition of a receivable from the buyer for payment on the trade date.

Settlement date accounting refers to

- the recognition of an asset on the day it is received by the entity, and
- the derecognition of an asset and recognition of any gain or loss on disposal on the day that it is delivered by the entity.

Implications:

- When using trade date accounting generally, interest does not start to accrue on the asset and corresponding liability until the settlement date when title passes.
- When using settlement date accounting, an entity accounts for any change in the fair value of the asset to be received during the period between the trade date and the settlement date in the same way as it accounts for the acquired asset. In other words, the change in value is not recognised for assets measured at amortised cost; it is recognised in profit or loss for assets classified as financial assets measured at fair value through profit or loss; and it is recognised in other comprehensive income for investments in equity instruments accounted for using OCI option.

Derecognition of Financial Instruments

Derecognition is the term used for ceasing to recognise a financial asset or financial liability on an entity's balance sheet. These rules are more complex.

Assets

An entity that holds a financial asset may raise finance using the asset as security for the finance or as the primary source of cash flow to repay the finance. Derecognition requirements of Ind AS 109 determine whether the transaction is a sale of the financial assets (and therefore the entity ceases to recognise the assets) or whether finance has been secured on the assets (and the entity recognises a liability for any proceeds received). This evaluation can be straightforward. For example, it is clear with little or no analysis that a financial asset is derecognised in an unconditional transfer of it to an unconsolidated third party, with no risks and rewards of the asset being retained.

Conversely, derecognition is not allowed where an asset has been transferred, but substantially all the risks and rewards of the asset have been retained through the terms of the agreement. However, the analysis may be more complex in other cases. Securitisation and debt factoring are examples of more complex transactions where derecognition will need careful consideration.

Liabilities

An entity may only cease to recognise (derecognise) a financial liability when it is extinguished–that is, when the obligation is discharged, cancelled or expires, or when the debtor is legally released from the liability by law or by the creditor agreeing to such a release. An exchange between an existing borrower and lender of debt instruments with substantially different terms or substantial modification of the terms of an existing financial liability of part thereof is accounted for as an extinguishment. The difference between the carrying amount of a financial liability extinguished or transferred to a 3rd party and the consideration paid is recognised in profit or loss.

Impairment of Financial Assets

The impairment requirements are applied to:

- Financial assets measured at amortised cost (incl. trade receivables)
- Financial assets measured at fair value through OCI
- Loan commitments and financial guarantees contracts where losses are currently accounted for under Ind AS 37 Provisions, Contingent Liabilities and Contingent Assets
- Lease receivables.

Ind AS 109 outlines a three-stage model (general model) for impairment based on changes in credit quality since initial recognition. It is based on changes in expected credit losses of a financial instrument that determine the recognition of impairment, and the recognition of interest revenue.

Stage 1 includes financial instruments that have not had a significant increase in credit risk since the initial recognition or have low credit risk at the reporting date. For these assets, 12-month expected credit losses (ECL) are recognised and interest revenue is calculated on the gross carrying amount of the asset (that is, without deduction for credit allowance). 12-month ECL result from default events that are possible within 12 months after the reporting date. It is not the expected cash shortfalls over the 12-month period but the entire credit loss on an asset weighted by the probability that the loss will occur in the next 12 months.

Stage 2 includes financial instruments that have had a significant increase in credit risk since the initial recognition (unless they have low credit risk at the reporting date) but that do not have objective evidence of impairment. For these assets, lifetime ECL are recognised, but interest revenue is still calculated on the gross carrying amount of the asset. Lifetime ECL are the expected credit losses that result from all possible default events over the expected life of the financial instrument. EPL are the weighted average credit losses with the probability of default (PD) as the weight.

Stage 3 includes financial assets that have objective evidence of impairment at the reporting date. For these assets, lifetime ECL are recognised and interest revenue is calculated on the net carrying amount (that is, net of credit allowance).

ECL are a probability-weighted estimate of credit losses. A credit loss is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive discounted at the original effective interest rate. Since ECL consider the amount and timing of payments, a credit loss arises even if the entity expects to be paid in full, but later than when contractually due.

The model includes some operational simplifications for trade receivables, contract assets and lease receivables as they are often held by entities that do not have sophisticated credit risk management systems. These simplifications eliminate the need to calculate 12-month ECL and to assess when a significant increase in credit risk has occurred.

For trade receivables or contract assets that do not contain a significant financing component, the loss allowance needs to be measured at the initial recognition as well as throughout the life of the receivable at an amount equal to lifetime ECL. As a practical expedient, a provision matrix may be used to estimate ECL for these financial instruments.

For trade receivables or contract assets which contain a significant financing component and lease receivables, an entity has an accounting policy choice. It can either apply the simplified approach (measuring the loss allowance at an amount equal to lifetime ECL at initial recognition and throughout its life), or apply the general model. As an exception to the general model, if the credit risk of a financial instrument is low at the reporting date, management can measure impairment using 12-month ECL, and so it does not have to assess whether a significant increase in credit risk has occurred.

Hedge Accounting

Hedging is the process of using a financial instrument (usually a derivative) to mitigate all or some of the risk of a hedged item. Hedge accounting changes the timing of recognition of gains and losses on either the hedged item or the hedging instrument so that both are recognised in profit or loss within the same accounting period, in order to record the economic substance of the combination of the hedged item and instrument. To qualify for hedge accounting, an entity must (a) formally designate and document a hedge relationship between a qualifying hedging instrument and a qualifying hedged item at the inception of the hedge, and (b) both at inception and on an ongoing basis, demonstrate that the hedge is effective.

There are three types of hedge relationships:

I. Fair value hedge: A hedge of the exposure to changes in the fair value of a recognised asset or liability, or a firm commitment

II. Cash flow hedge: A hedge of the exposure to variability in cash flows of a recognised asset or liability, a firm commitment or a highly probable forecast transaction

III. Net investment hedge: A hedge of the foreign currency risk on a net investment in a foreign operation

For a fair value hedge, the hedged item is adjusted for the gain or loss attributable to the hedged risk. That element is included in the statement of profit & loss where it will offset the gain or loss on the hedging instrument. For an effective cash flow hedge, gains and losses on the hedging instrument are initially included in other comprehensive income.

The amount included in other comprehensive income is the lesser of the fair value of the hedging instrument and hedge item. Where the hedging instrument has a fair value greater than the hedged item, the excess is recorded within the profit or loss as ineffectiveness. Gains or losses deferred in other comprehensive income are reclassified to profit or loss when the hedged item affects the statement of profit & loss. If the hedged item is the forecast acquisition of a non-financial asset or liability, the entity may choose an accounting policy of adjusting the carrying amount of the non-financial asset or liability for the hedging gain or loss at acquisition, or leaving the hedging gains or losses deferred in equity and reclassifying them to profit and loss when the hedged item affects profit or loss. Hedges of a net investment in a foreign operation are accounted for similarly to cash flow hedges.

Chapter 10

Industry Based Standards

Standards dealt in this chapter are:

Ind AS 104: Insurance Contracts

Ind AS 106: Exploration For And Evaluation Of Mineral Resources

A. Ind AS 104: Insurance Contracts

An insurance contract is a "contract under which one party (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder." The objective of Ind AS 104 is to specify the financial reporting for insurance contracts by any entity that issues such contracts. In particular, this Ind AS requires:

(a) Limited improvements to accounting by insurers for insurance contracts.

(b) Disclosure that identifies and explains the amounts in an insurer's financial statements arising from insurance contracts and helps users of those financial statements understand the amount, timing and uncertainty of future cash flows from insurance contracts.

Ind AS 104 applies to virtually all insurance contracts (including reinsurance contracts) that an entity issues and to reinsurance contracts that it holds. It also applies to financial instruments that an entity issues with a discretionary participation feature. It does not apply to other assets and liabilities of an insurer, such as financial assets and financial liabilities within the scope of Ind AS 109 Financial Instruments. Furthermore, it does not address accounting by policyholders. If insurance contracts include a deposit component, unbundling may be required.

Requirements of Ind AS 104

Temporary exemption from some other Ind ASs: Ind AS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, specify criteria for an entity to use in developing an accounting policy if no Ind AS applies specifically to an item. However, this Ind AS exempts an insurer from applying those criteria to its accounting policies for:

(a) insurance contracts that it issues (including related acquisition costs and related intangible assets, such as those described in paragraphs 31 and 32); and

(b) Reinsurance contracts that it holds.

Unbundling of Deposit Components: Some insurance contracts contain both an insurance component and a deposit component. In some cases, an insurer is required or permitted to unbundle those components. To unbundle a contract, an insurer should apply Ind AS 104 to the insurance component and apply Ind AS 109 to the deposit component.

Liability Adequacy Test: An insurer should assess at the end of each reporting period whether its recognised insurance liabilities are adequate, using current estimates of future cash flows under its insurance contracts. If that assessment shows that the carrying amount of its insurance liabilities (less related deferred acquisition costs and related intangible assets) is inadequate, the entire deficiency should be recognised in profit or loss. If an insurer applies this test that meets specified minimum requirements, Ind AS 104 imposes no further requirements.

Impairment or Reinsurance Assets: If a cedent's reinsurance asset is impaired, the cedent should reduce its carrying amount accordingly and recognise that impairment loss in profit or loss.

Changes in accounting policies: An insurer may change its accounting policies for insurance contracts if, and only if, the change makes the financial statements more relevant to the economic decision-making needs of users and no less reliable, or more reliable and no less relevant to those needs.

Insurance contracts acquired in a business combination or portfolio transfer: An insurer measures, at the acquisition date, the insurance liabilities assumed and insurance assets acquired in a business combination at fair value. However, an insurer is permitted, though not mandatorily required, to use an expanded presentation that splits the fair value of acquired insurance contracts into two components:

a. A liability measured in accordance with the insurer's accounting policies for insurance contracts that it issues; and

b. An intangible asset, representing the difference between the fair value of the contractual insurance rights acquired and insurance obligations assumed and the amount described in (a).

The subsequent measurement of this asset should be consistent with the measurement of the related insurance liability. An insurer acquiring a portfolio of insurance contracts may use the expanded presentation.

Discretionary participation features in insurance contracts: Some insurance contracts contain a discretionary participation feature as well as a guaranteed element. The issuer of such a contract:

- may, but need not, recognise the guaranteed element separately from the discretionary participation feature.
- If the issuer does not recognise them separately, it should classify the whole contract as a liability.
- If the issuer classifies them separately, it should classify the guaranteed element as a liability and classify discretionary participation feature as either a liability or a separate component of equity
- Issuer may recognise all premiums received as revenue without separating any portion that relates to the equity component. The resulting changes in the guaranteed element and in the portion of the discretionary participation feature classified as a liability should be recognised in profit or loss.
- If part or all of the discretionary participation feature is classified in equity, the issuer should recognise the portion of profit or loss attributable to any equity component of a discretionary participation feature as an allocation of profit or loss, not as expense or income.

- Issuer must continue its existing accounting policies for such contracts, unless it changes those accounting policies in a way that complies with Ind AS 104.

Discretionary participation features in financial instruments: In case of financial instruments with discretionary participation feature, besides the above requirements, the following would apply

- If the issuer classifies the entire discretionary participation feature as a liability, it should apply the liability adequacy test to the whole contract.
- If the issuer classifies part or all of that feature as a separate component of equity, the liability recognised for the whole contract must not be less than the amount that would result from applying Ind AS 109 to the guaranteed element.
- Although these contracts are financial instruments, the issuer may continue to recognise the premiums for those contracts as revenue and recognise as an expense the resulting increase in the carrying amount of the liability.

Disclosures

- An insurer is required to disclose information that identifies and explains the amounts arising from insurance contracts.
- An insurer is required to disclose information that enables the user of its financial statement to evaluate the nature and extent of risks arising from insurance contracts:

B. Ind AS 106: Exploration For and Evaluation of Mineral Resources

Objective of Ind AS 106

Ind AS 106 provides guidance on recognition, impairment and disclosures for exploration and evaluation expenditures and assets. An entity should apply Ind AS 106 to exploration and evaluation expenditures that it incurs except the following expenses that entity incurs

- Before the exploration for and evaluation of mineral resources, such as expenditures incurred before the entity has obtained the legal rights to explore a specific area.
- after the technical feasibility and commercial viability of extracting a mineral resource are demonstrable.

This standard does not address other aspects of accounting by entities engaged in the exploration for and evaluation of mineral resources.

Important Definitions

Exploration and evaluation assets are exploration and evaluation expenditures recognised as assets in accordance with the entity’s accounting policy.

Exploration and evaluation expenditures are expenditures incurred by an entity in connection with exploration for and evaluation of mineral resources before the technical feasibility and commercial viability of extracting a mineral resource are demonstrable.

Exploration for and evaluation of mineral resources include the search for mineral resources, including minerals, oil, natural gas and similar non-regenerative resources after the entity has obtained legal rights to explore in a specific area, as well as the determination of the technical feasibility and commercial viability of extracting the mineral resource.

Requirements of Ind AS 106

Temporary exemption from Ind AS 8

(a) This standard permits an entity to develop an accounting policy for exploration and evaluation assets without specifically considering the requirements of paragraphs 11 and 12 of Ind AS 8 *Accounting Policies, Changes in Accounting Estimates and Errors.* Thus, an entity adopting Ind AS 106 may continue to use the accounting policies applied immediately before adopting this Ind AS. This includes continuing to use recognition and measurement practices that are part of those accounting policies.

(b) Exploration and evaluation assets are classified as tangible or intangible according to the nature of the assets acquired. Once classified, it must be followed consistently.

Measurement: Expenditures related to the development of mineral resources are not be recognised as exploration and evaluation assets. The guidance in ICAI's *Framework* and other Ind ASs would provide guidance on the recognition of assets arising from development and obligations for removal and restoration incurred.After recognition, an entity should apply either the cost model or the revaluation model to the exploration and evaluation assets.

Presentation: Ind AS 106 requires entities recognising exploration and evaluation assets to perform an impairment test on those assets when facts and circumstances suggest that the carrying amount of the assets may exceed their recoverable amount.

Impairment: Ind AS 106 varies in the recognition of impairment from that in Ind AS 36 *Impairment of Assets* but measures the impairment in accordance with that Standard once the impairment is identified.

Disclosures: Ind AS 106 requires disclosure of information that identifies and explains the amounts recognised in its financial statements arising from the exploration for and evaluation of mineral resources, including

a. Its accounting policies for exploration and evaluation expenditures including the recognition of exploration and evaluation assets.

b. The amounts of assets, liabilities, income and expense and operating and investing cash flows arising from the exploration for and evaluation of mineral resources.

Chapter 11

Disclosure Standard

The following standards deal exclusively with disclosure requirements. However, Ind AS 107 has been dealt in earlier chapter pertaining to Financial Instruments.

- Ind AS 24 Related Party Disclosures
- Ind AS 108 Operating Segments

A. Ind AS 24: Related Party Disclosures

Objective & Scope of Ind AS 24

The objective of Ind AS 24 is to ensure that an entity's financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and profit or loss may have been affected by the existence of related parties and by transactions with such parties. This Standard should be applied in:

(a) Identifying related party relationships and transactions;

(b) Identifying outstanding balances, including commitments, between an entity and its related parties;

(c) Identifying the circumstances in which disclosure of the items in (a) and (b) is required; and

(d) Determining the disclosers to be made about those items.

This Standard requires disclosure both in the consolidated and separate financial statements of a parent, venturer or investor presented in accordance with Ind AS 27 *Separate Financial Statements*. It also applies to individual financial statements. Related party transactions and outstanding balances with other entities in a group are disclosed in an entity's financial statements. Intra-group related party transactions and outstanding balances are eliminated in the preparation of consolidated financial statements of the group. Related party disclosure requirements as laid down in this Standard do not apply in circumstances where providing such disclosures would conflict with the reporting entity's duties of confidentiality as specifically required in terms of a statute or by any regulator or similar competent authority.

Important Definitions

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

(a) A person or a close member of that person's family is related to a reporting entity if that person:

  (i) Has control or joint control over the reporting entity;

  (ii) Has significant influence over the reporting entity; or

  (iii) Is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.

(b) An entity is related to a reporting entity if any of the following conditions applies:

  (i) The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

  (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

  (iii) Both entities are joint ventures of the same third party.

  (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

  (v) The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity)

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

Close members of the family of a person are the persons specified within meaning of 'relative' under the Companies Act 1956 and that person's domestic partner, children of that person's domestic partner and dependants of that person's domestic partner.

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

Disclosure Requirements under Ind AS 24

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

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

(a) Short-term employee benefits;

(b) Post-employment benefits;

(c) Other long-term benefits;

(d) Termination benefits; and

(e) Share-based payment.

If there have been transactions between related parties, an entity should disclose the nature of the related party relationship as well as information about the transactions and outstanding balances necessary for an understanding of the potential effect of the relationship on the financial statements. These disclosure requirements are in addition to the requirements to disclose key management personnel compensation. At a minimum, disclosures should include:

(a) The amount of the transactions;

(b) The amount of outstanding balances including commitments, and

1. Their terms and conditions, including whether they are secured, and the nature of the consideration to be provided in settlement; and

2. Details of any guarantees given or received;

(c) Provisions for doubtful debts related to the amount of outstanding balances; and

(d) The expense recognised during the period in respect of bad or doubtful debts due from related parties. [paragraph 18]

The disclosures should be made separately for each of the following categories:

(a) The parent;

(b) Entities with joint control or significant influence over the entity;

(c) Subsidiaries;

(d) Associates;

(e) Joint ventures in which the entity is a venturer;

(f) Key management personnel of the entity or its parent; and

(g) Other related parties.

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

B. Ind AS 108: Operating Segments

Objective& Scope of Ind AS 108

The main objective of Ind AS 108 is to provide information so as to enable users of entities financial statements to evaluate the nature and financial effects of the business activities in which it engages and the economic environments in which it operates. If a financial report contains both the consolidated financial statements of a parent that is within the scope of this Indian Accounting Standard as well as the parent's separate financial statements, segment information is required only in the consolidated financial statements. Ind AS 108 defines an operating segment as follows. An operating segment is a component of an entity:

- That engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity);
- Whose operating results are reviewed regularly by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance; and
- For which discrete financial information is available.

Reportable segments

Ind AS 108 requires an entity to report financial and descriptive information about its reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria:

- Its reported revenue, from both external customers and intersegment sales or transfers, is 10 per cent or more of the combined revenue, internal and external, of all operating segments; or

- The absolute measure of its reported profit or loss is 10 per cent or more of the greater, in absolute amount, of (i) the combined reported profit of all operating segments that did not report a loss and (ii) the combined reported loss of all operating segments that reported a loss; or
- Its assets are 10 per cent or more of the combined assets of all operating segments.

If the total external revenue reported by operating segments constitutes less than 75 per cent of the entity's revenue, additional operating segments must be identified as reportable segments (even if they do not meet the quantitative thresholds set out above) until at least 75 per cent of the entity's revenue is included in reportable segments.

Disclosure Requirements

i. General information about how the entity identified its operating segments and the types of products and services from which each operating segment derives its revenues;

ii. Information about the reported segment profit or loss, including certain specified revenues and expenses included in segment profit or loss, segment assets and segment liabilities and the basis of measurement; and

iii. Reconciliations of the totals of segment revenues, reported segment profit or loss, segment assets, segment liabilities and other material items to corresponding items in the entity's financial statements.

iv. Some entity-wide disclosures that are required even when an entity has only one reportable segment, including information about each product and service or groups of products and services.

v. Analyses of revenues and certain non-current assets by geographical area – with an expanded requirement to disclose revenues/assets by individual foreign country (if material), irrespective of the identification of operating segments.

vi. Information about transactions with major customers.

vii. Considerable segment information at interim reporting dates.

Chapter 12

First- Time Adoption of Indian Accounting Standards

Ind AS 101: First- Time Adoption of Indian Accounting Standards

Objective & Scope of Ind AS 101: Ind AS 101 prescribes the accounting principles for first-time adoption of Ind AS. It lays down various 'transition' requirements when a company adopts Ind AS for the first time, i.e., a move from Accounting Standards (Indian GAAP) to Ind AS. Conceptually, the accounting under Ind AS should be applied retrospectively at the time of transition to Ind AS. However, to ease the process of transition, Ind AS 101 has given certain exemptions from retrospective application of Ind AS. The exemptions are broadly categorised into those which are mandatory in nature (i.e., cases where the company is not allowed to apply Ind AS retrospectively) and those which are voluntary in nature (i.e., the company may elect not to apply certain requirements of Ind AS retrospectively). Ind AS 101 also prescribes presentation and disclosure requirements to explain the transition to the users of financial statements including explaining how the transition from Indian GAAP to Ind AS affected the company's financial position, financial performance and cash flows. Ind AS 101 does not provide any exemption from the disclosure requirements in other Ind AS. An entity should apply Ind AS 101 in its first Ind AS financial statements; and each interim financial report, if any, that it presents in accordance with Ind AS 34 *Interim Financial Reporting* for part of the period covered by its first Ind AS financial statements.

Structure OfInd AS 101

Ind AS 101 is set out in Paras 1-40 and Appendices A-D

- Appendix A- Defined Terms
- Appendix B- Exceptions to the retrospective application of other Ind AS s
- Appendix C- Exemptions for business combinations
- Appendix D- Exemptions from other Ind ASs

Key Definitions as set out in Appendix A

First time Adopter: An entity that presents its first Ind AS financial statements

First Ind AS financial Statements: The First annual financial statements in which an entity adopts Ind AS by an explicit and unreserved statement of compliance with Ind AS

First Ind AS reporting period: The latest reporting period covered by an entity's first Ind AS financial statements

Indian Accounting Standards: Ind ASs are Accounting Standards prescribed under section 133 of the Companies Act, 2013

Opening Ind AS Balance Sheet: An entity's Balance Sheet at the date of transition to Ind ASs

Date of transition to Ind ASs: The beginning of the earliest period for which an entity presents full comparative information under Ind ASs in its first Ind AS financial statements

Deemed cost: An amount used as a surrogate for cost or depreciated cost at a given date. Subsequent depreciation or amortisation assumes that the entity had initially recognised the asset or liability at the given date and that its cost was equal to the deemed cost.

Previous GAAP: The basis of accounting that a first-time adopter used for its statutory reporting requirements in India immediately before adopting Ind ASs. For instance, companies required to prepare their financial statements in accordance with Section 133 of the Companies Act, 2013, should consider those financial statements as previous GAAP financial statements.

Transition Date For Ind As And Preparing Opening Balance Sheet At Date Of Transition

The opening Ind AS Balance Sheet is the starting point for all subsequent accounting under Ind AS. Companies should prepare an opening Ind AS Balance Sheet at 'the date of transition to Ind AS'. This Balance Sheet forms the basis for preparation of financial statements for e.g. opening Balance Sheet is required for, and integral to an equity reconciliation that has to be presented in an entity's first Ind AS financial statements. The opening statement of financial statement has to be prepared as on this date however, the same need not be published in the first Ind AS financial statements. In preparing opening Balance Sheet entity must: follow the ***Recognition & Measurement principles of Ind AS 101***

Recognition & Measurement Principles Of Ind AS 101

Ind AS 101 requires a first-time adopter to use the same accounting policies including general principle of retrospective application, optional exemptions and mandatory exceptions in its opening Ind AS Balance Sheet and all periods presented in its first Ind AS financial statements The selection of accounting policy among diverse existing alternatives as per Ind AS standards should be done carefully, fully understanding its implication on both the opening Ind AS Balance Sheet and the financial statements of future periods.A number of standards allow companies to choose between alternative policies. Companies should select the accounting policies to be applied to the opening Ind AS Balance Sheet carefully, with a full understanding of the implications on both the opening Ind AS Balance Sheet and the financial statements of future periods.A company may apply a standard that has been issued at the reporting date, even if that standard is not mandatory, as long as the standard permits early adoption.

Accounting policies

An entity should use the same accounting policies in its opening Ind AS Balance Sheet and throughout all periods presented in its first Ind AS financial statements. Those accounting policies should comply with each Ind AS effective at the end of its first Ind AS reporting period, except as specified in Ind AS 101.

Opening Balance Sheet

Generally a first time adopter should comply with the following requirements of Ind AS 101 in its opening Balance Sheet:

(a) recognise all assets and liabilities whose recognition is required by Ind ASs;

(b) not recognise items as assets or liabilities if Ind ASs do not permit such recognition;

(c) reclassify items that it recognised in accordance with previous GAAP as one type of asset, liability or component of equity, but are a different type of asset, liability or component of equity in accordance with Ind ASs;

(d) apply Ind ASs in measuring all recognised assets and liabilities.

Resulting Adjustments required on account of moving from previous GAAP to Ind AS at the time of first-time adoption. The transition to Ind AS could result in an entity having to change its accounting policies on recognition and measurement. The effect of this is recognized directly in retained earnings or other appropriate category of equity in the opening Ind AS Balance Sheet prepared at the date of transition to Ind ASs.

There are significant disclosure requirements relating to changes in accounting policies on transition to Ind AS. The information gathering and reporting systems of the entities should be suitably modified to deliver correct presentation and disclosure requirements as per Ind AS in the opening and subsequent period Balance Sheets of the first time adopters.

Exceptions To The Principle That An Entity's Opening Statement Should Comply With Each Ind AS

The basic requirement is for full retrospective application of all Ind AS, effective at the reporting date. However, there are a number of optional exemptions and mandatory exceptions to the requirement of retrospective application.The exemptions cover standards for which it is considered that retrospective application could prove too difficult or could result in a cost likely to exceed related benefits to users. As regards optional exemptions, these are optional and any, all or none of the exemptions may be applied by the entity.

Presentation and Disclosure

Ind AS 101 does not provide exemptions from the presentation and disclosure requirements in other Ind ASs. This Ind AS requires that an entity's first Ind AS financial statements should include at least three balance sheets, two statements of profit and loss, two statements of cash flows and two statements of changes in equity and related notes, including comparative information for all statements presented.

Explanation of transition to Ind ASs

Ind AS 101 requires that an entity should explain how the transition from previous GAAP to Ind ASs affected its reported balance sheet, financial performance and cash flows.

Exceptions to the retrospective application of other Ind ASs

Ind AS 101 prohibits retrospective application of some aspects of other Ind ASs. These exceptions are set out in paragraph 14-17 of Ind AS 101 and Appendix B to Ind AS 101.

Estimates

Paragraphs 14-17 of Ind AS 101 deal with exception with regard to 'estimates'. As per paragraph 14 of Ind AS 101, an entity's estimates in accordance with Ind AS at 'the date of transition to Ind AS' or 'the end of the comparative period presented in the entity's first Ind AS financial statements', as the case may be, should be consistent with estimates made for the same date in accordance with previous GAAP unless there is objective evidence that those estimates were in error. However, the estimates should be adjusted to reflect any differences in accounting policies.

Mandatory Exceptions

Appendix B to Ind AS 101 provides that an entity should apply the following mandatory exceptions:

- derecognition of financial assets and financial liabilities;
- hedge accounting;
- non-controlling interests;
- classification and measurement of financial assets;
- impairment of financial assets;
- embedded derivatives; and

- government loans

De-recognition of financial assets and financial liabilities

A first-time adopter should apply the de-recognition requirements in Ind AS 109 on 'Financial Instruments' prospectively for transactions occurring on or after the date of transition to Ind AS.

Hedge Accounting

As required by Ind AS 109, at the date of transition to Ind AS, an entity should:

a) measure all derivatives at fair value; and

b) eliminate all deferred losses and gains arising on derivatives that were reported in accordance with previous GAAP as if they were assets or liabilities.

Paragraph B5 of Appendix B to Ind AS 101 provides that an entity should not reflect in its opening Ind AS Balance Sheet a hedging relationship of a type that does not qualify for hedge accounting in accordance with Ind AS 109. Paragraph B6 of Ind AS 101 provides that if, before the date of transition to Ind AS, an entity had designated a transaction as a hedge but the hedge does not meet the conditions for hedge accounting in Ind AS 109, the entity should discontinue hedge accounting. Transactions entered into before the date of transition to Ind ASs should not be retrospectively designated as hedges.

Non-controlling interests

A first-time adopter should apply the following requirements of Ind AS 110 on 'Consolidated Financial Statements' prospectively from the date of transition to Ind AS:

a) the requirement that total comprehensive income should be attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance

b) the requirements under Ind AS 110 for accounting for changes in the parent's ownership interest in a subsidiary that do not result in a loss of control, i.e., considering such a change as a equity transaction (transaction with owners in their capacity as owners) to be accounted for accordingly

c) the requirements under Ind AS 110 for accounting for a loss of control over a subsidiary, and the related requirements under Ind AS 105 on 'Non-current Assets Held for Sale and Discontinued Operations' However, if a first-time adopter elects to apply Ind AS 103 on 'Business Combinations' retrospectively to past business combinations, it should also apply Ind AS 110 from the same date.

Classification and measurement of financial assets

Ind AS 101 provides exemptions to certain classification and measurement requirements of financial assets under Ind AS 109, where these are impracticable to implement.

Impairment of financial assets

An entity should apply the impairment requirements under Ind AS 109 (for recognition and measurement of expected credit losses) retrospectively subject to certain exemptions provided under Ind AS 101.

Embedded derivatives

A first-time adopter should assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative. This assessment is based on the conditions that existed at the later of:

a) the date it first became a party to the contract; and

b) the date a reassessment is required under Ind AS 109

Government loans

A first-time adopter should classify all government loans received as a financial liability or an equity instrument in accordance with Ind AS 32 on 'Financial Instruments: Presentation'.

A first-time adopter should apply the requirements under Ind AS 109 on 'Financial Instruments' and Ind AS 20 on 'Accounting for Government Grants and Disclosure of Government Assistance' prospectively to government loans existing at the date of transition to Ind AS, i.e., it should not recognise the corresponding benefit of the government loan at a below-market rate of interest as a government grant. Consequently, if a first-time adopter did not, under its previous GAAP, recognise and measure a government loan at a below-market rate of interest on a basis consistent with the requirements under Ind AS, it should use its previous GAAP carrying amount of the loan at the date of transition to Ind AS as the carrying amount of the loan in the opening Ind AS balance sheet and apply Ind AS 109 to the measurement of such loans after the date of transition to Ind AS.

Under Ind AS 101, an entity has been given an exception to prospective application of Ind AS 109 and Ind AS 20, i.e., an entity may apply the requirements in Ind AS 109 and Ind AS 20 retrospectively to any government loan originated before the date of transition to Ind AS. However, this exception is available only in cases where the information needed for retrospective application of Ind AS 109 and Ind AS 20 had been obtained at the time of initially accounting for that loan.

Exemptions for business combinations

Appendix C to Ind AS 101 contains the requirements that an entity should apply to business combinations that the entity recognised before the date of transition to Ind AS. For all transactions qualifying as business combinations under Ind AS 103, an entity being a first time adopter has three choices viz.

i. Not restate business combinations before the date of transition.

ii. Restate all business combinations before the date of transition.

iii. Restate a particular business combination, in which case all subsequent business combinations must also be restated and the Ind AS 36 impairment guidance must be applied.

An entity need not apply Ind AS 21, *The Effects of Changes in Foreign Exchange Rates,* retrospectively to fair value adjustments and goodwill arising in business combinations that occurred before the date of transition to Ind ASs and it should treat them as assets and liabilities of the entity.An entity may apply Ind AS 21 retrospectively to fair value adjustments and goodwill arising in either:

a) all business combinations that occurred before the date of transition to Ind ASs; or

b) all business combinations that the entity elects to restate to comply with Ind AS 103.

Appendix C also provides the detailed consequences in case a first-time adopter does not apply Ind AS 103 retrospectively to a past business combinations. The exemption for past business combinations also applies to past acquisitions of investments in associates, interests in joint ventures and interests in joint operations in which the activity of the joint operation constitutes a business, as defined in Ind AS 103.

The optional exemptions

An entity may elect to use one or more exemptions given in Ind AS 101 in the context of the following:

- Share-based payment transactions
- Insurance contracts
- Deemed cost
- Leases
- Cumulative translation differences
- Investment in subsidiaries, joint ventures and associates
- Assets and liabilities of subsidiaries, joint ventures and associates
- Compound financial instruments
- Designation of previously recognised financial instruments
- Fair value measurement of financial assets or financial liabilities at initial recognition
- Decommissioning liabilities included in the cost of property, plant and equipment
- Financial assets or intangible assets accounted for in accordance with service concession arrangements
- Borrowing costs
- Extinguishing financial liabilities with equity instruments
- Severe hyperinflation
- Joint arrangements
- Stripping costs in the production phase of a surface mine
- Designation of contracts to buy or sell a non-financial item
- Revenue from contracts with customers
- Non-current assets held for sale and discontinued operations

An entity should not apply these exemptions by analogy to other items.

Dr. Rajkumar S. Adukia

Ph.D., B.Com (Hons.), FCA, FCS, ACMA, LL.B, DIPR, DLL&LW, MBA, Dip IFR(UK)

rajkumarradukia@caaa.in

9820061049

Author's Profile

Dr. Rajkumar S. Adukia is an eminent Business Advisor, Author, Speaker and an authority in Indian GAAP, IFRS and Ind AS. He has been conducting seminar and lectures across various countries. Having graduated from Sydenham College of Commerce & Economics in 1980 as **5th rank** holder in Bombay University, he received a Gold Medal for highest marks in Accountancy & Auditing. Passed the Chartered Accountancy with **1st Rank** in Inter CA and **6th Rank** in Final CA examination. He also secured **3rd Rank** in Final Cost Accountancy Course in 1983. He has been awarded G.P.Kapadia prize for best student of the year 1981. Besides, he holds Degree in law, PhD in Corporate Governance in Mutual Funds, MBA, **Diploma IFRS (UK)**, Diploma in Labour law and Labour welfare, Diploma in IPR, Diploma in Criminology.

He has be Hon. Sec. of Western India Regional Council of Institute of Chartered Accountants of India in 1991-92 and Chairman of WIRC in 1997-98, central council member from 1998 to 2016 ,International Member of Professional Accountants in Business Committee (PAIB) of International Federation of Accountants (IFAC) from 2001 to 2004. He has been Chairman of Research Committee, Board of Studies, Public Relation Committee, Members in Industry, University & Higher Secondary Board Liaison Committee, Peer review Board & International Trade Law & WTO OF ICAI, Member of Inspection Panel of Reserve Bank of India, Member of J.J. Irani committee which drafted Companies Bill 2008, Member of Secretarial Standards Board of ICSI, Member of working group of Competition Commission of India, National Housing Bank, NABARD, RBI, CBI etc. He has also been Independent Director of Mutual Fund Company and Asset Management Company.

He has written more than 100 books on wide variety of topic ranging from those dealing with Trade, Taxation, Finance, Real Estate to topics like Time Management and Professional Opportunities. He is Successful Practicing Chartered Accountant since last 30 years in varied field of Financial Planning, Taxation and Legal Consulting. He has been a business advisor for various companies on varied subjects and has travelled across the globe for his professional work and knowledge sharing. He has widely travelled three fourth of globe addressing international conferences and seminar on various international issues like Corporate Social Responsibility, Corporate Governance, Business Ethics etc.

He is currently Member of Quality Review Board under Chartered Accountants Act 1949, Member of CAG Advisory Audit Committee, **Member of International Financial Reporting Standards Foundation SME Group**.

He has been actively involved with ICAI as a Central Council Member during the period when the convergence to IFRS was conceptualized in India and has been instrumental in materializing the idea. He has written two books on IFRS viz. Encyclopedia on IFRS and Handbook on IFRS. He has given Lecture on IFRS at various prestigious forums including National Academy of Audit and Accounts. He has been associated with numerous corporate and banks (like DENA Bank & Central Bank of India)in their convergence procedure both directly and by giving training on Ind AS to their staff members. He has also trained staff members of various regulatory bodies like Regional Director and Registrar of Companies, Western Region, Ministry of Corporate Affairs, CBDT and CBEC.

He has won numerous awards like The Jeejeebhoy Cup for proficiency and character, State Trainer by the Indian Junior Chamber, “Rajasthan Shree” by Rajasthan Udgosh, a noted Social Organization of Rajasthan and many other awards as a successful leader in various fields.