

Agenda

Time	Ind AS	Particulars
Ist Half	Ind AS 102	Share Based Payments
IInd Half	Ind AS 20	Government Grant and disclosure for government assistance
	Ind AS 34	Interim financial reporting
	Ind AS 106	Exploration and evaluation of mineral resources
	Ind AS 114	Regulatory deferral accounts
	Ind AS 104	Insurance contracts
	Ind AS 29	Financial reporting in hyperinflationary economies

Share Based Payments

Ind AS 102

Comparison - IND AS 102 , ICAI Guidance note and IFRS

IND AS 102 and IGAAP (including SEBI rules)

- Ø Accounting – For listed entities SEBI guidelines and for other entities ICAI Guidance Note
- Ø Coverage of Non-employee share based payments under IND-AS
- Ø Measurement – Fair value (IND-AS) vs. Intrinsic or fair value (ICAI Guidance)
- Ø Coverage of Group share based payment plan under IND-AS
- Ø Graded vesting – no option to spread the expense over entire award period under Ind AS

IND AS 102 and IFRS

- Ø Accounting of Share-based payment plan administered through a trust in separate financial statement of entity under IND-AS.

What is Share based payment (SBP) transaction & arrangement ?

- ▶ SBP transaction is a transaction in which the entity
 - (a) *receives goods or services from the supplier of those goods or services in a SBP arrangement, or*
 - (b) *incurs an obligation to settle the transaction with the supplier in a SBP arrangement when another group entity receives those goods or services.*

- ▶ SBP arrangement is an agreement between the entity (or another group entity or any shareholder of any group entity) and another party that entitles the other party to receive
 - (a) *cash or other assets of the entity for amounts that are based on the price (or value) of equity instruments of the entity or another group entity, or*
 - (b) *equity instruments of the entity or another group entity, provided the specified vesting conditions, if any, are met.*

Example of Share-based payment arrangements

SBP arrangements between employers and employees

- ∅ Share appreciation rights (SAR) that entitle employees to cash payments calculated by reference to increases in the market price of an entity's shares
- ∅ Share ownership plans where employees receive an entity's shares in exchange for their services.

SBP arrangements that are not between employers and employees

- ∅ An external consultant (not an employee) may provide services in return for shares in the entity.
- ∅ A supplier may provide goods in return for shares in the entity.
- ∅ A shareholder (rather than an employer) may grant shares to an employee.

Scope of IND AS 102

IND AS 102 encompasses:

- ▶ **I. Equity-settled share-based payment transactions** in which the entity receives goods or services and as consideration for equity instruments of the entity (e.g., the grant of shares or share options to employees)
- ▶ **II. Cash-settled share-based payment transactions** in which the entity receives goods or services and incurs a liability based on the price (or value) of the entity's shares or other equity instruments of the entity as consideration (e.g., the grant of share appreciation rights to employees, which entitle the employees to future cash payments based on the increase in the entity's share price).
- ▶ **III. Share-based payment transactions with cash alternatives** in which the entity receives goods or services and either the entity or the supplier of those goods or services (the counterparty) has a choice of settling the transaction in cash, other assets, or equity instruments

Important Concepts of Accounting for Share-based payments

Grant date

- ▶ Grant date is defined as *“the date on which the Company and employees agree to the terms of an employee share-based payment plan. At grant date, the Company confers on the employees the right to cash or shares of the Company, provided the specified vesting conditions, if any, being met.”*
- ▶ In practice, it is not always clear when a mutual understanding of the award (and, therefore, grant date) has occurred. Issues of interpretation can arise as to:
 - ▶ how precise the shared understanding of the terms of the award must be and
 - ▶ exactly what level of communication between the Company and the counterparty is sufficient to ensure the appropriate degree of 'shared understanding.

Important Concepts of Accounting for Share-based payments

Example – Determination of grant date

XYZ Ltd grants 100 stock options to each of its 500 employees. The law governing the Company requires approval of the board / shareholders on any such grant. What is the grant date of ESOP in each of the following scenarios?

- ▶ a) The Company communicates the award to employees first, followed by board / shareholders approval. The award is approved with the same terms as initially communicated to employees.
- ▶ b) Shareholder / board approval is obtained first, and later the award is communicated to the employees.
- ▶ c) The award is communicated to the individual employees, but when it goes to the shareholders/board for approval, the shareholders/board changes the original award from how it was initially communicated to employees. The entity then communicates the new terms to employees.

Important Concepts of Accounting for Share-based payments

Grant date in each of the scenarios above:

- ▶ a) Grant date is the board/shareholders approval date.
- ▶ b) Grant date is the date of communication of the award to the employees as this is the date on which the Company and its employees agree to the terms of the ESOP.
- ▶ c) Grant date is the subsequent communication date to employees, as this is the date when the Company and its employees have a shared understanding of the terms and condition of the ESOP plan.

Important Concepts of Accounting for Share-based payments

Date of receipt of goods and services

- ▶ Determination of date on which goods and services are received is critical, as the Company is required to recognise employee stock compensation expense on the date of receipt of goods and services. The date of receipt of goods and services may not be the same as grant date, if the goods or services are received prior to the grant date.
- ▶ For example, on 1st January, 2013 an entity advises employees of the terms of a share award designed to reward performance over the three years ended 31st December, 2015. The award is subject to board approval, which is given on 1st March, 2013. In this case, grant date is 1st March, 2013. However, the cost of the award would be recognised over the three year period beginning 1st January, 2013, since the employees would have effectively been rendering service for the award from that date.

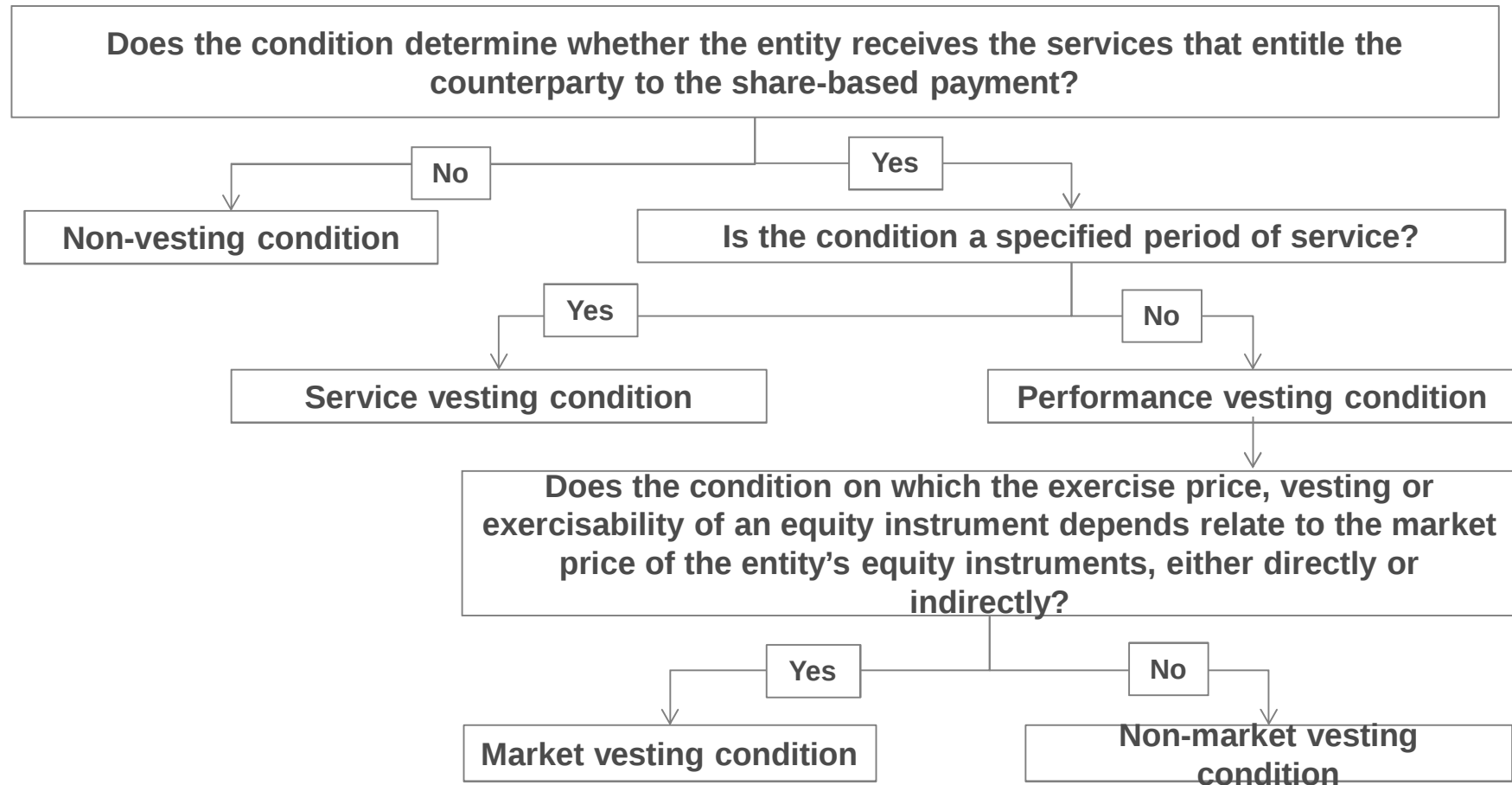
Important Concepts of Accounting for Share-based payments

Vesting and non-vesting conditions

- ▶ A share-based payment award generally vests upon meeting specified conditions, such as service conditions (time-based) or performance conditions (e.g., achieving a specified EBITDA target).
- ▶ Under IND AS 102, the nature of the condition affects the timing of when the expense is recognised, and in some cases, the measurement of the expense.
- ▶ In addition, if a condition is not met, whether or not the entity may reverse the previously recognised compensation expense depends on the nature of the condition that was not met. Therefore, the classification of a condition is a critical step in accounting for share-based payments.

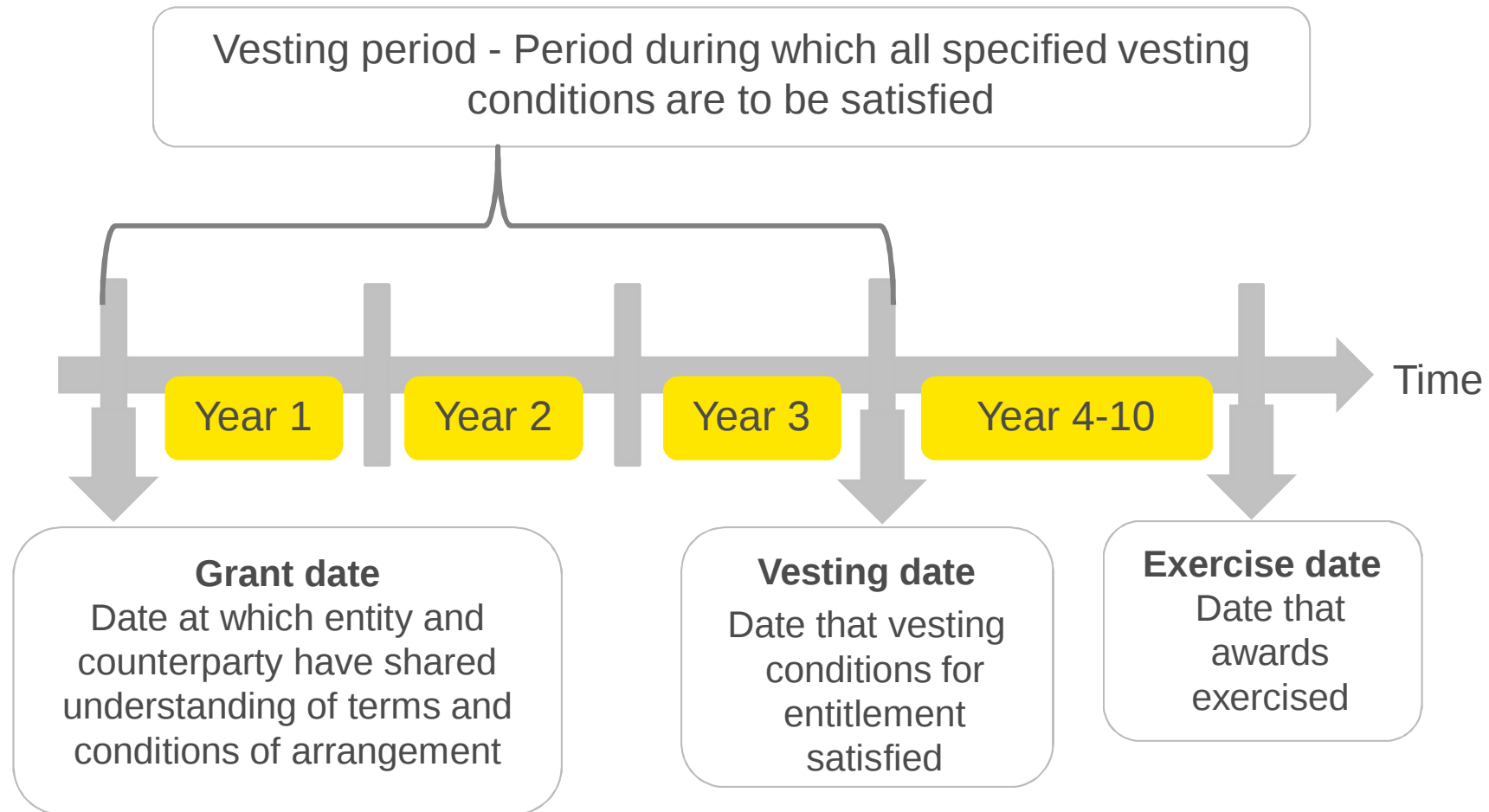
Important Concepts of Accounting for Share-based payments

Classification of conditions to receive share-based payments



Important Concepts of Accounting for Share-based payments

Timeline of a share option award



Important Concepts of Accounting for Share-based payments

Example: Vesting period - Award with service condition only

If an employee remains in service for at least three years from the grant date of the award, the employee can exercise the options at any time after the end of three years and on or before ten years from the grant date of the award. The fair value of the award at the grant date, ignoring the effect of the vesting condition, is Rs. 300,000.

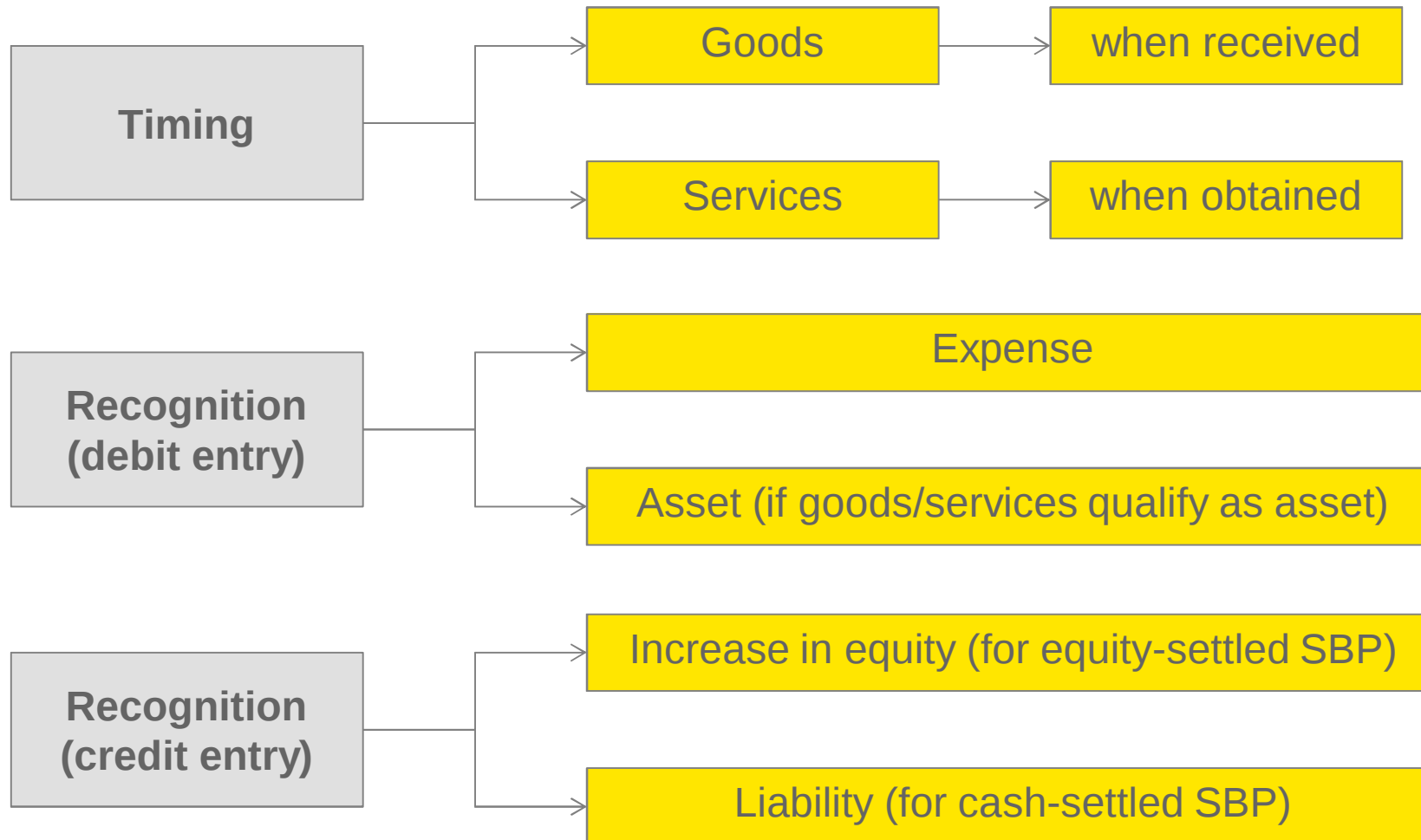
For this award, the vesting period is three years, the exercise period is seven years, and the life of the option is ten years.

The requirement to remain employed is a (vesting) service condition. The entity recognises an expense of Rs.100,000 a year for three years, with a corresponding increase in equity. If the employee leaves at the start of year three, the entity reverses the cumulative expense previously recognised (i.e., Rs 200,000) in the current year.

Overview of Equity and Cash settled - Measurement

Counterparty	Measurement basis	Initial Measurement date	Recognition date	Subsequent Measurement Basis and date
Equity Settled Awards				
Employee	Fair value of equity instruments awarded	Grant date	Date goods or services received	No re-measurement
Non-employee	Fair value of goods or services received	Date goods or services received		
Cash Settled Awards				
Employee	Fair value of Liability	Grant date	Date goods or services received	Re-measurement of fair value at each reporting date.
Non-employee	Fair value of Liability	Date goods or services received		

Recognition principle



Impact of conditions

Calculating total expected charge

$$\text{Total value at grant date} = \text{Total number of options} \times \text{Grant date fair value of options}^* \times \text{Percentage expected to vest}$$

Accounting for conditions

Grant date fair value of options



Non-vesting Condition
Market Condition



Do not true up during vesting period or on vesting date

Percentage expected to vest



Service conditions
Non-market performance conditions



True up estimates during vesting period and on vesting date

* Re-measured at each reporting date in case of cash settled SBP

Examples of impact of various conditions

Example: Award with market condition only

- Q. An entity granted share options to a director on the condition that the market price of the related shares increases by at least 15% each year over the next five years. At the end of year five, this target was not met.
- A. The entity cannot reverse the expense recognised in the current or previous years and cannot revise the grant date fair value since the condition is market-based.

Example: Award with non-vesting condition only

- Q. An entity grants share options to a director on the condition that the director does not compete with the reporting entity for a period of at least three years. The fair value of the award at the date of grant, including the effect of the 'non-compete' clause, is Rs. 150,000.
- A. The 'non-compete' clause is a non-vesting condition, because the entity does not receive any services. On the grant date, the entity immediately recognises a cost of Rs. 150,000, as the director is not providing any future services. The entity cannot reverse the expense recognised, even if the director goes to work for a competitor and loses the share options, because the condition is a non-vesting condition.

Example - Cash-settled awards

An entity grants 100 cash-settled awards to each of its 500 employees, on condition that the employees remain in its employment for the next three years. Cash is payable at the end of three years based on the share price of the entity's shares on such date.

Year 1 - 35 employees leave. The entity estimates that 60 additional employees will leave during years 2 and 3 (i.e., the award will vest for 405 employees). The share price at year-end is Rs 40.

Year 2 - 40 employees leave and the entity estimates that 25 additional employees will leave during year 3 (i.e., the award will vest for 400 employees). The share price at year-end is Rs 50.

Year 3 - 22 employees leave, so that the award vests for 403 employees. The share price at year-end is Rs 52.

Example - Cash-settled awards (cont.)

- The entity recognises the cost of this award as follows:

Year	Calculation of liability	Liability	Expense for Period
1	405 employees x 100 awards x Rs 40 x 1/3	5,40,000 (Cr)	5,40,000 (Dr)
2	400 employees x 100 awards x Rs 50 x 2/3	13,33,333 (Cr)	7,93,333 (Dr)
3	403 employees x 100 awards x Rs 52 x 3/3	20,95,600 (Cr)	7,62,267 (Dr)

Entry at the end of 3rd year (Final cash settlement)

Liability A/c	Dr	20,95,600	
To Cash	Cr		20,95,600

Share-based payment awards with a cash alternative

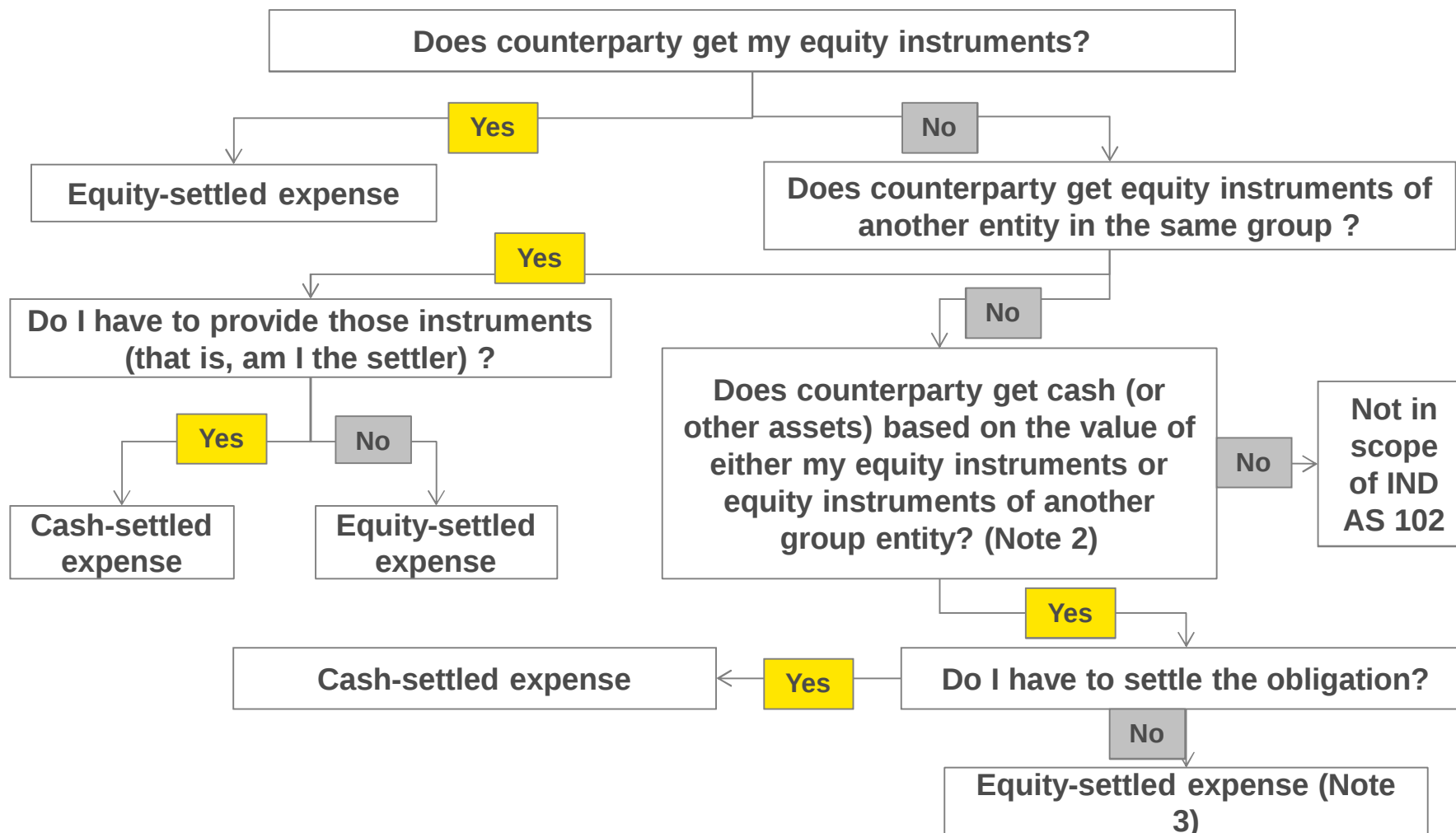
The accounting differs depending on whether the choice rests with the counterparty or the entity.

- ▶ If counterparty has the right to choose the mode of settlement treat the award as a compound award. Split into a liability component (the counterparty's right to demand settlement in cash) and an equity component (the counterparty's right to demand settlement in shares). Once split, the entity accounts for the two components separately.
- ▶ If entity has to choice then entity shall determine whether it has a present obligation to settle in cash treat the whole award as cash settled and account award as a liability or else account for the transaction as equity settled.

Share-based payment plan administered through a trust

- ▶ An entity may administer a share-based payment plan through a trust constituted for this purpose.
 - ▶ The trust may have different kinds of arrangements, for example, the entity allots shares to the trust as and when the stock options are exercised or the entity provides finance to the trust for subscription to the shares issued by the entity at the beginning of the plan or the entity provides finance to the trust to purchase shares from the market at the beginning of the plan.
 - ▶ Since the trust administers the plan on behalf of the entity, it is an extension of the entity as a branch/agent. The financial statements of the entity shall be prepared as if the entity itself is administering the plan.
 - ▶ The shares held by the trust shall be reflected in the separate financial statements of the entity. The face value of these shares shall be shown as a deduction from share capital and the excess paid over and above the face value shall be shown as deduction from securities premium with a detailed note explaining the facts. In the books of account, these shares will continue to remain recorded in a separate account and only for presentation purposes be shown as deduction from share capital/securities premium.
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Classification of share-based payment transactions in group arrangements



Modification, cancellation or settlement

Modifications:

- q Entity to recognise, as a minimum, services received measured at the grant date at fair value of the equity instruments granted, unless those equity instruments do not vest because of failure to satisfy a vesting condition (other than a market condition) that was specified at grant date. This applies irrespective of any modifications to the terms and conditions on which the equity instruments were granted, or a cancellation or settlement of that grant of equity instruments.
- q The entity shall also recognise the effects of modifications that increase the total fair value of the share-based payment arrangement or are otherwise beneficial to the Employee.

Cancellation or Settlement:

- q If a grant of equity instruments is cancelled or settled during the vesting period:
 - § Entity shall recognise immediately the amount that otherwise would have been recognised for services received over the remainder of the vesting period.

Modification, cancellation or settlement (Contd.)

- ▶ Any payment made to the employee on the cancellation or settlement shall be accounted for as a deduction from equity, except to the extent that the payment exceeds the fair value of the equity instruments granted, measured at the repurchase date.
- ▶ If new equity instruments are granted to the employee and entity identifies the new equity instruments granted as replacement equity instruments for the cancelled equity instruments, the entity shall account for in the same way as a modification of the original grant of equity instruments.

Disclosures

IND AS 102 requires entities to disclose the following:

- ▶ The type and scope of agreements existing during the reporting period.
- ▶ Description of agreements (settlement methods, vesting conditions, etc.).
- ▶ The number and weighted-average exercise price of share options by category (outstanding at the beginning of the reporting period and at the end of the reporting period, granted, vested, exercised and forfeited).
- ▶ Average share price of exercised options
- ▶ Range of exercise prices and remaining contractual life of options outstanding at the end of the reporting period.
- ▶ Valuation method used to estimate the fair value of the awards (model and input values, etc.).
- ▶ The impact on the income statement (i.e., total expense) and the financial position (e.g., carrying amount of liabilities) of share-based payment awards.

Difference between IGAAP and Ind-AS 102

IGAAP	IND-AS 102
Share-based payment to employees have an option to measure based on the grant date fair value or intrinsic value of the equity instruments issued.	Share-based payment to employees are measured based on the grant-date fair value of the equity instruments issued. Intrinsic value approach is permitted only when the fair value of the equity instruments cannot be estimated reliably.
For measuring share-based payment to non-employees there is no specific guidance.	Share-based payment to employees are generally, measured based on the fair value of the goods or services received.

Difference between IGAAP and Ind-AS 102 (Contd.)

IGAAP	IND-AS 102
In case of graded vesting i.e. where share options or other equity instruments granted vest in instalments over the vesting period, entity may choose to measure on a straight-line basis as a single award or an accelerated basis as though each separately vesting portion of the award is a separate award.	Awards with graded vesting is measured as, in substance, multiple awards.

Accounting for Government Grants and Disclosure of Government Assistance

Ind AS 20

Agenda

- ▶ Scope
- ▶ Definitions
- ▶ Recognition
- ▶ Presentation
- ▶ Measurement
- ▶ Refund
- ▶ Other issues
- ▶ Disclosures
- ▶ Key Differences

Scope

Scope

- ▶ Applicable to all government grants

Out of scope

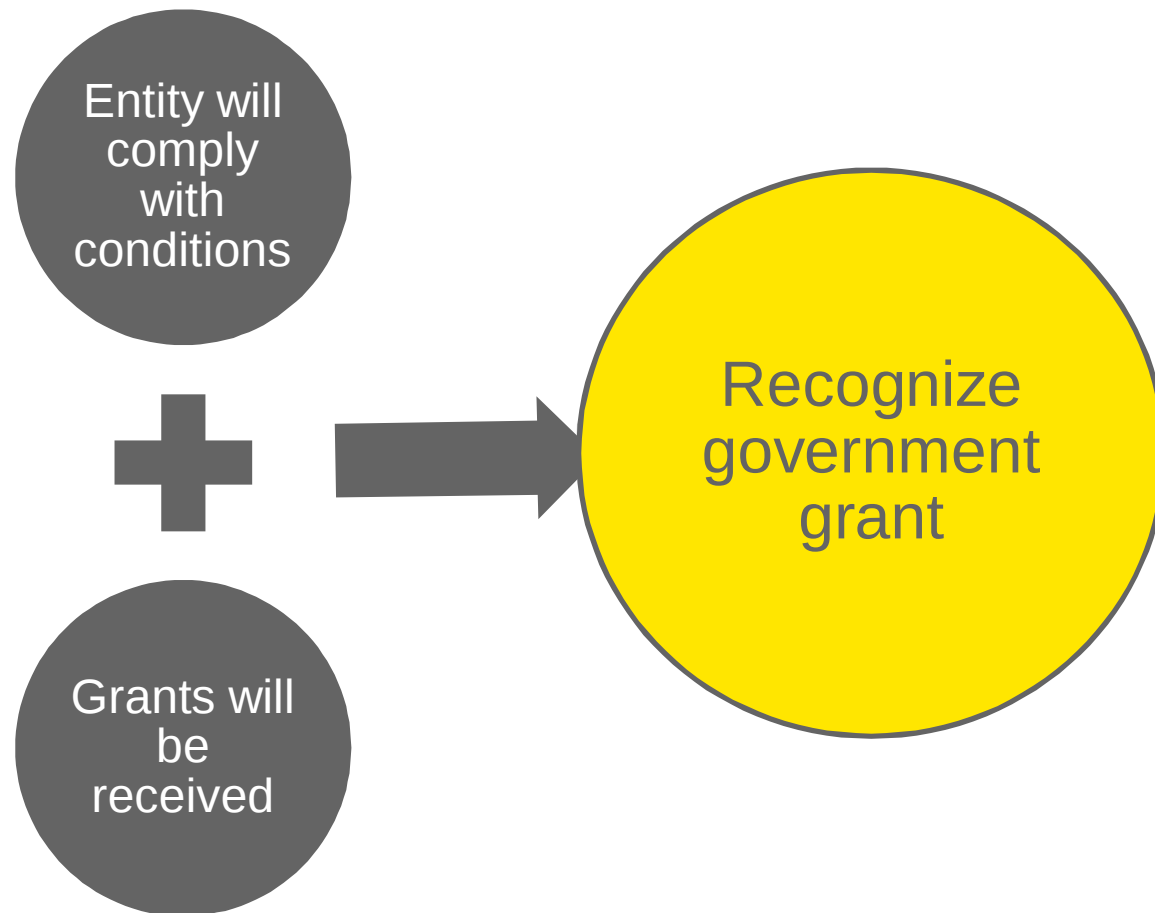
- ▶ Benefits that are available in determining taxable profit or tax loss (e.g., income tax holidays, investment tax credits)
- ▶ Government participation in the ownership of the entity.
- ▶ Government grants covered by Ind AS 41 Agriculture.

Definitions

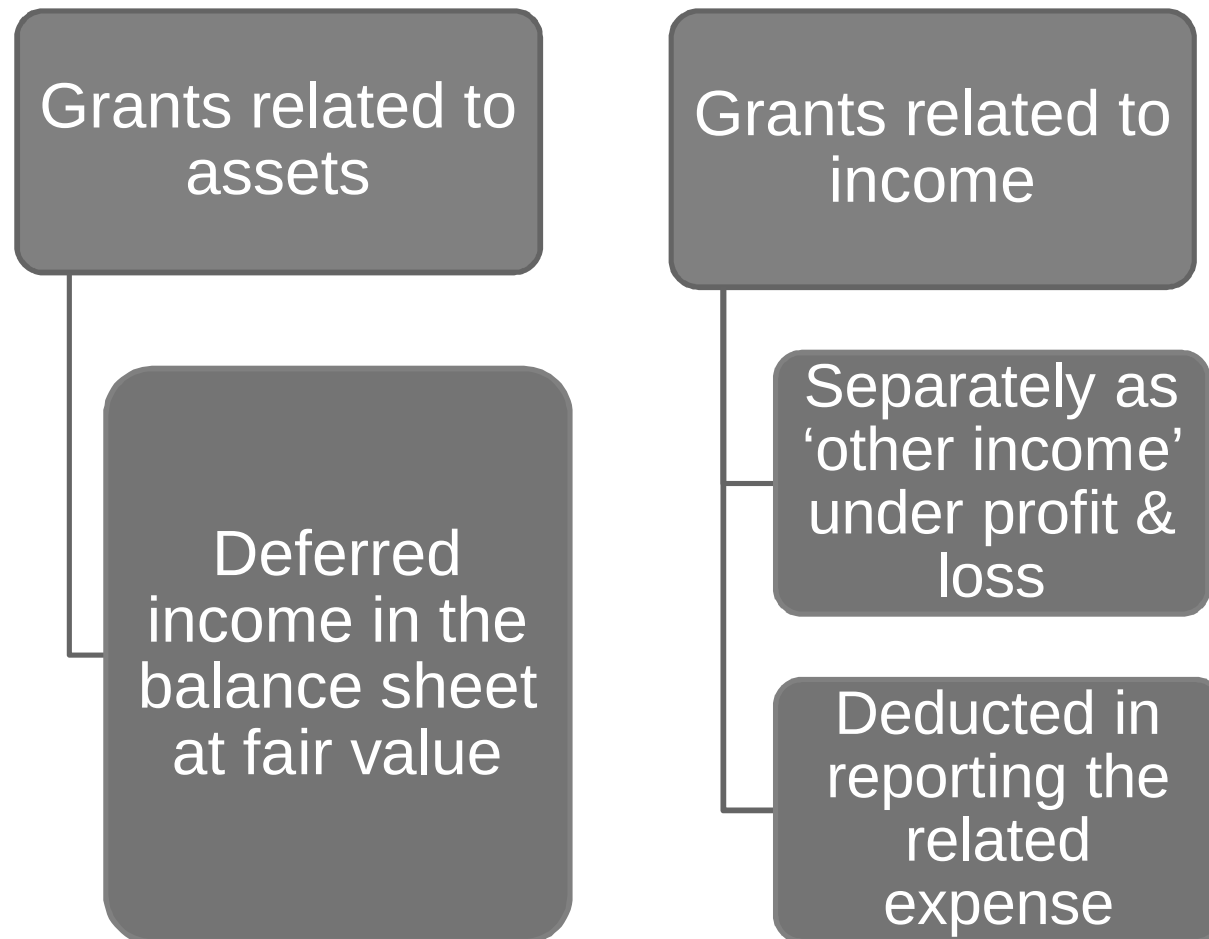
- ▶ **Government:** refers to the Central Government, State Government, agencies and similar bodies, whether local, national or international
- ▶ **Government grants** are assistance by government in the form of transfers of resources to an entity in return for past or future compliance with certain conditions relating to the operating activities of the entity.

Recognition

Recognition only if there is “reasonable assurance” that:



Presentation



Matching of grant income with related expense

Government grants shall be recognised as income in profit or loss on a systematic basis over the periods necessary to match with the related costs.

Grants related to assets

Recognised in profit or loss over the periods matching with depreciation expense on those assets.

Grants related to income

Recognised in profit or loss in which the specific expenses are incurred.

Grants relating to past costs with no further cost shall be recognised in profit and loss in the period in which it becomes receivable.

An example – matching of grant income with related expense

- ▶ Entity Z receives an asset related grant of CY 7.5mn from the local government in order to set up a factory in an area devastated by earthquake. The grant pertains specifically to the CY 40mn cost of new factory which is to be depreciated over 40 years.
- ▶ How would the items appear in profit and loss and statement of financial position at the end of year 1 if the grant is to be treated as:
 - ▶ deferred income?

An example – matching of grant income with related expense (cont.)

Grant treated as deferred income

Statement of profit and loss	'000
Depreciation of factory (assuming no residual value)	(1000)
Government grant	187.5

Statement of financial position

Tangible non-current assets	
Property (40mn-1mn)	39,000
Non-current liabilities:	
Deferred income (7500-187.5)	7,312.5

Loans from government

- ▶ Forgiveness of loan: government grant
- ▶ Nil or low interest loans: government grant
- ▶ Loan must be recognised at fair value in accordance with Ind AS 109
- ▶ Difference between cash received and loan amount recognised is accounted for in accordance with Ind AS 20

An example – interest free government loan

- ▶ Entity Y operates in north-east India and the state government provides interest-free loans to aid investment in the region.
- ▶ On April 1, 2015 Entity Y receives an interest-free loan of INR 5 mn for the project.
- ▶ The loan is repayable on March 31, 2018.
- ▶ The fair value of the loan is INR 4 mn.
- ▶ What would be the accounting entries in year 1?

Cash	INR 5 mn
Loan	INR 4 mn
Government Grant (deferred income)	INR 1 mn

An example – refund of government grant

Facts

- ▶ Entity A participates in a program sponsored by the government for the support of the research and development activities where it received funds from the government on the basis of R&D costs incurred (up to 50% of the costs incurred).
 - ▶ These payments are fully repayable by the entity based on a percentage of the sales of products derived from the research and development projects sponsored by the government (“royalties”). No repayment is required if there are no sales. However, the repayment period is not limited in time.
 - ▶ In addition, the grant bears interest, which will be paid on the same basis as the principal amount (from the sales of products derived from the research projects). The amounts received and the repayments thereof are on a project-by-project basis.
 - ▶ How should Entity A account for the grant and its refund?
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An example – refund of government grant (cont.)

Response

- ▶ A forgivable loan from government is treated as a government grant when there is reasonable assurance that the enterprise will meet the terms for forgiveness of the loan. Entity A treats the amounts received from the government as a forgivable loan (in this case, the repayment of loan will be waived if there are insufficient sales). Therefore, the accounting treatment under Ind AS is as follows:
- ▶ Recognise the amounts received as liabilities (as long as there are expected future benefits as a result of the research activity),
- ▶ Review at the end of each reporting period whether there is a reasonable assurance that part or all of the amounts received will not be reimbursed based on future estimated sales.

An example – refund of government grant (cont.)

- ▶ If there is such assurance, derecognise part or all of the liability initially recognised with a corresponding credit to profit or loss.
- ▶ If in subsequent reporting period, the entity revises upwards its estimates of future sales and therefore of future payments, a liability for any amounts previously included in profit and loss are restated with a corresponding debit in profit and loss.

Disclosure requirements and implications

- ▶ Nature and Extent of Government Grants
 - ▶ Accounting policy including the methods of presentation adopted in the financial statements
- ▶ 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;
- ▶ Unfulfilled conditions and other contingencies attaching to government assistance that has been recognised.

Key differences

Issue	Ind AS 20	AS 12
Non- monetary grants at concessional rate	Accounted for at fair value as deferred income	Accounted for on the basis of their acquisition cost
Loan concessional rates at interest of interest	Loan to be measured at fair value and recognized as per Ind AS 109. Value of concession i.e. difference between proceeds received and valuation done to be recognized as grant	Silent on this category

Ind AS 34

Interim financial reporting

Scope

- ▶ Interim reporting is a regulatory matter and is encouraged but not mandated by this Standard.
- ▶ Ind AS 34 does not mandate which entities should be required to publish interim financial reports, how frequently, or how soon after the end of an interim period
- ▶ However, if a company does produce an interim financial report and purports to comply with Ind AS, it must follow all the requirements of Ind AS 34 in drawing up that report.

Key definitions

- ▶ **Interim period** is a financial reporting period shorter than a full financial year.
- ▶ **Interim financial report** means a financial report containing either a complete set of financial statements or a set of condensed financial statements for an interim period.

Minimum requirements of an interim report



Periods covered by the interim report

	Current period	Comparative figures
Condensed Statement of Financial Position	As of interim reporting date	As of preceding annual reporting date
Condensed Statement of Comprehensive Income	Interim period <u>and</u> Year-to-date period	Comparable periods of preceding year
Condensed Statement of Changes in Equity	Year-to-date period	Comparable period of preceding year
Condensed Statement of Cash Flows	Year-to-date period	Comparable period of preceding year
Selected Explanatory Notes	Explanation of significant events and transactions that occurred since the last annual report	Comparative quantitative and narrative information required

Form and content of interim financial statement

- ▶ If an entity publishes a complete set of financial statements in its interim financial report, the form and content shall conform to the requirements of Ind AS 1
- ▶ If an entity publishes a set of condensed financial statements in its interim financial report, it shall include:
 - ▶ Each of the headings and subtotals that were included in its most recent annual financial statements and the selected explanatory notes
 - ▶ Additional line items or notes if their omission would make the condensed interim financial statements misleading

Form and content

- ▶ Financial statements prepared on consolidated basis.
- ▶ Same headings and sub-totals as in most recent annual financial statements.
- ▶ Discontinued operations and non-current assets (disposal groups) held for sale presented separately.
- ▶ Basic and diluted earnings per share on face of statement of comprehensive income, if required to be disclosed.
- ▶ Ind AS 1 applies to form and content and Ind AS 34 still applies to recognition and measurement.

Significant events and transactions

- ▶ Explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the entity since the end of the last annual reporting period.
 - ▶ Information disclosed in relation to those events and transactions shall update the relevant information presented in the most recent annual financial report.
 - ▶ Examples of significant events and transactions:
 - ▶ the write-down of inventories to net realisable value and the reversal of such a write-down;
 - ▶ recognition of a loss from the impairment of financial assets, property, plant and equipment, intangible assets, assets arising from contracts with customers, or other assets, and the reversal of such an impairment loss;
 - ▶ the reversal of any provisions for the costs of restructuring;
 - ▶ acquisitions and disposals of items of property, plant and equipment;
 - ▶ commitments for the purchase of property, plant and equipment;
 - ▶ litigation settlements;
 - ▶ corrections of prior period errors;
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Recognition and measurement

- ▶ Assess materiality in relation to interim period financial data
- ▶ similar accounting policies as in annual financial statements
- ▶ Measurement on year-to-date basis
- ▶ Seasonal, cyclical, or occasional revenues shall not be anticipated or deferred as of an interim date.
- ▶ Costs incurred unevenly shall be anticipated or deferred for interim reporting purposes only if it is appropriate to anticipate or defer that type of cost at the end of the financial year.

Recognition and measurement

- ▶ Higher degree of estimation required
 - ▶ Review for impairment indicators at interim reporting date
 - ▶ Tax rate based on annual tax rate and should reflect enacted or substantively enacted changes in tax rate.
 - ▶ Tax benefits from tax credits relating to one-off event are recognised when the event occurs
 - ▶ Changes in accounting policies (other than on adoption of a new standard):
 - ▶ Restating financial statements of prior interim periods; or when impracticable
 - ▶ Applying new accounting policy prospectively from earliest date practicable
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Recognition and measurement

- ▶ Adoption of a new standard:
 - ▶ Applied in all interim periods of the year of adoption (unless specific transition requirements differ)
- ▶ Some sections of Ind AS 1 apply to condensed (Ind AS 34) interims
 - ▶ Fair presentation and compliance with IFRSs
 - ▶ Going concern
 - ▶ Accrual basis of accounting
 - ▶ Materiality and aggregation
 - ▶ Offsetting

Disclosures

- ▶ Statement on change in accounting policies and methods of computation or change in accounting policies if any.
- ▶ Explanatory comments about the seasonality or cyclical nature of interim operations
- ▶ Nature and amount of changes in estimates.
- ▶ Nature and amounts of unusual items
- ▶ Issues, repurchases and repayments of debt and equity securities
- ▶ Dividends paid
- ▶ Operating segment disclosures

Disclosures

- ▶ Material subsequent events
- ▶ Changes in the composition of the entity such as:
 - ▶ Business combinations,
 - ▶ Gaining or losing control of subsidiaries and long-term investments,
 - ▶ Restructurings, and discontinued operations.
- ▶ Changes in contingent assets and liabilities
- ▶ Fair value disclosures of financial instruments

Disclosures

- ▶ Any transactions and events that may be material to understanding of interim period such as:
 - ▶ Inventory write-downs and reversals
 - ▶ Impairment losses and reversals
 - ▶ Any impairment 'triggering event' occurs in the interim period
 - ▶ Acquisitions, disposals and purchase commitments for property, plant and equipment
 - ▶ Litigation settlements, reversals of restructuring provisions
 - ▶ Loan agreement breaches and defaults
 - ▶ Related party transactions
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Key Differences

Issue	Ind AS 34	Indian GAAP
Prior Period items	Prior period interim period financials are restated for a change in accounting policy (other than required by an Ind AS) in accordance with Ind AS 8. In case impracticable, the change in accounting policy is accounted from the earliest date applicable	Under AS 25 the change in accounting policy is only reflected by restating the financial statements of interim periods of the current financial year and not of the prior financial years. Prior year comparatives not presented.

Key Differences (cont.)

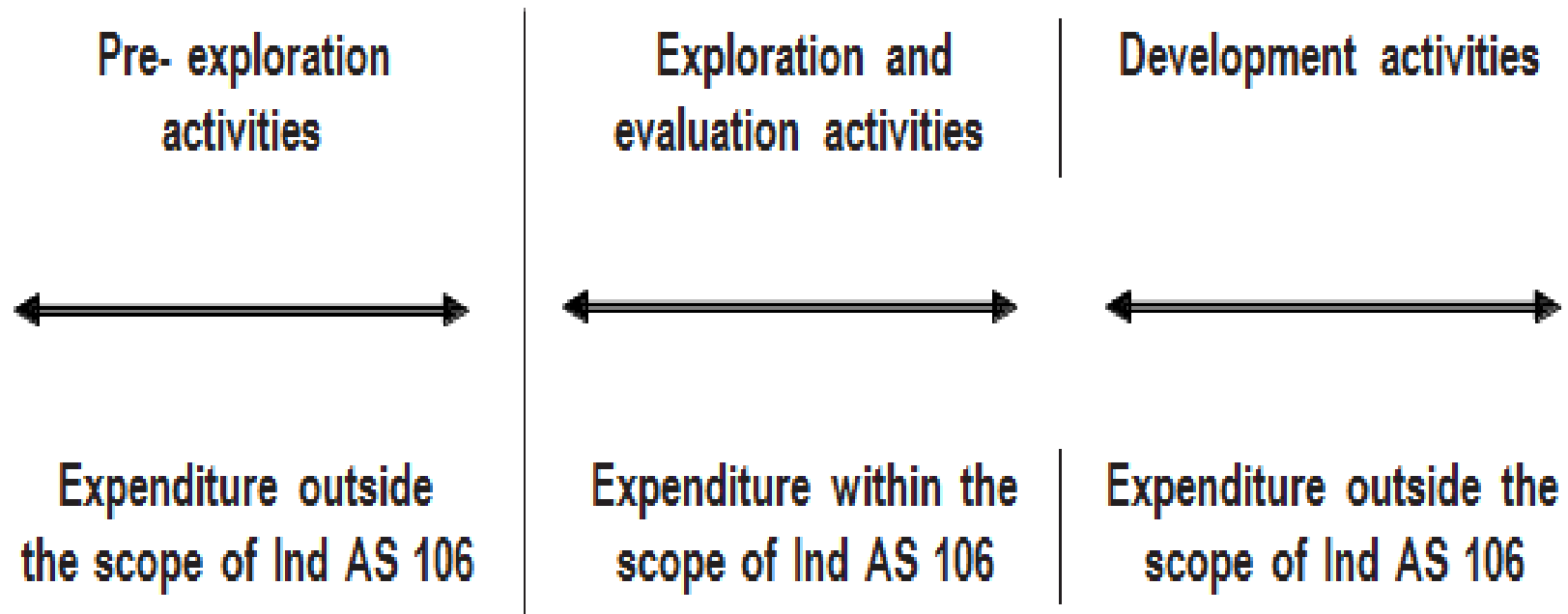
Issue	Ind AS 34	Indian GAAP
Requirements of statute	No specific guidance when a statute requires preparation and presentation of certain information at an interim date	AS 25 would need to be applied unless specified by statute
Impairment reporting	Impairment loss related to goodwill is not reversed	AS 28 does permit the reversal of impairment loss on goodwill in certain cases

Ind AS 106

**Exploration for and
Evaluation of Mineral
Resources**

Scope

The chart below depicts the scope of Ind AS 106:



Recognition

- ▶ Determine which expenditure meets definition of E&E
 - ▶ An entity shall determine an accounting policy specifying which expenditures are recognised as exploration and evaluation assets and apply the policy consistently.
 - ▶ In other words, for each type of E&E expenditure, an entity adopts a policy either of immediate expense or of capitalisation as an E&E asset.
 - ▶ Policy should take into account the degree to which the expenditure can be associated with finding specific mineral resources.
 - ▶ Management must apply its judgment to develop and apply a policy that results in relevant and reliable information.

Measurement at recognition

Capitalised E&E costs are measured at cost

► Cost may include

- Acquisition of rights to explore
- Topographical, geological geochemical and geophysical studies
- Exploratory drilling
- Trenching
- Sampling
- Activities in relation to evaluating technical feasibility and commercial viability of extraction

Measurement at recognition (continued)

- ▶ Administrative and other general overhead costs
 - ▶ Accounting policy choice of capitalising qualifying costs as an E&E
 - ▶ the chosen policy should be consistent with one of the treatments available under Ind ASs i.e. expense or capitalise
 - ▶ While not stated by the Standard, the appropriate approach would be that the selected policy should be consistent with the approach in Ind ASs to such costs incurred in relation either to
 - ▶ inventories (Ind AS 2)
 - ▶ intangible assets (Ind AS 38) or
 - ▶ property, plant and equipment (Ind AS 16).
-

Measurement at recognition (continued)

- ▶ Administrative and other general overhead costs
 - ▶ If an entity elects an accounting policy for administration and other general overhead costs consistent with the treatment of property, plant and equipment, then administrative and overhead costs will not qualify for initial recognition as E&E assets
 - ▶ instead, they would be expensed as incurred.
 - ▶ A policy based on the treatment of inventories or intangibles would require the capitalisation of administrative and general overhead costs that are directly attributable to the asset.
-

Measurement at recognition (continued)

- ▶ The following administrative and other general overhead costs may qualify for inclusion as an E&E asset:
 - ▶ payroll-related costs attributable to personnel working directly on a specific project, including the costs of employee benefits for such personnel;
 - ▶ certain management costs if their roles are specific to a project;
 - ▶ sign-up bonuses paid to contractors involved in a particular project;
 - ▶ legal or other professional costs specific to the project, for example, costs in respect of obtaining certain permits and certifications.
 - ▶ The policy for administrative and other general overhead costs is applied consistently. Any subsequent change is treated as a change in accounting policy.
-

Measurement at recognition (continued)

- ▶ The standard specifically requires the application of Ind AS 37 to any obligations for removal and restoration
- ▶ if the E&E costs were originally expensed, then the future costs of any related removal and restoration obligations should also be expensed.

Presentation

Classification and measurement after recognition

Classification

According to nature:

Tangible assets; or

Intangible assets

includes a tangible asset consumed in developing an intangible asset

For example, the depreciation of a drilling rig would be capitalised as part of the intangible E&E asset that represents the costs incurred on active exploration projects.

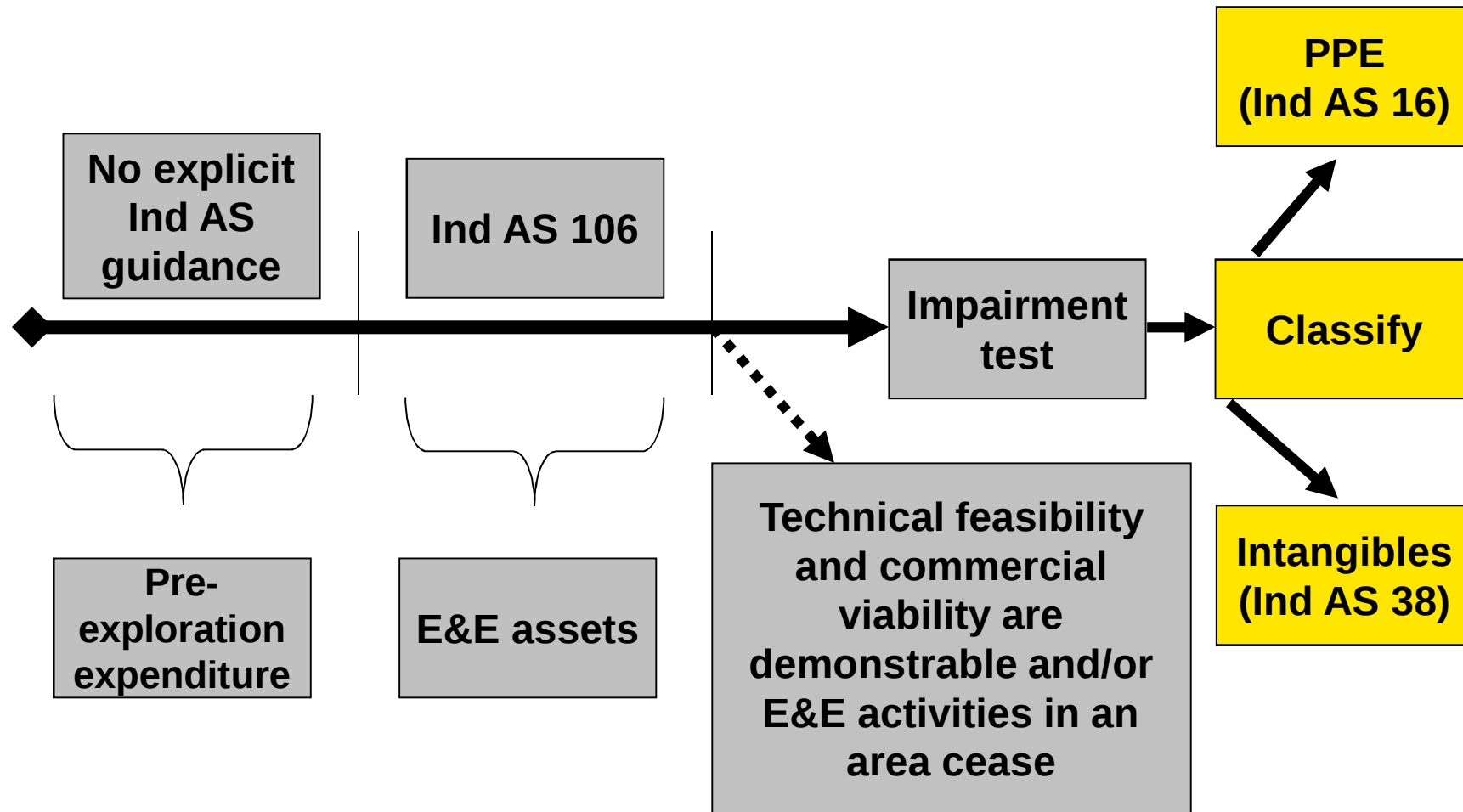
Measurement after recognition

- ▶ Cost model
- ▶ Revaluation model (rare)

Impairment

- ▶ Apply Ind AS 36
- ▶ Two important modifications to Ind AS 36:
 - ▶ it defines separate impairment testing 'triggers' for E&E assets; and
 - ▶ it allows groups of cash-generating units to be used in impairment testing.
- ▶ Test for impairment only when facts and circumstances suggest that carrying amount exceeds recoverable amount

E&E assets



Ind – AS 114
Regulatory deferral accounts

Objective

The objective of this Standard is to specify the financial reporting requirements for *regulatory deferral account balances* that arise when an entity provides goods or services to customers at a price or rate that is subject to *rate regulation*.

Scope

Permitted to those entities for its first Ind AS *financial statements* if and only if it:

- (a) conducts *rate-regulated activities*; and
- (b) recognised amounts that qualify as regulatory deferral account balances in its financial statements in accordance with its previous GAAP.

For subsequent periods

- ▶ entity recognised regulatory deferral account balances by electing to apply the requirements of this Standard if and only if, it has recognised regulatory deferral account balances by electing to apply the requirements of this Standard in first Ind As statements.

Key definitions

Previous GAAP

- Guidance Note on Accounting for the Rate Regulated Activities (revised), issued by the Institute of Chartered Accountants of India (ICAI) shall be considered to be the previous GAAP.

Rate regulator

- A regulator is an authorised body empowered by statute or by any government or any authorised agency of a government to set rates that binds an entity's customers.

Regulatory deferral account balance

- is defined as the balance of any expense (or income) account that would not be recognised as an asset or a liability in accordance with other Ind ASs, but that qualifies for deferral because it is included, or is expected to be included, by the rate regulator in establishing the rate(s) that can be charged to customers

Accounting policy

Initially and subsequently an entity shall continue to apply previous GAAP accounting policies for the recognition, measurement, impairment and derecognition of regulatory deferral account balances

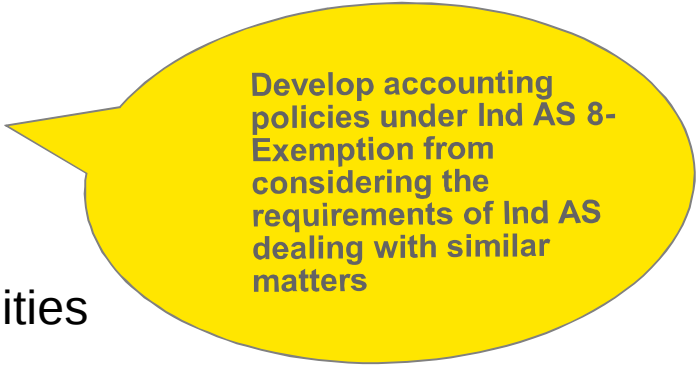
However, the presentation of such amounts shall comply with the presentation requirements of this Standard, which may require changes to the entity's previous GAAP presentation policies

Entities may have been recognising regulatory deferral account balances

either as separate items

Or

as part of the carrying value of other assets and liabilities



Develop accounting policies under Ind AS 8- Exemption from considering the requirements of Ind AS dealing with similar matters

An entity may only change its accounting policies , if the change results in more relevant and reliable information for the users

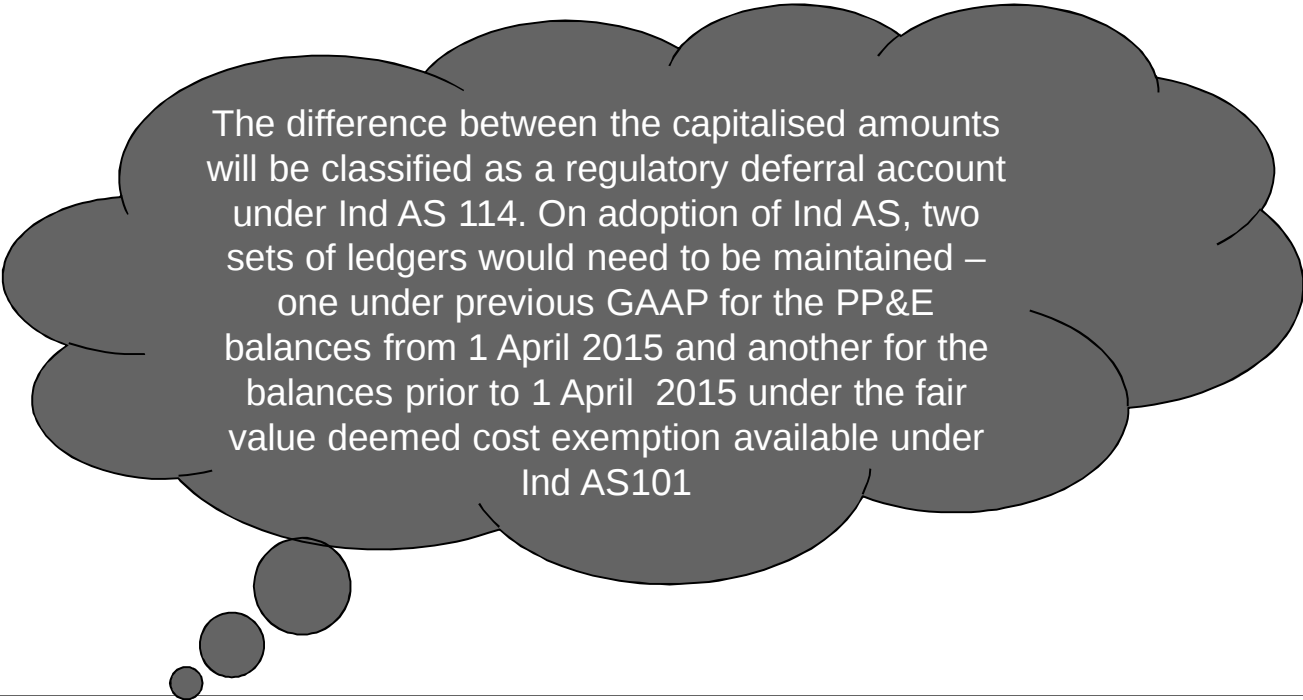
Recognition and Measurement

- ▶ Regulatory deferral account balances to be recognised are restricted to the incremental amounts from what would otherwise be recognised as assets and liabilities under Ind AS
- ▶ The measurement of these balances effectively entails a two-step process:
 - ▶ An entity would first determine the carrying amount of its assets and liabilities under Ind AS, excluding Ind AS 114
 - ▶ These amounts would then be compared with the assets and liabilities determined under the entity's previous GAAP presentation (i.e., its rate-regulated balances)

The differences would represent the regulatory deferral debit or credit account balances to be recognised by the entity

An example – recognition of deferral account balances

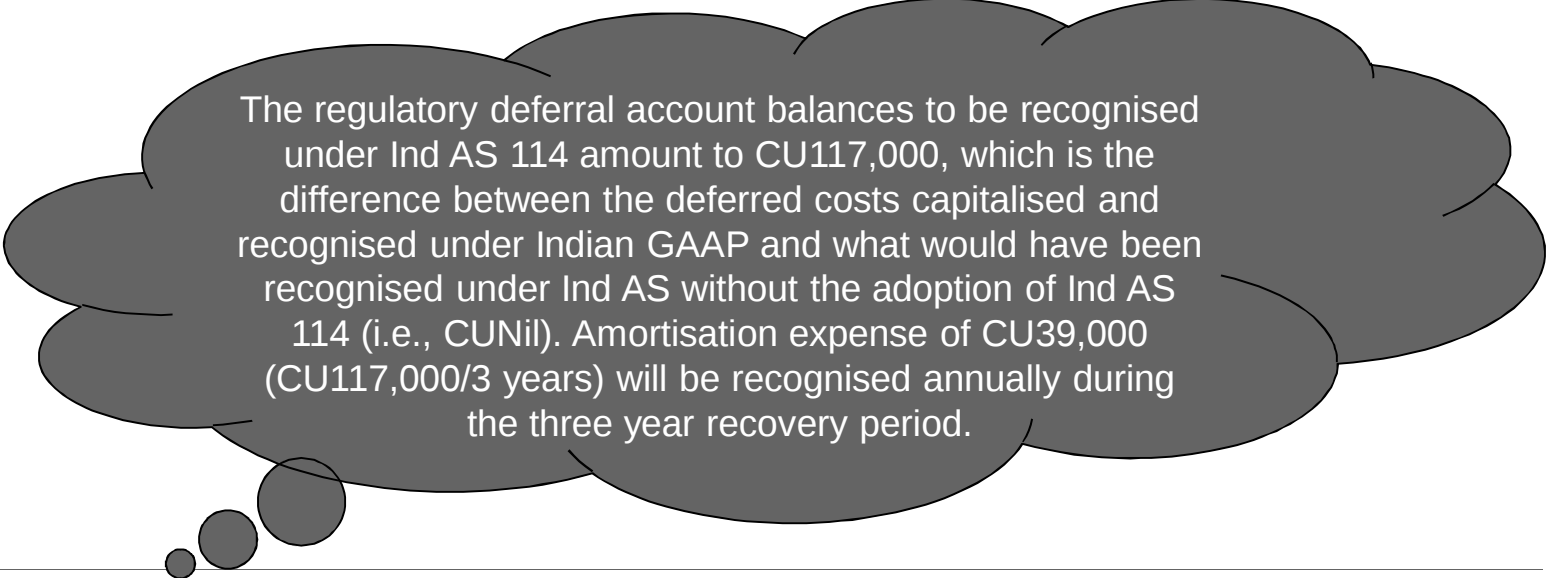
- ▶ Entity X elects to adopt Ind AS 114 as at 1 April 2015, and chooses to take fair value on date of transition as the deemed cost of PP&E.
- ▶ However, these amounts differ from the amounts calculated under the entity's previous GAAP.
- ▶ What would be the regulatory deferral account?



The difference between the capitalised amounts will be classified as a regulatory deferral account under Ind AS 114. On adoption of Ind AS, two sets of ledgers would need to be maintained – one under previous GAAP for the PP&E balances from 1 April 2015 and another for the balances prior to 1 April 2015 under the fair value deemed cost exemption available under Ind AS101

An example – measurement of deferral account balances

- ▶ The rate regulator permitted Entity A, an LNG supplier, to recover its gas supply costs on the basis of a one-for-one pass through to customers.
- ▶ On the date of Ind AS adoption, Entity A has a carrying amount of CU117,000 presented as Other assets and deferred costs on its Indian GAAP balance sheet, which relates to the net under-recovery of gas costs to be deferred over the next three years.
- ▶ Entity A has assessed that these deferred costs do not meet the requirements to be recognised as assets under Ind AS.
- ▶ How would the deferral account balance measurement be done?



The regulatory deferral account balances to be recognised under Ind AS 114 amount to CU117,000, which is the difference between the deferred costs capitalised and recognised under Indian GAAP and what would have been recognised under Ind AS without the adoption of Ind AS 114 (i.e., CUNil). Amortisation expense of CU39,000 (CU117,000/3 years) will be recognised annually during the three year recovery period.

Presentation

Balance sheet

- ▶ An entity shall present **separate line items** in the balance sheet for:
 - ▶ the total of all regulatory deferral account debit balances; and
 - ▶ the total of all regulatory deferral account credit balances
- ▶ Regulatory deferral balances shall not be recognized as current or non-current
- ▶ the separate line items which shall be distinguished from the assets and liabilities that are presented in accordance with other Standards by the use of sub-totals, which are drawn before the regulatory deferral account balances are presented.

Presentation

OCI

- ▶ Separate line items shall be used for the net movement related to items that, in accordance with other Standards:
 - (a) will not be reclassified subsequently to profit or loss; and
 - (b) will be reclassified subsequently to profit or loss when specific conditions are met.

P&L

- ▶ a separate line item in the profit or loss for the remaining net movement in all regulatory deferral account balances for the reporting period, excluding movements that are not reflected in profit or loss, such as amounts acquired

Presentation

- ▶ **Deferred tax** – entity shall present the resulting deferred tax asset (liability) and the related movement in that deferred tax asset (liability) with the related regulatory deferral account balances and movements in those balances, instead of within the total presented in accordance with Ind AS 12 I
- ▶ **Earnings per share-** Present basic and diluted EPS, excluding the net movement in the regulatory deferral account balances with equal prominence

Disclosures

- ▶ A description of the rate-regulated activities and regulatory rate setting process
- ▶ Identity of the rate regulator and whether the same is a related party (along with explanation of relation)
- ▶ An explanation of how the future recovery or reversal of each class of regulatory deferral account balance is affected by risks and uncertainties, such as demand and regulatory risks
- ▶ The basis on which regulatory deferral account balances are recognised and measured initially and subsequently
- ▶ A reconciliation of the carrying amount of each class of regulatory deferral account balance as of the beginning and end of the reporting period
- ▶ the rate of return or discount rate used to reflect time value of money
- ▶ The remaining period over which the entity expects to recover the carrying amount of each class of regulatory deferral debit and credit balance

Disclosures (cont.)

- ▶ Impact of rate regulation on current and deferred tax
- ▶ For consolidated financial statements, disclosures under Ind AS 112 *Disclosure of Interests in Other Entities* must also include separate disclosure of the regulatory deferral accounts and the related net movement for the interests
- ▶ When an entity concludes that a regulatory deferral account balance is no longer fully recoverable or reversible, it shall disclose that fact, the reason why it is not recoverable or reversible and the amount by which the regulatory deferral account balance has been reduced.

Ind AS 104

Insurance contracts

Objective

- ▶ Specify the financial reporting for *insurance contracts* by any entity that issues such contracts (described in this Ind AS as an *insurer*).
- ▶ Ind AS 104 Requires
 - ▶ Limited improvements to accounting by insurers for insurance contracts.
 - ▶ 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.

Scope

- ▶ Insurance contracts and reinsurance contracts
- ▶ Financial instruments with a discretionary participation feature (DPF)
- ▶ Reinsurance contracts that it holds

Out of scope

- ▶ Financial guarantee contracts (financial instruments Ind AS 32, Ind AS 107 and Ind AS 109)
 - ▶ Product warranties issued directly by a manufacturer, dealer or retailer (Ind AS 115, *Revenue from Contracts with Customers*, and Ind AS 37, *Provisions, Contingent Liabilities and Contingent Assets*).
 - ▶ Employers' assets and liabilities under employee benefit plans (Ind AS 19, *Employee Benefits*, and Ind AS 102, *Share-based Payment*)
 - ▶ Contractual rights or contractual obligations that are contingent on the future use of, or right to use, a non-financial item
 - ▶ Contingent consideration payable or receivable in a business combination
 - ▶ Direct insurance contracts that the entity holds (However, a cedant shall apply Ind AS 104 to reinsurance contracts that it holds.)
-

Key definitions

- ▶ **Insurer** is the party that has an obligation under an insurance contract to compensate a policyholder if an insured event occurs.
- ▶ An **insurance contract** is issued by one insurer (the reinsurer) to compensate another insurer (the cedant) for losses on one or more contracts issued by the cedant.
- ▶ **Insured event** is an uncertain future event that is covered by an insurance contract and creates insurance risk
- ▶ **Reinsurance asset** is a cedant's net contractual rights under a reinsurance contract

Insurance risk versus financial risk

Insurance risk

Ø Risk, other than financial risk, transferred from the holder of a contract to the issuer.

Financial risk

- Ø Risk of a potential future change in one or more of:
 - § Interest rate
 - § Security price
 - § Commodity price
 - § Foreign exchange rate
 - § Index of prices or rates
 - § Credit rating
 - § Credit index
 - § Other variables, such as a non-financial variable, that is not specific to a party to the contract

Some insurance contracts expose the issuer to both insurance risk and financial risk. If insurance risk is significant, such contracts are insurance contracts.

Key Differences

Issue	Ind AS 104	Indian GAAP
Insurance contracts	▶ Applies to insurance contracts, reinsurance and financial instruments with a discretionary participation feature ▶ Applies to insurance and non-insurance companies	▶ No equivalent standard

Ind AS 29
Financial reporting in
hyperinflationary economies

Objective

- ▶ Discuss when IAS 29 applies and Identify indicators of hyperinflationary economy
- ▶ Assess why and Calculate how a restatement is performed
- ▶ Discuss disclosure requirements for the notes to financial statements
- ▶ Discuss the practical considerations that are required to be assessed

Scope

- ▶ To financial statements of any entity whose functional currency is a currency of a hyperinflationary economy
 - ▶ Individual financial statements
 - ▶ Consolidated financial statements
 - ▶ Before any translation into group presentation currency on consolidation

Indicators for a hyperinflationary economy

- ▶ Standard requires professional judgement
- ▶ No absolute rate for hyperinflation
- ▶ Characteristics that might indicate a hyperinflationary economy:
 - ▶ The general population prefers to keep its wealth in non-monetary assets or in a relatively stable foreign currency rather than in local currency.
 - ▶ The general population regards monetary amounts not in terms of the local currency but in terms of a stable foreign currency, and prices may be quoted in that currency.
 - ▶ Interest rates, wages, and prices are linked to a price index.
 - ▶ Cumulative inflation rate over three years is approaching or exceeds 100%.

Restatement of the financial statements

Determine functional currency of an entity based on the economic environment in which it operates



Is the functional currency of the entity that of a hyperinflationary economy?



Restate FS

- ▶ Restate the financial statements in terms of the measuring unit current at the balance sheet date (use of a “pseudo currency”)
- ▶ Corresponding figures for prior and subsequent reporting period alongwith related information are restated using measuring unit current at the closing BS date



Gain/ loss on net monetary position

- ▶ The gain or loss on the net monetary position is included in profit or loss and separately disclosed
- ▶ The gain or loss may be estimated by applying the change in a general price index to the weighted average for the period of the difference between monetary assets and monetary liabilities.

Ind AS 21 makes it clear that Ind AS 29 cannot be avoided by an entity by selecting another, more stable currency as its functional currency

Restatement approach for Balance sheet

Monetary items

- No adjustment as already expressed at monetary unit current at BS date
- Items contractually linked to changes in prices, such as index-linked bonds, are adjusted as per contract terms

Non-monetary items carried at cost

- Historical cost (and accumulated depreciation or amortization) adjusted by applying the change in a general price index from the date of acquisition to the balance sheet date

Non-monetary items carried at fair value

- Restated from the date of the revaluation

Adjustments to restated amount

Restated amount of non-monetary item not to exceed its recoverable amount

- ▶ The restated amount of a non-monetary item is reduced, in accordance with appropriate standards, when it exceeds the amount recoverable from the item's future use.

Restatement approach for equity

- ▶ Each component of equity, (excluding retained earnings and any revaluation surplus), at the beginning of the first year of application is to be indexed from the date that the components were contributed or otherwise arose.
- ▶ Restated retained earnings are derived from all the other amounts in the restated balance sheet. From then on, all the components of equity in the opening balance sheet (including retained earnings) are restated by the movement in the index for the year.
- ▶ Any revaluation surplus that arose in the previous periods is eliminated.

Restatement approach for statement of profit and loss and cash flow statement

- ▶ All items of income and expenses should be restated by applying the change in the general price index from the date when they were initially recorded in the financial statements.
- ▶ Similarly, all items in the cash flow statement are expressed in terms of the measuring unit current at the balance sheet date.

Gain or loss on monetary items

- ▶ In a period of inflation, an entity holding an excess of monetary assets over monetary liabilities loses purchasing power
- ▶ The gain or loss may be estimated by applying the change in a general price index to the weighted average for the period of the difference between monetary assets and monetary liabilities.
- ▶ The gain or loss on the net monetary position is included in profit or loss

Consolidated financial statements

Parent reporting in the currency of hyperinflationary economy may have

Subsidiaries that also report in the currencies of hyperinflationary economies:

financial statements need to be restated by applying a general price index of the country in whose currency it reports before they are included in the consolidated financial statements

Subsidiaries that do not report in the currencies of hyperinflationary economies:

dealt with in accordance with Ind AS 21.

Economies ceasing to be hyperinflationary

- ▶ When an economy ceases to be hyperinflationary, the entity discontinues the preparation and presentation of financial statements in accordance with Ind AS 29.
- ▶ The carrying values are not restated but left at the amounts at which they were stated when the Standard was last applied.

Disclosures

- ▶ The fact that the financial statements and the corresponding figures for previous periods have been restated for the changes in the general purchasing power of the functional currency and, as a result, are stated in terms of the measuring unit current at the balance sheet date
- ▶ Whether the financial statements are prepared on a historical cost or a current cost basis
- ▶ The identity and the level of the price index at the balance sheet date and the movement in the index during the current and the previous reporting period
- ▶ The duration of the hyperinflationary situation existing in the economy.

Key Differences

Issue	Ind AS 29	Indian GAAP
Hyperinflationary economies-general	In the reporting period in which an entity identifies the existence of hyperinflation in the economy of its functional currency, not having been hyperinflationary in the prior period, the entity shall apply the requirements of Ind AS 29 as if the economy had always been hyperinflationary.	No equivalent standard

Key Differences

Issue	Ind AS 29	Indian GAAP
Hyperinflationary economies- Restatement of FS	Financial statements restated (including prior period and subsequent period figures) to measure in terms of the unit current at the BS date. Gain or loss on net monetary position included in profit or loss.	No equivalent standard

Thank You!