GUIDE ON

INDIAN ACCOUNTING STANDARDS

(Ind ASs)

BY

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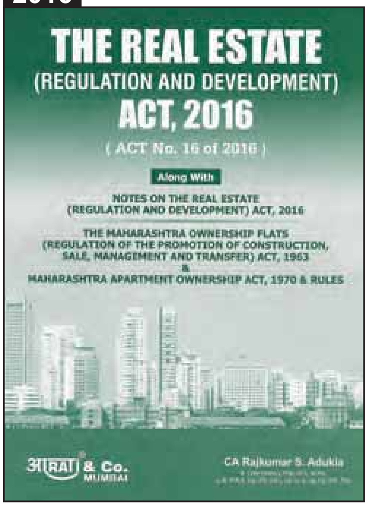

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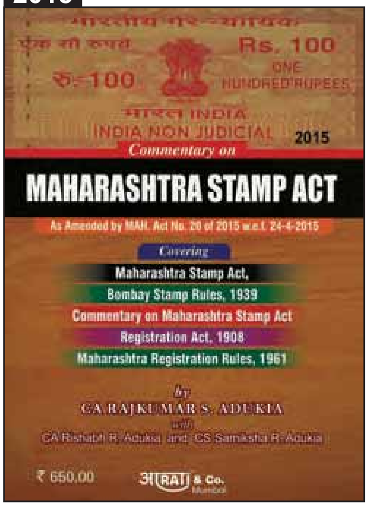

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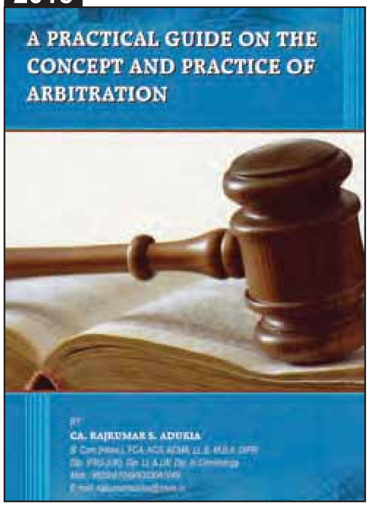

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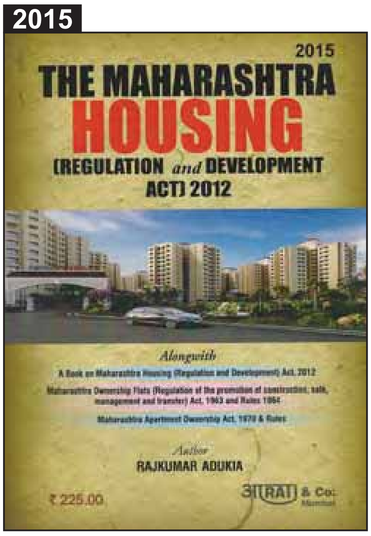

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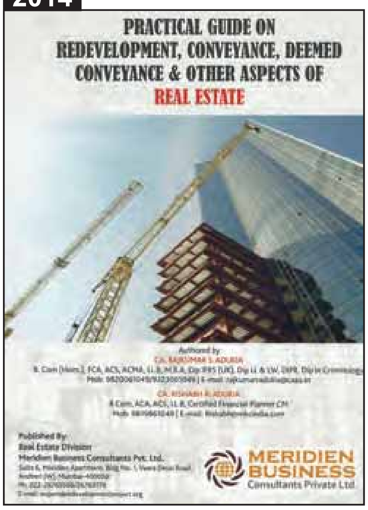

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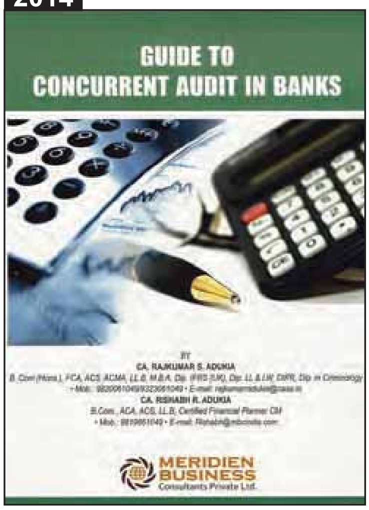

Guide to Concurrent Audit in Banks

Guide on Indian Accounting Standards (Ind ASs)

By

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Preface

Rapid globalization and integration of trade, commerce and economies worldwide, has obviated the need to follow homogeneity in the financial reporting standards so as to facilitate comparison, universality, removal of redundancy, comprehensiveness etc. In rise of changing business models and different accounting policies across the globe International Financial Reporting Standards (IFRS) have taken birth as a common global language for business affairs so as to ensure that financial reports are understandable and comparable across international boundaries. They are a consequence of growing international shareholding and trade and are particularly important for companies that have dealings in several countries. Approximately 128 nations and reporting jurisdictions permit or require IFRS for domestic listed companies.

Evaluating the benefits of IFRS, it was all the more significant for a developing country like India to adopt it at earliest so as to ensure positive sentiments and faith and credibility in the Indian Market of the investors globally. India made a commitment towards the convergence of Indian Accounting Standards with IFRS at the G20 summit in 2009. In line with this, the Ministry of Corporate Affairs, Government of India (MCA) previously issued a roadmap for implementation of Indian Accounting Standards (Ind AS) converged with International Financial Reporting Standards (IFRS) beginning April 2011. However, this plan was suspended due to unresolved tax and other issues.

In the presentation of the Union Budget 2014-15, the Hon'ble Minister for Finance, Corporate Affairs and Information and Broadcasting proposed the adoption of Ind AS. The Minister clarified that the respective regulators will separately notify the date of implementation for banks and insurance companies. Also, standards for tax computation would be notified separately. In accordance with the Budget statement, the MCA has notified Company (Indian Accounting Standard) Rules, 2015 *vide* its G.S.R 111 (E) dated 16th February, 2015. Accordingly, it has notified 39 Ind AS and has laid down an Ind AS transition road map for companies other than banking companies, insurance companies and non-banking finance companies. Keeping in tune, on 29th 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 Non Banking Financial Companies (NBFC) from 2018-19 onwards. Besides, 39 Ind ASs notified under the Companies (Indian Accounting Standards) Rules, 2015, MCA has also issued Companies (Indian Accounting Standards) (Amendment) Rules, 2016, which contains two more Standards viz. Ind AS 18, and Ind AS 11 which it proposes to make applicable in place of Ind AS 115.

The financial reporting standards currently followed in India are a combination of the standards notified by the Ministry of Corporate Affairs, guidance issued by the Securities Exchange Board of India (SEBI), guidance from the Institute of Chartered Accountants of

India (ICAI), and industry-specific guidance from regulators. Companies not covered under the Ind AS, would continue to apply Companies (Accounting Standards) Rules, 2006 as modified from time-to-time.

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 the theoretical background on the subject and practical steps for implementing Ind AS in accordance with requirements of notified standards. It explains the basic accounting elements required to understand Ind AS in very lucid manner. Besides it also provide over 650 Multiple Choice Questions to access the in depth understanding of the Ind AS literature. Practical Examples are also provided at various places. Special care has been taken to ensure all recent amendments have been incorporated in the book.

This book would help in understanding the various methodologies of Ind AS and will be useful to corporate, auditors, accountants, academicians and students at large.

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Chapter 1
Principles in Accounting

Accounting is the language of a business. **Accounting** or **accountancy** is the measurement, processing and communication of financial information about economic entities. There are general rules and concepts that govern the field of accounting. These general rules are referred to as basic accounting principles. These basic principles or guidelines forms the base for more detailed, complicated and legalistic accounting rules often referred to as "generally accepted accounting principles" or GAAP. **Generally accepted accounting principles (GAAP)** are the standard framework of guidelines for financial accounting used in any given jurisdiction; generally known as **accounting standards.** These include the standards, conventions, and rules that accountants follow in recording and summarizing and in the preparation of financial statements. The phrase GAAP consists of three important sets of rules: (1) the basic accounting principles and guidelines, (2) the detailed rules and standards issued by the chief Accounting Body, and (3) the generally accepted industry practices.

In India, we had been following accounting standard as formalized by the Institute of Chartered Accountants of India (ICAI). However, of late there has been felt an ardent need for a common GAAP globally to meet the needs of expanding multinational business entities having presence beyond the boundaries of one single territorial jurisdiction. Therefore, India has committed itself to gradually shift to the most accepted International Financial Reporting Standards (IFRS) as pronounced by the International Accounting Standards Board (IASB) in a phased out manner for large corporate entities. To do this Ministry of Corporate Affairs in consultation with ICAI has notified Companies (Indian Accounting Standards) Rules, 2015 more popularly known as Ind AS. Since GAAP is founded on the basic accounting principles and guidelines, we can better understand GAAP if we understand those accounting principles. Therefore, before moving into the detailed conceptual understanding of Ind AS, it would be prudent to revise certain basic accounting principles and the term account itself.

Account

An **account** (in book-keeping) refers to assets, liabilities, income, expenses, and equity, as represented by individual ledger pages, to which changes in value are chronologically recorded with debit and credit entries. These entries, referred to as postings, become part of a *book of final* entry or ledger. Examples of common financial accounts are sales, accounts receivable, mortgages, loans, PP&E, wages, etc.

Classification of Accounts

Based on the nature of accounts, they may be classified in the following three categories:

- **Real Accounts:** All assets of a firm, which are tangible or intangible, fall under this category. A few examples of tangible real accounts are building, machinery, stock, land, goodwill, patents, trademarks, etc.

- **Personal Accounts:** These accounts are related to individuals, firms, companies, etc. A few examples of personal accounts include debtors, creditors, banks, outstanding/ prepaid accounts, accounts of credit customers, accounts of goods suppliers, capital, drawings, etc.
- **Nominal Accounts:** Accounts which are related to expenses, losses, incomes or gains are called Nominal accounts. The dictionary meaning of the word "nominal" is *"existing in name only"* and the meaning remains absolutely true in accounting sense too, because nominal accounts do not really exist in physical form, but behind every nominal account money is involved. E.g. Purchase A/c, Salary A/c, Sales A/c, Commission received A/c, etc.

Golden Rules of Accounting

This classification of accounts is important to understand the three golden rules of accountancy which are pillars on which any financial reporting stands. These rules are as follows:

Golden Rule for Real Accounts: *Debit what comes in, credit what goes out.*

e.g. Purchased Machinery for ` 20,000 in cash

Accounts Involved	Debit/Credit	Amount (`)	Rule Applied
Machinery A/c	Debit	20,000	Machinery is real a/c so Dr. What comes in
To Cash A/c	Credit	20,000	Cash is a real a/c so Cr. What goes out

Golden Rule for Personal Accounts: *Debit the receiver, credit the giver.*

e.g: Paid A Ltd. 15,000 by cheque

Accounts Involved	Debit/Credit	Amount (`)	Rule Applied
A Ltd. A/c	Debit	15,000	Artificial personal so a/c Dr. the receiver
To Bank A/c	Credit	15,000	Artificial personal so a/c Cr the giver

Golden Rule for Nominal Accounts: *Debit all expenses and losses, credit all income and gains.*

e.g: Paid Salary in Cash ` 18,000

Accounts Involved	Debit/Credit	Amount (Rs)	Rule Applied
Purchase A/c	Debit	18,000	Nominal A/c so Dr. all expenses
To Cash A/c	Credit	18,000	Real A/c so Cr what goes out

Basic Principles of Accounting

The following is a list of the ten main accounting principles and guidelines together with a highly condensed explanation of each.

1. **Economic Entity Assumption**

   The accountant keeps all of the business transactions of a sole proprietorship separate from the business owner's personal transactions. For legal purposes, a sole proprietorship and its owner are considered to be one entity, but for accounting purposes they are considered to be two separate entities.

2. **Monetary Unit Assumption**

   Economic activity is measured in Rupees or any other currency, and only transactions that can be expressed in such monetary unit are recorded.

3. **Time Period Assumption**

   This accounting principle assumes that it is possible to report the complex and ongoing activities of a business in relatively short, distinct time intervals such as annually, semi-annually, etc. It is *imperative* that the time interval (or period of time) be shown in the heading of each statement of profit & loss, statement of changes in equity, and statement of cash flows. Labelling one of these financial statements with "December 31" is not good enough–the reader needs to know if the statement covers the *one week* ended December 31, 2015 the *month* ended December 31, 2015 the *three months* ended December 31, 2015 or the *year ended* December 31, 2015.

4. **Cost Principle**

   From an accountant's point of view, the term "cost" refers to the amount spent (cash or the cash equivalent) when an item was *originally* obtained, whether that purchase happened last year or thirty years ago. Traditionally, accounts were completely based on *historical* costs. However there has been a gradual shift towards fair value accounting which we will discuss in forthcoming chapters.

5. **Full Disclosure Principle**

   If certain information is important to an investor or lender using the financial statements, that information should be disclosed within the statement or in the notes to the statement. It is because of this basic accounting principle that numerous pages of schedules and annexures are often attached to financial statements. A company usually lists its significant accounting policies as the first note to its financial statements.

6. **Going Concern Principle**

   This accounting principle assumes that a company will continue to exist long enough to carry out its objectives and commitments and will not liquidate in the foreseeable future. If the company's financial situation is such that the accountant believes the company will *not* be able to continue on, the accountant is required to disclose this assessment. The going concern principle allows the company to defer some of its prepaid expenses until future accounting periods.

7. Matching Principle

This accounting principle requires companies to use the accrual basis of accounting. The matching principle requires that expenses be matched with revenues. For example, sales commissions expense should be reported in the period when the sales were made (and not reported in the period when the commissions were paid). Wages to employees are reported as an expense in the week when the employees worked and not in the week when the employees are paid.

8. Revenue Recognition Principle

Under the accrual basis of accounting (as opposed to the cash basis of accounting), revenues are recognized as soon as a product has been sold or a service has been performed, regardless of when the money is actually received.

9. Materiality

Because of this basic accounting principle or guideline, an accountant might be allowed to violate another accounting principle if an amount is insignificant. Professional judgment is needed to decide whether an amount is insignificant or immaterial.

10. Conservatism

If a situation arises where there are two acceptable alternatives for reporting an item, conservatism directs the accountant to choose the alternative that will result in less net income and/or less asset amount. Accountants are expected to be unbiased and objective. The basic accounting principle of conservatism leads accountants to anticipate or disclose losses, but it does not allow a similar action for gains. For example, *potential* losses from lawsuits will be reported on the financial statements or in the notes, but *potential* gains will not be reported.

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Chapter 2
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 have been further amended by The Companies (Indian Accounting Standards) (Amendment) Rules, 2016.

Scope of Companies (Indian Accounting Standard) Rules, 2015

(i) These Rules state the **applicability** of Ind AS.

(ii) Ind AS sets 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 corporate 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, financial performance, and cash flows.**

(vi) Other financial reporting includes information provided outside financial statements that assist in the interpretation of a complete set of financial statements or improves users' ability to make efficient economic decisions.

(vii) Ind AS applies 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 Changes in Equity, Notes** consisting of accounting policies and other explanatory notes and a **Comparative Information** of proceeding 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 focus of Ind AS is on profit-oriented corporate entities.

Applicability of Ind AS

Voluntary adoption

Companies can voluntarily adopt Ind AS for accounting periods beginning on or after 1st April 2015 with comparatives for period ending 31st March 2015 or thereafter. However, once they have chosen this path, they cannot switch back

Mandatory applicability

Phase I

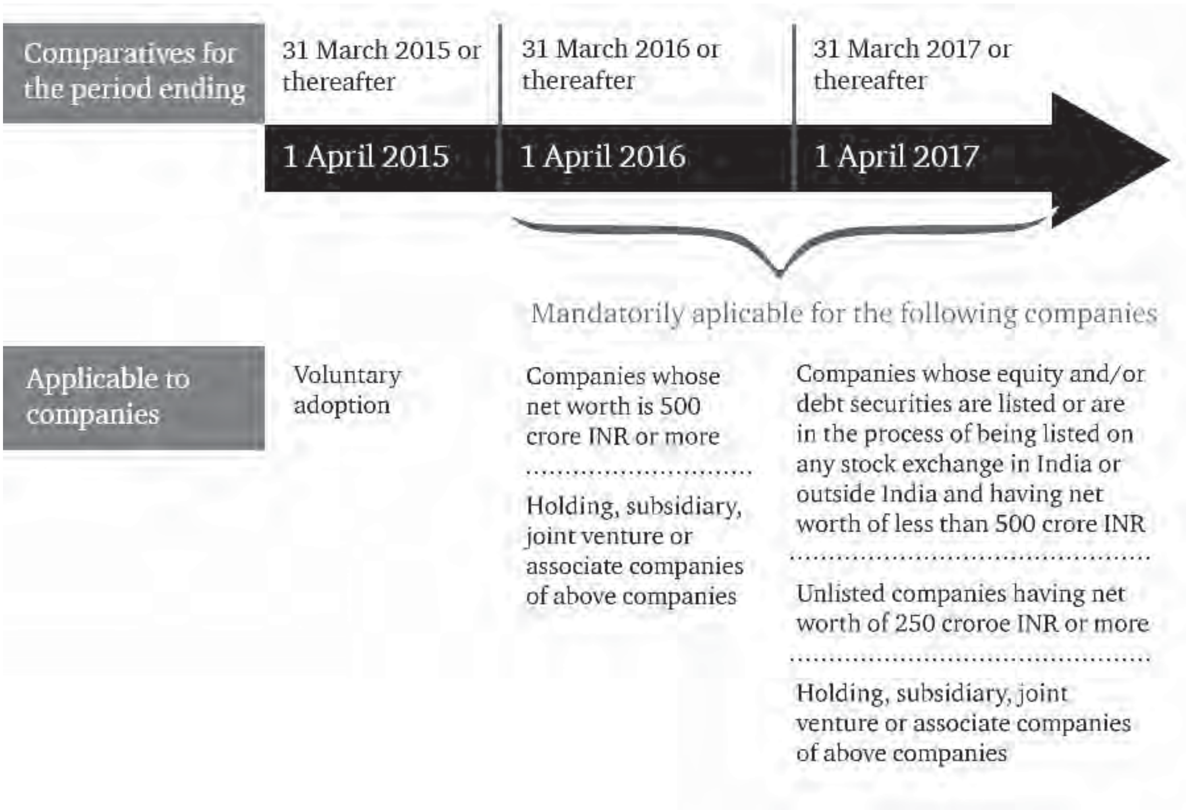
Ind AS will be mandatorily applicable to the following companies for periods beginning on or after 1st April 2016, with comparatives for the period ending 31st March 2016 or thereafter:

- Companies whose equity and/or debt securities are listed or are in the process of listing on any stock exchange in India or outside India and having net worth of 500 crores INR or more.
- Companies having net worth of 500 crores INR or more other than those covered above.
- Holding, subsidiary, joint venture or associate companies of companies covered above.

Phase II

Ind AS will be mandatorily applicable to the following companies for periods beginning on or after **1st April 2017**, with comparatives for the period ending **31st March 2017** or thereafter:

1. Companies whose equity and/or debt securities are listed or are in the process of being listed on any stock exchange in India or outside India and having net worth of less than rupees 500 Crores.
2. Unlisted companies other than those covered in Phase I and Phase II whose net worth are more than 250 crores INR but less than 500 crores INR.
3. Holding, subsidiary, joint venture or associate companies of above companies.



Net worth

The net worth will be determined based on the standalone accounts of the company as on 31 March 2014 or the first audited period ending after that date. Net worth has been defined to have the same meaning as per section 2(57) of the Companies Act, 2013. It is the aggregate value of the paid-up share capital and all reserves created out of the profits and securities premium account, after deducting the aggregate value of the accumulated losses, deferred expenditure and miscellaneous expenditure not written off, as per the audited balance sheet, but does not include reserves created out of revaluation of assets, write-back of depreciation and amalgamation.

Standalone and consolidated financial statements

Ind AS will apply to both consolidated and stand-alone financial statements of a company covered by the roadmap. This is helpful as companies will not have to maintain dual accounting systems.

Foreign operations

An overseas subsidiary, associate or joint venture of an Indian company is not required to prepare its standalone financial statements as per the Ind AS, and instead, may continue with its jurisdictional requirements. However, these entities will still have to report their Ind AS adjusted numbers for their Indian parent company to prepare consolidated Ind AS accounts.

Applicability to insurance, banking and non-banking financial companies

To bring about systemic convergence of financial reporting standards in vogue in the case of Indian banking companies, Insurance companies and Non-banking Financial Companies with those recognised and accepted globally, the Indian Government posited the roadmap for the adoption of Indian Accounting Standards (Ind AS) by these companies on the 18th January 2016. For these organisations which were earlier exempt from applicability of Ind AS, a separate road map for convergence has been drawn up that will see a phased approach with Ind AS adoption beginning from 1st April 2018. In this regard an advisory dated February 11, 2016 has also been issued by Reserve Bank of India (RBI). The details of the new road map are:

For Banks and Insurance Companies

- Scheduled commercial banks (excluding regional rural banks) and insurance companies will be required to prepare Ind AS based financial statements for accounting periods beginning from 1st April 2018 onwards. Ind AS will be applicable to both consolidated and individual financial statements.
- Holdings, subsidiaries, joint ventures or associate companies of scheduled commercial banks (excluding regional rural banks) will be required to prepare Ind AS based financial statements for accounting periods beginning from 1st April 2018 onwards.
- Urban cooperative banks and regional rural banks are not required to apply Ind AS and will continue to comply with the current accounting standards applicable to them.

Non-Banking Financial Companies (NBFCs)

- In Phase I companies required to prepare Ind AS based financial statements for accounting periods beginning from 1st April 2018 onwards (consolidated and individual financial statements) are:
  - non-banking financial companies having net worth of ` 500 crores or more; and
  - holdings, subsidiaries, joint ventures or associate companies of the companies above other than those companies already covered under the general corporate roadmap.
- In Phase II companies required to prepare Ind AS based financial statements for accounting periods beginning from 1st April 2019 onwards (consolidated and individual financial statements) are:
  - non-banking financial companies whose equity and/or debt securities are listed or are in the process of listing on any stock exchange in India or outside India and having net worth less than ` 500 crores;
  - non-banking financial companies that are unlisted companies, having net worth of ` 250 crore or more but less than ` 500 crores; and

  - holdings, subsidiaries, joint ventures or associate companies of the companies above other than those companies already covered under the general corporate roadmap.
- Non-banking financial companies having net worth below ` 250 crores and not covered under the above provisions shall continue to apply the current accounting standards applicable to them.

The roadmap also notes that only the banks, insurance companies, and non-banking financial companies coming under this roadmap may apply Ind AS, there is no voluntary adoption. However, Ind AS compliant financial statement data may of course be produced for the purposes of the preparation of consolidated financial statements by the parent/investor, as required by the parent/investor to comply with the existing requirements of law.

RBI in its advisory issued to all Scheduled Banks have required them to submit proforma Ind AS financial statements to the Reserve Bank from the half-year ended September 30, 2016, onwards.

The Conceptual Framework for Financial Reporting

MCA has prescribed no Framework in the notified Rules. However, various Ind ASs refer to the Framework for Preparation and Presentation of Financial Statements issued by Institute of Chartered Accountants of India (ICAI). This Framework is based on IFRS Framework approved by International Accounting Standards Board (IASB).

This *Framework* sets out the concepts that underlie the preparation and presentation of financial statements for external users. The purpose of the Framework is:

(a) To assist the MCA in the development of future Ind ASs and in its review of existing Ind ASs;

(b) To assist the MCA 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 Ind ASs;

(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

The objective of general purpose financial reporting 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 an entity's prospects for future net cash inflows, existing and potential investors, lenders and other creditors need information about the resources of the entity, claims against the entity, and 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 that an user may require to arrive at decision 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 and Understandability. They enhance the usefulness of information that is relevant and faithfully represented.

(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

The recognition is based on the probability of the future economic benefits and reliability of measurement. It involves the recognition of assets, liabilities, incomes and expenses.

Measurement of the Elements of Financial Statements

Measurement involves assigning monetary amounts at which the elements of the financial statements are to be recognised and reported. 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; Net realisable (settlement) value and Present value (discounted).

Historical cost is the measurement basis most commonly used today, but it is usually combined with other measurement bases. The Framework does not include concepts or principles for selecting which measurement basis should be used for particular elements of financial statements or in particular circumstances. The qualitative characteristics do provide some guidance, however.

(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; it is a prerequisite for distinguishing between an entity's return on capital and its return of capital; only inflows of assets in excess of amounts needed to maintain capital may be regarded as profit and therefore as a return on capital. Hence, 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. There are several types of costs and benefits to consider.

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
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Chapter 3
Recognition Principles under Ind AS

Recognition is the process of incorporating in the balance sheet or in statement of profit & loss an item that meets the definition of an element and satisfies the following criteria for recognition:

- It is probable that any future economic benefit associated with the item will flow to or from the entity; and
- The item's cost or value can be measured with reliability.

Based on these general criteria:

- An asset is recognised in the balance sheet when it is probable that the future economic benefits will flow to the entity and the asset has a cost or value that can be measured reliably.
- A liability is recognised in the balance sheet 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 measured reliably.
- Income is recognised in the statement of profit & loss when an increase in future economic benefits related to an increase in an asset or a decrease of a liability has arisen that can be measured reliably. This means, in effect, that recognition of income occurs simultaneously with the recognition of increases in assets or decreases in liabilities (for example, the net increase in assets arising on a sale of goods or services or the decrease in liabilities arising from the waiver of a debt payable).
- Expenses are recognised when a decrease in future economic benefits related to a decrease in an asset or an increase of a liability has arisen that can be measured reliably. This means, in effect, that recognition of expenses occurs simultaneously with the recognition of an increase in liabilities or a decrease in assets (for example, the accrual of employee entitlements or the depreciation of equipment)

Besides, the general recognition criteria for various elements stated in the *Framework for Preparation and Presentation of Financial Statements in accordance with Indian Accounting Standards* as issued by ICAI as described above, certain standards in Ind AS provides specific guidance on recognition which are discussed below.

Recognition principles in Various Ind ASs

Category	Ind AS	Recognition Principle
Inventories	Ind AS 2	When sold or used in creation of other assets inventories are recognised as expenses
Contract Revenue and Contract Costs	Ind AS 11	When the outcome of a construction contract can be estimated reliably, contract revenue and contract costs associated with the construction is recognised as revenue and expenses respectively by reference to the stage of completion of the contract activity at the end of the reporting period When the outcome of a construction contract cannot be estimated reliably: (a) revenue is recognised only to the extent of contract costs incurred that it is probable will be recoverable; and (b) contract costs is recognised as an expense in the period in which they are incurred. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.
Income Taxes	Ind AS 12	Current tax for current and prior periods if unpaid is recognised as liability and if excess paid is recognised as an asset. Benefit relating to a tax loss that can be carried back to recover current tax of a previous period is recognised as asset. For all temporary differences a deferred tax liability is recognised. For all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized. Current and deferred tax is recognised as income or expense and included in profit or loss for the period (if not related to OCI)
Property, plant & equipment	Ind AS 16	An item of PPE is recognised as an asset if and only if • It is probable that future economic benefits associated with the item will flow to the entity, and • The cost of the item can be measured reliably

Category	Ind AS	Recognition Principle
Revenue	Ind AS 18	Revenue is recognised when it is probable that future economic benefits will flow to the entity and these benefits can be measured reliably. **Revenue from the sale of goods** is recognised when all the following conditions have been satisfied: (a) the entity has transferred to the buyer the significant risks and rewards of ownership of the goods; (b) the entity 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 entity; and (e) the costs incurred or to be incurred in respect of the transaction can be measured reliably. When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the end of the reporting period. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied: (a) the amount of revenue can be measured reliably; (b) it is probable that the economic benefits associated with the transaction will flow to the entity; (c) the stage of completion of the transaction at the end of the reporting period can be measured reliably; and (d) the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

Category	Ind AS	Recognition Principle
		When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable. **Interest, royalties and dividends** are recognised when: (a) it is probable that the economic benefits associated with the transaction will flow to the entity; and (b) the amount of the revenue can be measured reliably
Employee Benefits	Ind AS 19	**Short-term employee benefits:** When an employee has rendered service to an entity during an accounting period **Paid absences** are recognised: (a) in the case of accumulating paid absences, when the employees render service that increases their entitlement to future paid absences. (b) in the case of non-accumulating paid absences, when the absences occur. **Profit-sharing and bonus payments** when: (a) the entity has a present legal or constructive obligation to make such payments as a result of past events; and (b) a reliable estimate of the obligation can be made. **Contribution to defined benefit plans:** When employee renders services. **Past service cost:** at the earlier of the following dates: (a) when the plan amendment or curtailment occurs; and (b) when the entity recognises related restructuring costs or termination benefits

Category	Ind AS	Recognition Principle
		Gain/loss on the settlement of a defined benefit plan when the settlement occurs. **Reimbursement Rights:** When, it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation **Termination benefits:** At the earlier of the following dates: (a) when the entity can no longer withdraw the offer of those benefits; and (b) when the entity recognises costs for a restructuring and involves the payment of termination benefits.
The effects of changes in foreign exchange rates	Ind AS 21	**Foreign Currency Translation:** Date of transaction **Ex difference on settlement of monetary items: In period in which they arise.**
Borrowing Costs	Ind AS 23	Borrowing costs are capitalized as part of the cost of the asset when it is probable that they will result in future economic benefits to the entity and the costs can be measured reliably. Other borrowing costs are recognised as an expense in the period in which they are incurred.
Impairment loss	Ind AS 36	Impairment loss is recognised if and only if recoverable amount of asset is less than its carrying amount
Provisions, contingent liability and contingent assets	Ind AS 37	A provision shall 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 shall be recognised. Contingent Assets and Liabilities are not recognised in financial statements.

Category	Ind AS	Recognition Principle
Intangible Assets	Ind AS 38	An intangible asset shall 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. No intangible asset arising from research (or from the research phase of an internal project) shall be recognised. Expenditure on research (or on the research phase of an internal project) shall be recognised as an expense when it is incurred. An intangible asset arising from development (or from the development phase of an internal project) shall 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. (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. Expenditure on an intangible item shall be recognised as an expense when it is incurred unless: (a) it forms part of the cost of an intangible asset that meets the recognition criteria or (b) the item is acquired in a business combination and cannot be recognised as an intangible asset.

Category	Ind AS	Recognition Principle
Investment Property	Ind AS 40	Investment property is be recognised as an asset when, and only when: • it is probable that the future economic benefits that are associated with the investment property will flow to the entity; and • the cost of the investment property can be measured reliably
Biological assets/ agricultural produce	Ind AS 41	Biological asset or agricultural produce is recognised when, and only when: (a) the entity controls the asset as a result of past events; (b) it is probable that future economic benefits associated with the asset will flow to the entity; and (c) the fair value or cost of the asset can be measured reliably.
Assets and liabilities acquired in business combinations	Ind AS 103	Assets and liabilities acquired in business combinations are recognised if they meet recognition criteria stated in Framework and are part of what acquirer and acquire exchanged in business combination transaction. Contingent Liability acquired in Business combination is recognised if it is a present obligation resulting from past events whose fair value can be reliably measured. Even if it is not probable that an outflow of resources embodying economic benefit will be required to settle the obligation. Indemnification Assets in business combination are recognised when the indemnified items are recognised.

Category	Ind AS	Recognition Principle
Exploration for and Evaluation of Mineral Resources	Ind AS 106	Entity specific accounting policy is developed to recognise certain expenditures as exploration and evaluation asset and applied consistently. However, expenditure on development cannot be included herein. Impairment loss on Exploration & Evaluation assets are assessed for impairment when facts and circumstances suggest that carrying amount exceed the recoverable amount.
Financial Assets & Financial Liabilities	Ind AS 109	FA & FL are recognised in balance sheet only when entity becomes party to contractual provisions of the instrument. A regular way purchase or sale of FA is recognised using Trade day accounting or settlement day accounting.

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Chapter 4
Measurement Bases under Ind AS

Measurement involves assigning monetary amounts at which the elements of the financial statements are to be recognised and reported. Any GAAP makes use of various measurement bases to measure the different elements of financial statements. Though the use of single measurement bases for all elements would make the totals and net totals more understandable, single measurement bases would not be relevant to each element. For instance a cost based measurement would not provide relevant information about a derivative. The relevance of a particular measurement depends on how investors, creditors and other lenders are likely to assess how an asset or a liability of that type will contribute to the entity's future cash flows. The selection of a measurement:

(a) For a particular asset should depend on how it contributes to future cash flows; and

(b) For a particular liability should depend on how the entity will settle or fulfil that liability.

Based on this view the subsequent measurement of assets can be summarized as follows:

How the asset contributes to future cash flows	Likely measurement
Using	Cost
Selling	Current market price
Holding for collection	Cost/amortised cost
Charging for rights to use	Cost or current market price

Similarly while prescribing measurement bases for liabilities, it is usually determined whether:

Liability is settled or fulfilled	Likely measurement
Settled according to stated terms	Cost (but not for derivatives)
Liabilities without stated terms	Cash-flow-based
By performance	Cost
To be transferred	Current market price

For the purposes of measurement these are the popular measurement bases in any GAAP:

- **Historical cost:** A historical cost is a measure of value used in accounting in which the price of an asset on the balance sheet is based on its nominal or original **cost** when acquired by the company. In other words it is the fair value of consideration agreed upon at the time of acquisition. Similarly, liabilities are recorded at the fair value of the consideration received in exchange for incurring the obligations at the time they were incurred.

- **Net Realizable Value:** In case of assets NRV is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale . Liabilities are recorded at settlement value which may be discounted or undiscounted amounts of cash or cash equivalents expected to be paid to satisfy the liability in normal course of business.

- **Current Cost:** This represents the most economic cost of an asset or of its equivalent productive capacity or service potential. This definition embodies reproduction cost and replacement cost. The concepts of "replacement cost" and "reproduction cost" are presumed to factor in any diminution in amount that would result from wear and tear and obsolescence. They are defined as follows:

  - Reproduction cost (of an asset): The most economic current cost of replacing an existing asset with an identical one.

  - Replacement cost (of an asset): The most economic current cost of replacing an existing asset with an asset of equivalent productive capacity or service potential.

- **Value in Use:** Value in use (of an asset): The present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life.

- **Fair Value:** It is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

- **Deprival Value:** This measurement bases is nowhere used in Ind AS. Deprival value (or "value to the business"). The loss that an entity would suffer if it were deprived of an asset. The upper boundary is its replacement cost. The lower boundary is recoverable amount (which is the higher of its net realizable value and value in use).

It must be noted herein that the present value is not a measurement basis, but is rather a technique that can be applied to estimate a number of the above measurements in certain circumstances.

Measurement of Assets under Ind AS

Categories of Asset	Ind AS	Measurement	
		Initial	**Subsequent**
Inventories	Ind AS 2	Lower of cost or NRV	
Property, Plant & Equipment	Ind AS 16	At Cost	Cost Model or Revaluation Model
Finance Lease Assets	Ind AS 17	Lessee: recognises asset taken as PPE as separate line item Lessor: Recognises present value of Finance Lease Receivables	

Categories of Asset	Ind AS	Measurement	
		Initial	**Subsequent**
Employees Benefit Plan Assets	Ind AS 19	At fair value of planned assets net of fair value of obligations	
Government Grants	Ind AS 20	Monetary Grants: At the amount of grant Non Monetary Grants and concessionary loans: At Fair Value	
Investment in subsidiary, associate and joint venture in Separate Financial Statements	Ind AS 27	At cost or as per Ind AS109	
Investment in subsidiary, associate and joint venture in Consolidated Financial Statements	Ind AS 28	Measured applying equity method	
Intangible Assets	Ind AS 38	At Cost	Cost Model or Revaluation Model
Investment Property	Ind AS 40	At Cost	At Cost
Biological Assets	Ind AS 41	At Fair Value less cost to sell	At Fair Value less cost to sell
Assets arising out of Business combination Goodwill Non-Controlling Interest Contingent Liability acquired in Business Combination	Ind AS 103	At Acquisition Date Fair Value Difference between the Fair Value of Net asset acquired and Fair Value of consideration paid Proportionate value of net asset At Fair Value	AS per other applicable standards At higher of amount recognised as per Ind AS37 and Amount initially recognised less cumulative amortisaion
Non Current Assets held for sale	Ind AS 105	At Lower of carrying Amount and Fair Value less costs to sell	

Categories of Asset	Ind AS	Measurement	
		Initial	**Subsequent**
Exploration & Evaluation assets	Ind AS 106	At Cost	At cost or revaluation model
Financial Assets	Ind AS 109	Fair Value +/- transaction cost in some cases	Fair Value or Amortised Cost

Measurement of Liabilities

Categories of Asset	Ind AS	Measurement	
		Initial Recognition	**Subsequent**
Current Tax Liabilities	Ind AS 12	Amount expected to be paid using enacted tax laws	
Deferred Tax Liabilities	Ind AS 12	Use expected tax rates at time assets would be realized based on enacted tax laws	
Provisions	Ind AS 37	Best Estimate of expenditure required to settle the present obligation	
Financial Liabilities	Ind AS 109	At Fair Value	At Amortized Cost or Fair Value

Measurement of Expenses under Ind ASs

Categories of Expenses	Ind AS	Measurement
Income Taxes	Ind AS 12	Current tax liabilities for current and prior periods should be measured at amount expected to be paid to the taxation authorities, using tax rates that have been enacted or substantially inacted.
Depreciation	Ind AS 16	Allocated on systematic basis over useful life.
Employees Benefits	Ind AS 19	• Short term employee benefits: undiscounted expenses • Post employment benefits (defined contribution): Amount of contribution • Post employment benefits (defined benefit) using projected unit credit method • Termination benefits in accordance with the nature of employee benefits

Categories of Expenses	Ind AS	Measurement
Leases	Ind AS 17	Operating lease rentals (income): Based on systematic allocation of total lease payments considering time pattern of user's benefits
		Finance Charges or Finance Income: Systematic allocation that produces constant rate of return on finance lease liability or assets.
Gain/loss on • Translation of Foreign Currency Transactions • Translation of FO	Ind AS 21	FC transactions are measured using Spot rate at date of transaction. At subsequent date FC monetory items are translated using closing rate and Ex difference are taken to P/L. Asset & Liability of FO measured at closing rate and income & expenses at the rate at transaction date. Resulting exchange difference is taken to OCI
Borrowing Costs	Ind AS 23	Interest expenses: using effective interest method
Provisions	Ind AS 37	The best estimate of present value of expenditure required to settle the present obligation

Growing Significance of Fair Value

Fair value is an important measurement basis in financial reporting. Fair Value Accounting has been a topic of interest and debate ever since its inception. It provides information about what an entity might realize if it sold an asset or might pay to transfer a liability. In recent years, the use of fair value as a measurement basis for financial reporting has been extended, even though the debate over its usefulness to stakeholders continues.

Determining fair value often requires a variety of assumptions, as well as significant judgment. Thus, it becomes extremely important to provide timely and transparent information about how fair value is measured, its impact on current financial statements, and its potential to impact future periods.

There are numerous items for which fair value measurements are required or permitted. Ind AS 113, ASC 820 and IFRS 13 ("the Fair Value Standards") provide authoritative guidance on fair value measurement.

Ind ASs and Transactions that requires or permits FV measurement

- Business combinations (Ind AS 103)
    - Assets acquired and liabilities assumed
    - Contingent consideration

  - Non-controlling interests in an acquiree
  - Previously held interest
- Financial instruments: Recognition and measurement (Ind AS 39)
  - Assets/liabilities eligible for FV option
  - Derivatives
  - Hybrid financial instruments
  - Financial guarantee contracts
  - Debt and equity investments
- Employee benefits— post-employment benefit obligations (Ind AS 19)
- Intangible assets— revaluation model (Ind AS 38)
- Investments in associates and joint ventures—held by mutual funds and similar entities (Ind AS 28)
- Property, plant and equipment—revaluation model and exchange of assets (Ind AS 16)
- Noncurrent assets held for sale and discontinued operations (Ind AS 105)
- Agriculture—biological assets (Ind AS 41)
- Impairment of assets— non-financial assets (Ind AS 36)
- Revenue (Ind AS 18)
- Consolidated and Separate Financial Statements—investments in subsidiaries by investment entities (Ind AS 27)
- Government Grants – non-monetary Government grants (Ind AS 20)

Effect of Fair Value Accounting

Traditionally our accounting premises are built upon historical cost base. The transition to fair value has led to a very unique concept of Day 1 gain or loss i.e., the reporting entity may have a gain or incur a loss as soon as it acquires an asset. The fair value standards state that in many cases the transaction price equals fair value, such as when on the transaction date the transaction to buy an asset takes place in the market in which the asset would be sold. In determining whether a transaction price represents the fair value at initial recognition, a reporting entity should take into account factors specific to the transaction and to the asset or the liability. However, a transaction price may not represent fair value in certain situations:

- a related party transaction;
- a transaction under duress or a forced transaction;

- the unit of account for the transaction price does not represent the unit of account for the asset or liability being measured; or
- the market for the transaction is different from the market for the asset or liability being measured.

Under Ind AS, a Day 1 gain or loss on a financial instrument (i.e., upon initial recognition of the instrument) is recognised only when the fair value of that instrument is evidenced by other observable current market transactions in the same instrument (i.e., without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets.

Illustration: Suppose an Entity A Ltd., grants loans of ` 100 Lakh to B Ltd. for 5 years at 8% which is below the incremental borrowing rate of B Ltd. of 12%.

Fair value of the loan would be determined using present value of future cash flows arising out of interest payments and repayments of the principal amount discounted at market rate of interest.

FV= ` 85.58 Lakh. The difference of ` 14.42 Lakh would be recognised as fair value loss in the profit & loss account. The journal entry in books of A Ltd. at the date of granting loan would be as follows:

Loan to B Ltd. A/c	Dr	85,58,000	
Fair Value loss A/c	Dr	14,42,000	
To Bank A/c	Cr		100,00,000

(Day 1 loss on loan granted

to B Ltd. recognised)

Ind AS 113 dealing with Fair Value Measurement has been comprehensively dealt in subsequent chapter pertaining to Financial Instruments.

Certain example of effect of Fair Value Measurements on the Books of Account through Journal Entries

Illustration 1: Biological Assets

On 15th July, 2015, Livestock Ltd. purchased 10 cows at an auction for ` 90,000. It incurred ` 2000 to transport the cows to the farm. It estimates transporting cost of ` 3000 to sell these cows. Other selling costs are estimated at ` 500 for each cow i.e. ` 5000 for 10 cows.

In above example Net Out flow of livestock Ltd for this transaction is ` 90,000 + 2000= ` 92,000. Fair Value less cost to sell in this case would be ` 90000 - 3000-5000=` 82,000.

Therefore livestock Ltd incurs a loss of ` 10,000 (92,000- 82,000) at initial recognition. This would be represented by Journal Entries as follows:

15/07/2015	Cows A/c	Dr	82,000	
	Loss on FVM	Dr	10,000	
	To Bank	Cr		92,000
	Being purchase of cow recorded at fair value less cost to sell and loss on initial recognition recognised)			
15/7/2015	Profit & loss A/c	Dr	10,000	
	To Loss on FVM	Cr		10,000
	(being loss on fair value measurement transferred to P/L)			

Now suppose on 31st March, 2015 the Fair Value of Cows taking into account the present location and condition has increased to ` 1,05,000. Therefore, fair value less cost to sell at the reporting date would ` 105000-3000-5000= ` 97,000. Therefore, value of cows will increase by ` 15,000. This would be represented by a Journal Entries at 31st March as follows:

31/03/2015	Cows A/c	Dr	15,000	
	To Profit on FVM Cr			15,000
	(Being gain on FVM recognised)			
31/03/2015	Profit on FVM	Dr	15,000	
	To Profit & Loss	Cr		15,000
	(Being fair value gain on re-measurement of cows at closing date transferred to P/L)			

Illustration 2: Revaluation of PPE on Subsequent Measurement

A Ltd revalued its Building whose Original Cost was ` 100 crores. Accumulated Depreciation as on 31st March, 2015 was ` 20 Crores as per the books of accounts. However, as per income tax accumulated depreciation was ` 30 Crores and applicable tax rate is 30%. The company A Ltd. follows revaluation model for subsequent measurement of entire class of the asset and revalues the building to ` 90 crores (fair value) as on 31st March, 2015. Entity A Ltd would require to pass the following Journal entries:

31/03/2015	Building A/c	Dr	10,00,00,000	
	Deferred Tax Expense	Dr	3,00,00,000	
	To Revaluation Surplus	Cr		10,00,00,000
	To Deferred Tax Liability	Cr		3,00,00,000
	(Being building being revalued and fair value gain on re-measurement transferred to Revaluation Reserve and deferred tax liability recognised)			
31/03/2015	Revaluation Surplus	Dr	10,00,00,000	
	To profit & loss (OCI)	Cr		10,00,00,000
	(Being Revaluation surplus transferred to OCI at year end)			
31/03/2015	Profit & Loss (OCI)	Dr	3,00,00,000	
	To Deferred Tax Expenses	Cr		3,00,00,000
	(Being deferred tax expense transferred to OCI)			

Illustration 3: Financial Instruments

Company A Ltd. purchased 1,00,000 shares of Company B's publicly traded stock on April 1, 2014, when these shares were trading at ` 50 per share. However on 31st March, 2015 its value increases to ` 55 per share. (Income tax rate assumed to be 30%)

1/04/2014	Investment in A Ltd.	Dr	50,00,000	
	To Cash	Cr		50,00,000
	(Being purchase of 1,00,000 shares of A Ltd. at ` 50 each)			
31/03/2015	Investment in A Ltd.	Dr	5,00,000	
	To Fair value gain	Cr		5,00,000
	(Being gain on fair value measurement of investment in A Ltd. of 1,00,000 shares @ ` 5)			
31/3/2015	Income tax expense	Dr	1,50,000	
	To Deferred Tax Liability	Cr		1,50,0000
	(deferred tax implication on fair value gains realized)			

31/3/2015	Fair Value Gain	Dr	5,00,000	
	To Profit & Loss	Cr		5,00,000
	(being fair value gains transferred to P/L at year end)			
31/3/2015	Profit & Loss	Dr	1,50,000	
	To Deferred Tax Expense	Cr		1,50,000
	Being deferred tax gains transferred to P/L)			

Illustration 4: Contingent liability acquired in Business Combination

Eat Ltd. plans to acquire Food Ltd. Eat Ltd. identifies 4 law suits. Fair value of obligation that amounting to ` 10,00,000 might be required to be paid. Food Ltd. has provided for ` 2,00,000 only. One other case is pending, but fair value of obligation that may be required to be paid cannot be measured reliably.

Solution

Food Ltd. will recognise additional provision of ` 8,00,000 (10,00,000-2,00,000). However, no provision would be made in respect to case for which fair value cannot be measured. It will be disclosed in notes as contingent liability.

Illustration 5: Assets and Liabilities Acquired

Sellme Ltd. purchased a group of assets consisting of Plant & machinery, furniture, computers, software and licenses from Buyme Ltd. At a collective price of ` 250 crores. The fair value of these assets measured by applying Ind AS 113 is as follows:

Plant & Machinery	` 80 Crores
Furniture	` 40 Crores
Computers	` 40 Crores
Software	` 20 Crores
Licenses	` 20 Crores
Total	` 200 Crores

How Sellme Ltd account for these transactions?

Solution

To determine appropriate value at which these assets would be taken in the books of Sellme Ltd. it would be essential to determine whether this group of assets constitute business under Ind AS 103 or not.

Scenario 1: Group of Assets does not meet business test

Since PPE, and Intangible assets at initial recognition are measured at cost as per Ind AS 16 and Ind AS 38 respectively, the transaction value will be allocated to each asset in proportion to their FV. Therefore, they will be recorded in books of Sellme Ltd. at following values:

	Fair Value	**Allocated transaction value**
Plant & Machinery	` 80 Crores	` 100 crores
Furniture	` 40 Crores	` 50 crores
Computers	` 40 Crores	` 50 crores
Software	` 20 Crores	` 25 crores
Licenses	` 20 Crores	` 25 crores
Total	**` 200 crores**	**` 250 crores**

Scenario 2: Group of Assets meets business test

In this case Sellme Ltd will recognise Goodwill in business combination of ` 50 Crores i.e. the difference between the consideration paid (` 250 Crores) and the Fair Value of assets acquired (` 200 Crores) and all assets acquired would be recorded at their respective fair values.

Chapter 5
Presentation of Financial Statements

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
    - Appendix A to Ind AS 10: Distribution of Non-Cash Assets to owners
- Ind AS 21: The Effects of the Changes in Foreign Exchange Rates
- Ind AS 29: Financial Reporting in Hyperinflationary Economies
    - Appendix A to Ind AS 29: Applying the Restatement Approach under Ind AS 29
- Ind AS 34: Interim Financial Reporting
    - Appendix A to Ind AS 34: Interim Financial Reporting and Impairment

I. 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. Standards for recognising, measuring, and disclosing specific transactions are addressed in other Standards. It does not however prescribe any fixed format for presentation of Financial Statements.

This Standard applies to all general purpose financial statements based on Ind AS.

General purpose financial statements are those intended to serve users who do not have the authority to demand financial reports tailored for their own needs.

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
- 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 AS.

Basis of Preparation of Financial Statements

1. **Presentation of True and Fair View and Compliance with Ind ASs**

   The financial statements must present fairly the financial position, financial performance and cash flows of an entity. True and fair view requires the faithful representation of the effects of transactions, other events, and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the Framework. The application of Ind AS, with additional disclosure when necessary, is presumed to result in financial statements that achieve a true and fair view.

   Ind AS 1 requires that an entity whose financial statements comply with Ind AS make an explicit and unreserved statement of such compliance in the notes. Financial statements should not be described as complying with Ind AS unless they comply with all the requirements of Ind ASs.

   Inappropriate accounting policies cannot be rectified either by disclosure of the accounting policies used or by notes or explanatory material.

   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.

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, the financial statements should not be prepared on a going concern basis, in which case Ind AS 1 requires 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.

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. An entity need not provide specific disclosure required by an Ind AS, if the information is not material except when required by some law in force. This is the case even if the Ind AS contains a list of specific requirements or describes them as minimum requirements.

6. Offsetting

Assets and liabilities, and income and expenses, should not be offset unless required or permitted by a Standard. It is important that assets and liabilities, and income and expenses, are reported separately.

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.

Enhancing the inter-period comparability of information assists users in making economic decisions, especially by allowing the assessment of trends in financial information for predictive purposes.

Ind AS 8 deals with adjustments to comparative information required when an entity changes its accounting policy or corrects an error. Entity may be required to present an additional third balance sheet at the beginning of the proceeding period in case of retrospective application of accounting policies, retrospective restatement of items or reclassification of items in the financial statements, provided they have material effect on the information in the balance sheet at the beginning of the preceding period.

8. Consistency of preparation

A change in presentation and classification of items from one period to the next is permitted only when it is a result of:

- a significant change in the nature of the entity's operations;
- identification of a more appropriate presentation; or
- the requirements of a new Ind AS.

9. **Frequency of reporting**

   Financial statements are usually prepared at least 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 declaration that the amounts presented in financial statements are not entirely comparable.

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 (defined in Ind AS 21 – *The effects of changes in foreign exchange rates*). Presentation currency is the currency in which the financial statements are presented.

e) Level of rounding used in presenting amounts (thousands, millions etc.).

Information to be presented in the Balance Sheet

The Balance Sheet must 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.

An asset is classified as current when:

(a) it expects to realise the asset, or intends to sell or consume it, in its normal operating cycle (i.e., the time between the acquisition of assets for processing and their realisation in cash or cash equivalents);

(b) it holds the asset primarily for the purpose of trading;

(c) it expects to realise the asset within twelve months after the reporting period; **or**

(d) the asset is cash or a cash equivalent unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

Similarly, a liability is classified as current when:

(a) it expects to settle the liability in its normal operating cycle;

(b) it holds the liability primarily for the purpose of trading;

(c) the liability is due to be settled within twelve months after the reporting period; **or**

(d) it does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

All other liabilities are classified as non-current.

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 the shares have no par value

iv. Reconciliation of shares outstanding at the beginning and at 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. 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 a 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 by nature of expenses (raw materials, staffing costs, depreciation, etc.) preferably on the face of the statement of profit & loss.

Information to be presented in the Other Comprehensive Income (OCI)

The OCI section should present line items for amounts of other comprehensive income in the period, classified by nature (including share of the other comprehensive income of associates and joint ventures accounted for using the equity method) and grouped into those that, in accordance with other Ind ASs:

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.

An entity must disclose the amount of income tax relating to each item of other comprehensive income, including reclassification adjustments, either in the statement of profit and loss or in the notes.

Statement of Cash Flows

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

Statement of Changes in Equity

An entity shall 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:

    (i) profit or loss;

    (ii) each item of other comprehensive income;

    (iii) 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; and

    (iv) disclosure regarding recognition of bargain purchase gain arising on business combination as prescribed in this regard in Ind AS 103.

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 Cash Flow Statement; and

- Provide additional information that is not presented on the face of the Balance Sheet, Statement of Profit and Loss, Statement of Changes in Equity, or Cash Flow Statement that is deemed relevant to an understanding of any of them.

Notes should 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:
  - o the measurement basis (or bases) used in preparing the financial statements
  - o 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 Balance Sheet, Statement of Profit and Loss, statement of changes in equity, and cash flow statement, in the order in which each statement and each line item is presented
- other disclosures, including:
  - o contingent liabilities and unrecognised contractual commitments
  - o non-financial disclosures, such as the entity's financial risk management objectives and policies.

Ind AS 1 vs. Companies Act Schedule III

Ind AS 1 provides minimum set of requirement for Ind AS compliant financial statement but it does not prescribe the exact order for presentation of items or format of financial statements. However, in India Schedule III to Companies Act, 2013, governs the exact form and presentation of financial statements. On April 6 2016, Ministry of Corporate Affairs through a notification prescribed General Instruction for preparation of Financial Statements of a company required to comply with Ind AS. The notification is annexed at the end of the book as Annexure I.

II. Ind AS 7: STATEMENT OF CASH FLOWS

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. preference 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.
- 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 indirect method is also 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 off.

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 shall 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 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.

III. Ind AS 8: ACCOUNTING POLICIES, CHANGES IN ACCOUNTING ESTIMATES AND ERRORS

- This 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 are the specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements
- Hierarchy for choosing accounting policies:
  - 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 make the judgment:
    - 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.
- An accounting policy 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.
- 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, shall 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 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 repeat these disclosures.

IV. Ind AS 10 EVENTS AFTER THE REPORTING PERIOD

- 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 unfavourable, that occur between the end of the reporting period and the date when the financial statements are approved for issue.

- 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 (such as resolution of a court case after the end of the reporting period). Examples of adjusting events are:
  - o Events that indicate that the going concern assumption in relation to the whole or part of the entity is not appropriate.
  - o Settlement after reporting date of court cases that confirm the entity had a present obligation at reporting date.
  - o Bankruptcy of a customer that occurs after reporting date that confirms a loss existed at reporting date on trade receivables.
  - o Sales of inventories after reporting date that give evidence about their net realisable value at reporting date.
  - o Determination after reporting date of cost of assets purchased or proceeds from assets sold, before reporting date.
  - o 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:
  - o Major business combinations or disposal of a subsidiary
  - o Major purchase or disposal of assets, classification of assets as held for sale or expropriation of major assets by government
  - o Destruction of a major production plant by fire after reporting date
  - o Announcing a plan to discontinue operations
  - o Announcing a major restructuring after reporting date
  - o Major ordinary share transactions
  - o Abnormal large changes after the reporting period in assets prices or foreign exchange rates
  - o Entering into major commitments such as guarantees
  - o Commencing major litigation arising solely out of events that occurred after the reporting period.
- Financial statements are **adjusted** for conditions that existed at reporting date, i.e. adjusting events.

- Financial statements are **not adjusted** for condition that arose after the reporting date, i.e. non-adjusting events.
- 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. 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.
- An entity must make following disclosures for adjusting and non adjusting events:
    - o Date of authorisation of issue of financial statements and by whom
    - o 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
    - o For any information received about conditions that existed at reporting date, disclosure that relate to those conditions should be updated with the new information.
    - o 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.

APPENDIX A TO IND AS 10: DISTRIBUTION OF NON-CASH ASSETS TO OWNERS

Issue

When an entity declares a distribution and has an obligation to distribute the assets concerned to its owners, it must recognise a liability for the dividend payable. Consequently, this appendix addresses the following issues:

- When should the entity recognise the dividend payable?
- How should an entity measure the dividend payable?
- When an entity settles the dividend payable, how should it account for any difference between the carrying amount of the assets distributed and the carrying amount of the dividend payable?

Scope

Appendix A to Ind AS 10 applies to the following types of non-reciprocal distributions of assets by an entity to its owners acting in their capacity as owners:

- Distribution of non-cash assets
- Distributions that give owners a choice of receiving either non-cash assets or a cash alternative

- Appendix only applies if all owners of a class of equity instruments are treated equally
- It does not apply to distributions of non-cash assets that are ultimately controlled by the same party or parties before and after the distribution

Accounting Principles

When to recognize dividend payable: The liability to pay a dividend is recognised when the dividend is appropriately authorised and is no longer at the discretion of the entity, which is the date either:

- When declaration of the dividend is approved by the relevant authority, if the jurisdiction requires such approval
- When the dividend is declared, if the jurisdiction does not require further approval.

Measurement of a dividend payable

An entity measures a liability to distribute non-cash assets as a dividend to its owners at the fair value of the assets to be distributed

- If an entity gives its owners a choice of receiving either a non-cash asset or a cash alternative, the entity estimates the dividend payable by considering both the fair value of each alternative and the associated probability of owners selecting each alternative
- At the end of each reporting period and at the date of settlement, the entity reviews and adjusts the carrying amount of the dividend payable, with any changes in the carrying amount of the dividend payable recognised in equity as adjustments to the amount of the distribution.

Accounting on payment of Dividend

When an entity settles the dividend payable, it recognises the difference, if any, between the carrying amounts of the assets distributed and the carrying amount of the dividend payable in profit or loss.

Presentation & Disclosure

- An entity presents any gains or losses arising from differences in the carrying amounts of dividend liabilities and related assets that are derecognised on settlement as a separate line item in profit or loss
- An entity discloses the following information, if applicable:
  - o The carrying amount of the dividend payable at the beginning and end of the period
  - o The increase or decrease in the carrying amount recognised in the period as result of a change in the fair value of the assets to be distributed.
- If, after the end of a reporting period but before the financial statements are approved for issue, an entity declares a dividend to distribute a non-cash asset, it discloses:

- The nature of the asset to be distributed
- The carrying amount of the asset to be distributed as of the end of the reporting period
- The estimated fair value of the asset to be distributed as of the end of the reporting period, if it is different from its carrying amount and the information about the method used to determine that fair value required by Ind AS 107 *Financial Instrument: Disclosures.*

V. Ind AS 21: EFFECT OF CHANGES IN FOREIGN EXCHANGE RATES

- The standard deals with three aspects namely Foreign Operation (FO), Foreign Currency Transaction (FCT) and Presentation of Financial Statements in Foreign Currency
  - o Objectives of Ind AS 21 is to prescribing rules to include Foreign Currency Translation and Foreign Operations in the financial statements of an entity and to translate financial statement into Presentation Currency.
  - o 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.
  - o The standard is applied in :
    - o **Accounting** – Transactions and Balances in Foreign Currencies (except derivative transactions and balances covered under Ind AS 109)
    - o **In Translating** – Results and Financial Position of FOs (included in the financial statements of the entity by Consolidation)
    - o **In Translating** – Results and Financial Position of the Entity – Into Presentation Currency
  - o The standard does not apply to:
    - o Foreign Currency Derivatives (Ind AS 109) excluded from the scope of Ind AS 21
    - o Hedge Accounting for Foreign Currency Items and Hedging of Net Investment in Foreign Operations are excluded
    - o Does not apply to presentation in a Statement of Cash Flow of Foreign Currency Transaction or Translation of Cash Flows from Foreign Operations (Ind AS 7 Cash Flow Statements)
    - o Does not apply to long term foreign currency monetary items for which an entity has opted for exemptions given in Ind AS 101 First Time Adoption of Ind AS.

- o An entity's functional currency is the currency of the primary economic environment in which it operates
- o 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.
- o Net Investment in a Foreign Operation is the amount of reporting entity's interest in that operation.
- o 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.
- o **Example of Non-Monetary Items are** Prepaid rent, Goodwill, Intangible Assets, Inventories, Property Plant & Equipment.

Approach of a Standard

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

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

   The primary indicators may be determinative. However, the following two indicators serve as supporting evidence:

   - o Currency in which funds/receipts from financing activities are generated; and
   - o Currency in which funds/receipts from operating activities are retained.

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

3. 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)

Initial Recognition

Nature of Foreign Currency Transactions

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

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.**

An illustration is provided below:

Illustration 1: On 2nd April 2015, A Ltd. an Indian Entity purchased Machinery worth $ 10,000 from a US entity on credit. The payment was made ultimately on 30th May, 2015. Exchange rates were as follows:

- **On 2nd April 2015 $1=` 62 [Spot Rate]**
- **On 30th May 2015 $1= ` 64 [rate at settlement date]**

Solution: Following Journal Entries will be passed in the books of A Ltd.

Date	Particulars		Exchange Rates	Amount Dr. `	Amount Cr. `
2.4.15	Purchase A/c	Dr	$ 10,000 @ ` 62/$	6,20,000	
	Trade Payables A/c	Cr			6,20,000
	Being Credit purchase denominated in foreign currency				
30.5.15	Trade Payables	Dr.	$ 10,000 @ `64/$	6,20,000	
	Exchange loss	Dr		20,000	
	Bank A/c	Cr			6,40,000
	Being Trade Payables settled				

Reporting at the ends of Subsequent Reporting Periods

At the end of every reporting period

1. Foreign Currency Monetary Items translated – using Closing Rate.
2. Non Monetary Items – measured using Historical Cost in Foreign Currency – translated at Exchange Rate at the date of the Transaction.
3. Non Monetary Items – measured using Fair Value in Foreign Currency – translated at Exchange Rate at the date when Fair Value was determined.

(Determination of Historical Cost or Fair Value depends on Ind AS 16 where the item is Property Plant or Equipment).

(Determination of lower of Cost or Net Realisable Value as per Ind AS 2 where it is inventory).

(Determination of lower of carrying amount or recoverable amount depends on Ind AS 36 Impairment of Assets where assets are subject to impairment).

Recognition of Exchange Differences

Exchange Differences arises

- o On settlement of Monetary Items or
- o Translating Monetary Items at rates different from that of Initial Recognition – during the period or in previous financial statements.

Treatment of Exchange Difference

- o Shall be recognized in Profit or Loss Account.

In the above illustration the exchange difference at the closure date will be transferred as follows:

31.3.16	Profit & loss A/c	Dr.	$10000 @ ` 2 [64-62]	20,000	
	Exchange loss	Cr			20,000
	Being exchange fluctuation loss transferred to P/L				

Settlement of Monetary Items in Foreign Currency

- o **Change in Ex Rate – between Transaction Date and Date of Settlement** – results in exchange difference
- o **Settlement in the same period** – All exchange difference is recognized in that period
- o **Settlement in subsequent period** – Exchange difference recognized in each period up to the date of settlement.

The above is illustrated through journal entries below.

Illustration 2: Suppose the entity A instead of settling the payment on 30th May 2015, settles it on 30th April 2016 i.e after the reporting date 31/3/2016. The exchange Rate on 31st March 2016 being $1=` 67 and on 30th April being: $1=` 66

Solution:

2/4/15	Purchase A/c	Dr	$ 10,000 @ ` 62/$	6,20,000	
	Trade Payables A/c	Cr			6,20,000
	Being Credit purchase denominated in foreign currency				
31/3/16	Exchange loss	Dr	$10,000 @ ` 5 [` 67- ` 62]	50,000	
	Trade Payable A/c	Cr			50,000
	Being translation of trade payable in foreign currency at reporting date				
31/3/16	Profit & loss A/c	Dr.		50,000	
	Exchange loss	Cr			50,000
	Being exchange fluctuation loss transferred to P/L				
30/4/16	Trade Payable	Dr		6,70,000	
	Bank	Cr	$10000 @ ` 66/$		6,60,000
	Exchange Gain	Cr			10,000
	Being settlement of trade payable and exchange gain there on				
30/4/16	Exchange Gain	Dr		10,000	
	Profit & loss	Cr			10,000
	Being transfer of Exchange Gain				

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

Exchange difference is recognized

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

In Consolidated Financial Statements

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

Gain or Loss in Non Monetary Item

- o Recognized in other Comprehensive Income – 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)
- o Recognized in Profit or Loss A/c – 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 shall 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

- o An entity may present its financial statement in any currency (or currencies)
- o If the Presentation Currency differs from the functional currency of the entity, it translates its results and financial position to the presentation currency
- o The results and financial position of an entity whose functional currency is not the currency of a hyper inflationary economy – shall be translated into a different presentation currency using the following procedure

- o Assets and Liabilities of each Balance Sheet presented shall be translated at the closing rate
  - ▪ At the date of that Balance Sheet
- o Income and expenses for each statement of profit & loss presented shall be translated at exchange rates
  - ▪ At the dates of the transaction
- o All resulting exchange differences shall be recognized in other comprehensive income

Translation of a Foreign Operation

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

Disposal or Partial Disposal of a Foreign Operation

On Disposal of a Foreign Operation

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

The following accounted for as Disposals

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

Tax Effects of all Exchange Differences

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

Disclosure Requirements

An entity shall disclose

- o Amount of Exchange Difference recognized in Profit or Loss A/c
- o Net Exchange Differences recognized in other Comprehensive Income and Accumulated in a separate component of equity
- o Reconciliation of the amount of such exchange difference at the beginning and end of the period
- o Statement of fact
  - o when Presentation Currency is difference from that of the Functional Currency
  - o of Change in the Functional Currency of the Reporting Entity
  - o When entity presents its financial statements in a currency different from its functional currency
  - o 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.

VI. Ind AS 29: FINANCIAL REPORTING IN HYPERINFLATIONARY ECONOMIES

- o 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.
- o Hyperinflation is indicated by characteristics of the economic environment of a country which include, but are not limited to, the following:
  - o The general population prefers to keep its wealth in non-monetary assets or in a relatively stable foreign currency
  - o The general population regards monetary amounts not in terms of the local currency but in terms of a relatively stable foreign currency
  - o 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.

- o 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.

APPENDIX A TO IND AS 29: APPLYING THE RESTATEMENT APPROACH UNDER IND AS 29 FINANCIAL REPORTING IN HYPERINFLATIONARY ECONOMIES

Issue

This Appendix provides guidance on how to apply the requirements of Ind AS 29 *Reporting in Hyperinflationary Economies* in a reporting period in which an entity identifies the existence of hyperinflation in the economy of its functional currency, when that economy was not hyperinflationary in the prior period, and the entity therefore restates its financial statements in accordance with Ind AS 29.

The questions addressed are:

- How should the requirement stated in terms of the measuring unit current at the end of the reporting period be interpreted when an entity applies the Standard?
- How should an entity account for opening deferred tax items in its restated financial statements.

Accounting Policy

- 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 applies the requirements of Ind AS 29 as if the economy had always been hyperinflationary.
- For non-monetary items measured at historical cost, the entity's opening Balance Sheet at the beginning of the earliest period presented in the financial statements is restated to reflect the effect of inflation from the date the assets were acquired and the liabilities were incurred or assumed until the end of the reporting period.
- For non-monetary items carried in the opening Balance Sheet at amounts current at dates other than those of acquisition or incurrence (e.g. revalued assets), that restatement reflects instead the effect of inflation from the dates those carrying amounts were determined until the end of the reporting period.
- At the end of the reporting period, deferred tax items are recognised and measured in accordance with Ind AS 12 Income Taxes. However, the deferred tax figures in the opening Balance Sheet for the reporting period are determined as follows:

- The entity remeasures the deferred tax items in accordance with Ind AS 12 after it has restated the nominal carrying amounts of its non-monetary items at the date of the opening Balance Sheet of the reporting period by applying the measuring unit at that date
- The deferred tax items remeasured are restated for the change in the measuring unit from the date of the opening Balance Sheet of the reporting period to the end of that reporting period.

- The entity applies the approach above in restating the deferred tax items in the opening Balance Sheet of any comparative periods presented in the restated financial statements for the reporting period in which the entity applies Ind AS 29.
- After an entity has restated its financial statements, all corresponding figures in the financial statements for a subsequent reporting period, including deferred tax items, are restated by applying the change in the measuring unit for that subsequent reporting period only to the restated financial statements for the previous reporting period.

VII. Ind AS 33: EARNINGS PER SHARE

- 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.
- 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
- 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 shall 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 shall 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 shall 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:
    - o 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;
    - o 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
    - o 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 shall be adjusted retrospectively.

VIII. Ind AS 34: INTERIM FINANCIAL STATEMENT

- 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.
- *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.
- *Interim period* is a financial reporting period shorter than a full financial year.
- Minimum components of an interim financial report are:
    - o condensed Balance Sheet;
    - o condensed Statement of Profit and Loss;
    - o condensed statement of changes in equity;
    - o condensed statement of cash flows; and
    - o selected explanatory notes.
- The condensed statements are required to include at least:
    - o Headings and subtotals included in most recent annual financial statements
    - o Selected minimum explanatory notes - explaining events and transactions significant to an understanding of the changes in financial position/ performance since last annual reporting date
    - o Selected line items or notes if their omission would make the condensed financial statements misleading
    - o Basic and diluted earnings per share (if applicable) on the face of statement of profit & loss.
- 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.

APPENDIX A TO IND AS 34: INTERIM FINANCIAL REPORTING AND IMPAIRMENT

Appendix A to Ind AS 34 addresses the interaction between the requirements of Ind AS 34 *Interim Financial Reporting* and the recognition of impairment losses on goodwill in Ind AS 36 *Impairment of Assets*, and the effect of that interaction on subsequent interim and annual financial statements.

Issue

Should an entity reverse impairment losses recognised in an interim period on goodwill and investments in equity instruments and in financial assets carried at cost if a loss would not have been recognised, or a smaller loss would have been recognised, had an impairment assessment been made only the end of a subsequent reporting period.

Accounting Policy

An entity does not reverse an impairment loss recognised in a previous interim period in respect of goodwill.

An entity should not extend this accounting policy by analogy to other areas of potential conflict between Ind AS 34 and other Ind ASs.

MCQs on Presentation Standards:

1. Total comprehensive income is the change in equity during a period resulting from
   a) transactions and events with owners in their capacity as owners.
   b) transactions and events, other than those changes resulting from transactions with owners in their capacity as owners.
   c) Normal operation of the entity
   d) Cash profit earned during the year
2. An entity can rectify inappropriate accounting policies:
   a) By disclosure of the accounting policies;
   b) By providing notes or explanation material;
   c) By making disclosure in management report;
   d) Entity cannot rectify inappropriate accounting policies
3. When an entity presents additional Balance Sheet due to change in accounting policy
   a) Entity is required to present the related notes to the opening statement of financial statement.
   b) Entity need not present the related notes to the opening Balance Sheet at the beginning of the preceding period.
   c) Entity shall also present additional Balance Sheet before such changes.
   d) Entity is not required to present additional Balance Sheet due to change in accounting policy.
4. Ind AS shall apply to
   a) all information present in an annual report.
   b) financial statements
   c) Statement of Profit & Loss, Balance Sheet and Cash flow statement.
   d) other information including press release.
5. An entity shall present an analysis of expenses recognized in profit or loss using
   a) Functional classification.
   b) Either nature or functional classification.
   c) Nature of expense method.
   d) Neither nature nor functional classification.

6. Entity shall disclose the amount of dividend recognised as distribution to owners during the period, and the related amount of dividend per share in

   a) Statement of profit and loss.

   b) Statement of change in equity or in notes.

   c) Statement of profit and loss or in notes.

   d) Statement of profit and loss or in statement of change in equity.

7. Cash flow is required to be prepared for each period

   a) for which financial statements are presented.

   b) if the turnover during the period exceeds ` 50 crores.

   c) during which company issues share capital.

   d) during which company is required to get its account audited.

8. Cash receipts and payments from contracts held for dealing or trading purposes shall be classified as

   a) Operating activities

   b) Investing activities

   c) Financing activities

9. Contract for hedge of an identifiable position of the cash flows of the contract are classified as

   a) Investing activities.

   b) Financing activities.

   c) Operating activities.

   d) Classified in the same manner as the cash flow of the position being hedged.

10. Ind AS 7 “Statement of cash flow” recommended the reporting of cash flow from operating activities using

    a) direct method.

    b) Indirect method.

11. When translating the cash flow of foreign subsidiary Ind AS 21 permits the use of

    a) the exchange rate at the end of the reporting period.

    b) Exchange rate on any date during the year.

    c) Exchange rate that approximates the actual rate.

12. Transactions between cash and cash equivalents shall
    a) be disclosed as operating activity.
    b) be disclosed as investing activity.
    c) be disclosed as financing activity
    d) not be disclosed in the statement of cash flow.
13. Application of new accounting policy for transactions, other events or conditions that did not occur previously
    a) is to be considered as change in accounting policy.
    b) is to be considered as change in accounting estimate.
    c) is not change in accounting policy.
14. When a change in accounting policy is applied retrospectively, the entity shall
    a) adjust the impact in the current year financial statement.
    b) adjust the opening balance of each affected component of equity of the current year.
    c) adjust the opening balance of each affect component of equity for the earliest period presented and the other comparative amount disclosed for each prior period presented.
    d) adjust the other comparative amount disclosed for each prior period presented.
15. When it is difficult to distinguish a change in an accounting policy from a change in an accounting estimate, the change is treated as
    a) change in an accounting policy.
    b) change in accounting estimate.
16. If an error is discovered in the financial statement pertains to period before earliest period presented, then
    a) entity must restate the opening balances of the current year.
    b) entity shall not consider its impact in the financial statement.
    c) the entity must restate the opening balances for the earliest period presented.
    d) entity shall take the effect of rectification in the current year.

17. Event after the reporting period are those favourable and unfavourable events, that occur between the end of the reporting period and

    a) the date when the financial statements are approved for issue.

    b) the date when the financial statements are approved by the Board of Directors.

    c) the date of Annual General Meeting.

    d) the date of Auditor's report.

18. Foreign operation is an entity that is a subsidiary, associate, joint arrangement or branch of a reporting entity,

    a) the activities of which are based or conducted in a country and currency of the reporting entity.

    b) the activities of which are based or conducted in a country or currency other than those of the reporting entity.

    c) activity of which are based in currency of the reporting entity.

    d) the activities of which are based or conducted in a country or currency of the reporting entity.

19. Monetary items are units of currency held and assets and liabilities

    a) to be received or paid in undeterminable number of units of currency.

    b) not to be received or paid

    c) presented in the functional currency.

    d) to be received or paid in a fixed or determinable number of units of currency.

20. Presentation currency is

    a) same as functional currency.

    b) the currency in which the financial statements are presented

    c) the difference resulting from translating a given number of units of one currency into another currency at different exchange rate

    d) the currency of the primary economic environment in which the entity operates.

21. If the activities of foreign operation are carried out as an extension of the reporting entity:

    a) functional currency of foreign operation is different from that of reporting entity.

    b) there will be no functional currency of the reporting entity

c) functional currency of foreign operation is the same as that of the reporting entity.

d) functional currency of foreign operation is the same as presentation currency.

22. The essential feature of monetary assets is

a) Right to receive fixed or determinable number of units of currency.

b) Right to receive undeterminable number of units of currency.

c) Not to receive or paid any amount.

d) Presentation in the functional currency.

23. A foreign currency transaction shall be recorded, on initial recognition in the functional currency,

a) By applying to the foreign currency amount the closing exchange rate between the functional currency and the foreign currency at the end of the reporting period.

b) By applying to the foreign currency amount the weighted average rate between the functional currency and the foreign currency during the reporting period.

c) By applying to the foreign currency amount any exchange exists rate between the functional currency and the foreign currency during the reporting period.

d) 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.

24. At the end of each reporting period, foreign currency monetary items shall be translated using–

a) Exchange rate at the date of transaction.

b) Weighted average rate during the reporting period

c) Closing rate

d) Any rate during the reporting period.

25. Non-monetary items that are measured in terms of historical cost in a foreign currency shall be translated

a) Using the exchange rate at the date of the transaction.

b) Using closing rate on the last date of reporting period.

c) Using weighted average rate during the reporting period.

d) Using exchange rate on the first date of the reporting period.

26. Non-monetary items that are measured at fair value in a foreign currency shall be translated

    a) Using exchange rates at the date of the transaction.

    b) Using the exchange rates at the date when the fair value was measured.

    c) Using weighted average rate during the reporting period.

    d) Using closing rate on the last date of reporting period.

27. Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the period or in previous financial statements shall

    a) be recognised in profit or loss in the period in which they arise.

    b) Be recognised in other comprehensive income.

    c) Not be recognised in profit or loss.

    d) Be adjusted with equity.

28. The transaction is settled within the same accounting period as that in which it occurred,

    a) no exchange difference arises during the period.

    b) all the exchange difference is recognised in that period.

    c) no exchange difference recognised during the period.

    d) the transaction is not recorded in the books.

29. Exchange differences arising on a monetary item that forms part of a reporting entity's net investment in a foreign operation shall

    a) be recognised in other comprehensive income in separate financial statement.

    b) be adjusted in equity in separate financial statement.

    c) be recognised in profit or loss in the separate financial statements of the reporting entity.

    d) not be recognised in separate financial statement of the reporting entity.

30. On disposal of foreign operation, exchange difference

    a) initially recognised shall be transfer from other comprehensive income to equity.

    b) initially recognised shall be adjusted against equity and minority interest.

    c) initially recognised in other comprehensive income shall remain in other comprehensive income.

d) initially recognised in other comprehensive income shall be reclassified to profit or loss.

31. When there is a change in an entity's functional currency, the entity shall apply the translation procedures applicable to the

    a) old functional currency retrospectively.

    b) new functional currency prospectively.

    c) old functional currency prospectively.

    d) new functional currency retrospectively.

32. Exchange differences arising from the translation of a foreign operation previously recognised in other comprehensive income

    a) are not reclassified from equity to profit or loss on change in functional currency.

    b) are reclassified from equity to profit or loss on change in functional currency.

    c) are reclassified from equity to statement of cash flow.

    d) are reclassified from equity to other comprehensive income.

33. When a group contains individual entities with different functional currencies,

    a) the results and financial position of each entity are presented in their functional currency in their respective functional currencies for consolidation.

    b) the results are presented in common currency and financial position are presented in functional currency for the purpose of consolidation.

    c) the results and financial position of each entity are expressed in a common currency for the purpose of consolidation.

    d) the results are presented in functional currency and the financial position are presented in common currency for the purpose of consolidation.

34. While translating the financial position from functional currency to presentation currency, assets and liabilities of comparative shall be translated

    a) at the closing rate at the date of recent Balance Sheet.

    b) at the closing rate at the date of that Balance Sheet.

    c) at the average rate during that financial year.

    d) at the average rate during the current financial year.

35. Exchange differences relate to a foreign operation that is consolidated but not wholly-owned, accumulated exchange differences arising from translation and attributable to non-controlling interests are allocated to,

    a) and recognised as part of, non-controlling interests in the consolidated Balance Sheet.

    b) and recognised as part of majority interest in the consolidated Balance Sheet.

    c) consolidated profit and loss.

    d) consolidated statement of profit and loss.

36. The results and financial position of an entity whose functional currency is the currency of a hyperinflationary economy shall be translated into presentation currency by translating

    a) the amount of assets and liabilities at closing rate and income and expenses at average rate during the reporting period

    b) the amount of assets and liabilities at average rate and assets and liabilities at closing rate at the date of the most recent Balance Sheet.

    c) the amount of assets, liabilities, income, expenses and equity at average rate during the reporting period.

    d) the amount of assets, liabilities, income, expenses and equity at closing rate at the date of the most recent Balance Sheet.

37. When the financial statements of a foreign operation are as of a date different from that of the reporting entity,

    a) the foreign operation often prepares additional statements as of the same date as the reporting entity's financial statements.

    b) reporting entity does not consolidate those foreign operation.

    c) reporting entity consolidates the financial statement of foreign operation for such different date.

    d) reporting entity prepares the financial statement as of the date of foreign operation.

38. When the entity partially disposes the foreign operation resulting in loss of control, entity shall

    a) not reclassify the exchange difference relating to that foreign operation until complete disposal of foreign operation.

    b) reclassify the exchange difference relating to that foreign operation from equity to profit or loss.

c) reclassify the proportionate amount of exchange difference relating to that foreign operation from equity to profit or loss.

d) not account for transaction.

39. On the partial disposal of a subsidiary that includes a foreign operation,

a) the entity shall not reclassify the exchange difference.

b) the entity shall reclassify the exchange difference relating to that subsidiary from equity to profit or loss.

c) the entity shall re-attribute the proportionate share of the cumulative amount of the exchange differences recognised in other comprehensive income to the non-controlling interests in that foreign operation.

d) entity shall not account for that transaction.

40. Reduction in the carrying amount of foreign operation because of impairment

a) does not constitute a partial disposal.

b) exchange gain or loss recognised in other comprehensive income is reclassified to profit or loss

c) consider as partial disposal.

d) the entity shall re-attribute the proportionate share of the cumulative amount of exchange difference recognised in other comprehensive income to non-controlling interest.

41. When the entity presents the financial statements in currency other than functional currency,

a) entity shall convert all assets, liabilities, income and expenses using closing rate at the date of the balance sheet.

b) entity shall state the fact along with reasons.

c) entity shall convert all assets, liabilities, income and expenses using average rate during the reporting period.

d) entity shall convert all assets and liabilities using average rate and convert income and expenses using closing rate.

42. The financial statements of an entity whose functional currency is the currency of a hyperinflationary economy,

a) whether they are based on a historical cost approach or a current cost approach, shall be stated in terms of the measuring unit current at the end of the reporting period.

b) If based on historical cost approach shall be stated in terms of the measuring unit current at the end of the reporting period.

c) if based on current cost approach shall be stated in terms of the measurement unit current at the end of the reporting period.

d) shall not be restated.

43. If the economy ceases to be hyperinflationary,

a) no changes are required to be made in the financials.

b) it should treat the amount expressed in the measuring unit at the end of previous reporting as the basis for the carrying amounts in its subsequent financial statements.

c) it shall make the changes retrospectively

d) it shall consider the amount expressed in functional currency before the currency becomes currency of hyperinflationary economy.

44. When an entity presents both consolidated financial statements and separate financial statement, disclosure requirement of earning per share is

a) neither based on consolidated financial statement nor based on separate financial statements.

b) based on consolidated financial statement and on separate financial statements in respective statements.

c) only on the basis of separate financial statements.

d) only on the basis of consolidated financial statements.

45. Antidilution is a

a) reduction in earnings per share or an increase in loss per share resulting from the assumption that convertible instruments are converted, that options or warrants are exercised, or that ordinary shares are issued upon the satisfaction of specified conditions.

b) no change in the earnings per share resulting from the assumption that convertible instruments are converted, that options or warrants are exercised, or that ordinary shares are issued upon the satisfaction of specified conditions.

c) increase in earnings per share or reduction in loss per share resulting from the assumption that convertible instruments are converted, that options or warrants are exercised, or that ordinary shares are issued upon the satisfaction of specified conditions.

d) increase in earnings per share or loss per share resulting from the assumption that convertible instruments are converted, that options or warrants are exercised, or that ordinary shares are issued upon the satisfaction of specified conditions.

46. An entity shall calculate basic earnings per share amount for

    a) profit or loss attributable to Preference shareholders of the parent entity.

    b) profit attributable to preference shareholders of all group entity.

    c) profit attributable to ordinary equity holders of all group entity.

    d) profit or loss attributable to ordinary equity holders of the parent entity.

47. Basic earnings per share shall be calculated by dividing profit or loss attributable to ordinary equity holders of the parent entity

    a) by the weighted average number of ordinary shares outstanding during the period.

    b) by the simple average number of ordinary shares outstanding during the period.

    c) by the number of ordinary share outstanding at the end of the reporting period.

    d) by the median number of ordinary shares outstanding during the period.

48. Ordinary shares issued in exchange for the settlement of a liability shall

    a) be included in calculation of weighted average number of shares from the date of incurring of liability.

    b) not be included in calculation of weighted average number of shares.

    c) be included in calculation of weighted average number of shares from the settlement date.

    d) be included in calculation of weighted average number of shares from the date of beginning of the financial year.

49. Ordinary shares issued as consideration for the acquisition of an asset other than cash shall

    a) be included in the calculation of weighted average number of shares on the date on which the acquisition is recognized.

    b) not be included in the calculation of weighted average number of shares.

    c) be included in calculation of weighted average number of shares from the date of beginning of the financial year.

    d) be included in calculation of weighted average number of shares from the date of end of the financial year.

50. The weighted average number of ordinary shares outstanding during the period and for all periods presented

    a) shall be adjusted for events, including conversion of potential ordinary shares, that have changed the number of ordinary shares outstanding without a corresponding change in resources.

b) shall be adjusted for events, other than conversion of potential ordinary shares, that have changed the number of ordinary shares outstanding without a corresponding change in resources

c) shall not be adjusted for any events.

d) shall be adjusted for events including potential conversion of preference shares.

51. In case of bonus issue or share split, the number of ordinary shares outstanding before the event

a) is adjusted for the proportionate change in the number of ordinary shares outstanding as if the event had occurred at the beginning of the earliest period presented.

b) is adjusted for the proportionate change in the number of ordinary shares outstanding as if the event had occurred at the beginning of the current financial year.

c) is not adjusted for any change

d) is adjusted for proportionate change in number of preference shares outstanding as if the event has occurred at the beginning of the current financial year.

52. Dilutive potential ordinary shares shall be deemed to have been converted into ordinary shares

a) date of issue of potential ordinary shares or date of conversion whichever is later.

b) date of issue of potential ordinary share or date of conversion whichever is earlier.

c) at the beginning of the period or, if later, the date of the issue of the potential ordinary shares.

d) at the beginning of the period of, if earlier, the date of the issue of the potential ordinary shares.

53. If these potential ordinary shares of the subsidiary, joint venture or associate have a dilutive effect on the basic earnings per share of the reporting entity,

a) they are not considered in the calculation of diluted earnings per share.

b) they are included in the calculation of diluted earnings per share.

c) they are not exercised.

d) entity does not disclose the amount of earnings per share.

54. In determining whether potential ordinary shares are dilutive or antidilutive,

a) impact of all potential ordinary shares are considered along with preference shares.

b) all series of potential ordinary shares are considered in aggregate.

c) all dilutive issues are considered together and all antidilutive are considered in aggregate.

d) each issue or series of potential ordinary shares is considered separately rather than in aggregate.

55. For the purpose of calculation of diluted earnings per share from options and warrants,

a) the difference between the number of shares issued and number of shares that would have been issued at average market price shall be treated as an issue of shares for no consideration.

b) entire quantity of options and warrants are treated as issue of shares for no consideration.

c) it is assumed that it is always antidilutive.

d) 50% of the options and warrants are considered as issue of shares for no consideration.

56. When an entity has issued a contract that may be settled in ordinary shares or cash at the entity's option, the entity shall presume that

a) the contract can be settled in cash or ordinary shares whichever is more favourable and shall not calculate diluted earnings per share.

b) the contract will be settled in cash, thereby no impact on diluted earnings per share.

c) the contract will be settled in ordinary shares, and the resulting potential ordinary shares shall be included in diluted earnings per share.

d) the resultant impact is antidilutive.

57. If a contract can be settled in ordinary shares or cash at the option of the holder,

a) it is assumed that the contract will be settled in ordinary shares and accordingly dilutive earnings per share is calculated.

b) the more dilutive of cash settlement and share settlement shall be used in calculating dilutive earnings per share.

c) it is assumed that the contract will be settled in cash and accordingly the dilutive earnings per share is calculated.

d) it is assumed that the impact is antidilutive.

58. If diluted earnings per share are presented
    a) for at least one period, it shall be reported for all period presented.
    b) entity may present it only for current period.
    c) it shall be presented in aggregate for all dilutive series of issue.
    d) it shall be presented as part of Directors report and not financial statement.

59. Entity that reports a discontinued operation shall
    a) not disclose the basic or diluted earnings per share.
    b) disclose only diluted earnings per share for the discontinued operation either in the statement of profit and loss or in the notes.
    c) disclose the basic and diluted earnings per share for the discontinued operation either in the statement of profit and loss or in the notes.
    d) disclose the basic and diluted earnings per share for the discontinued operation in the Balance sheet.

60. An entity shall
    a) not present earnings per share, in case of loss
    b) present earnings per share, even if the amount is negative.
    c) present the absolute value of earnings per share in case of loss.
    d) not present the earnings per share in case of profit.

61. If an entity wishes to publishes a complete set of financial statements in its interim financial report,
    a) entity shall also disclose the projected financials for the entire year.
    b) entity shall remember that it cannot publish complete set of financials for interim period.
    c) the form and content are not required to comply with Ind AS 1.
    d) the form and content of those statements shall conform to the requirements of Ind AS 1 for a complete set of financial statements.

62. Disclosure of segment information is required in the interim financial report
    a) only if Ind AS 108 requires that entity to disclose segment information in its annual financial statements.
    b) only for the first quarter of the financial year.
    c) only for first 3 quarters of the financial year.

d) even if Ind AS 108 does not require the entity to disclose segment information in its annual financial statements.

63. Interim report shall include Balance Sheet as of the end of the current interim period and

a) a comparative Balance Sheet as of the end of the same period in the preceding financial year.

b) a comparative Balance Sheet both at the end of the immediately preceding financial year and also at the end of same period in the preceding financial year.

c) a comparative Balance Sheet as of the end of immediately preceding financial year.

d) a comparative Balance Sheet is not required.

64. Interim report shall include statement of cash flows cumulatively for the current financial year to date, with a comparative statement

a) as of the end of the immediately preceding financial year

b) for the comparable year-to-date period of the immediately preceding financial year.

c) for the comparable interim period (current and year to date) of the immediately preceding financial year.

d) of cash flow is not required.

65. Interim measurements

a) does not rely on estimates

b) rely on estimate on lesser extent than measurement of annual financial data.

c) are more accurate numbers than annual financial data.

d) rely on estimates on greater extent than measurements of annual financial data.

66. Revenues that are received seasonally, cyclically, or occasionally within a financial year

a) shall not be anticipated or deferred as of an interim date if anticipation or deferral would not be appropriate at the end of the entity's financial year.

b) shall be deferred over the remaining period of financial year.

c) shall not be anticipated but deferred as of an interim date even if deferral is not appropriate at the end of the entity's financial year.

d) shall be anticipated for the entire year and amortised over the financial year as of an interim date.

67. Costs that are incurred unevenly during an entity's financial year

    a) shall not be anticipated or deferred for the interim reporting purpose.

    b) shall be anticipated and deferred for interim reporting purpose, even if it is not appropriate to anticipate or defer that type of cost at the end of the financial year.

    c) shall be anticipated or deferred for interim reporting purposes if, it is also appropriate to anticipate or defer that type of cost at the end of the financial year.

    d) shall not be recognised in the interim financials.

68. ______________________ referred to as financial statements those intended to meet the needs of users who are not in a position to require an entity to prepare reports tailored to their particular information needs.

    a) General Purpose financial statement b) Balance Sheet

    c) Statement of profit & loss d) Statement of cash flow

69. An entity shall prepare its financial statements, except for _______________, using accrual basis of accounting.

    a) Balance Sheet b) Statement of profit & loss

    c) Statement of Cash flow d) Statement of change in equity

70. An entity shall present, either in the statement of change in equity or in the _______, the amount of dividends recognized as distribution to owners during the period, and the related amount of dividends per share.

    a) Notes to Accounts b) Statement of profit & loss

    c) Statement of Cash Flow d) Balance Sheet

71. Cash equivalents are short term, highly liquid investments that are readily convertible into known amount of cash and which are subject to an ____________ risk of changes in value.

    a) Significant b) Insignificant

    c) No

72. Investing activities are the acquisition and disposal of ____________ and other investments not included in cash equivalents.

    a) Borrowings b) Liquid assets

    c) Long term assets d) current assets

73. Financing activities are activities that result in change in the size and composition of the contributed equity and ___________ of the entity.

    a) Borrowings b) Liquid assets

    c) Long term assets d) current assets

74. Bank overdrafts which are repayable on demand are included as a component of ____________.

    a) Operating activity b) Investing activity

    c) Financing activity d) Cash and cash equivalent

75. Cash flows arising from transactions in a foreign currency shall be recorded in an entity's functional currency by applying to the foreign currency the exchange rate between the functional currency and foreign currency at the date of ____________.

    a) Cash flow b) end of the reporting period

    c) any date during the year

76. The aggregate cash flow arising from obtaining or losing control of subsidiaries or other businesses shall be presented separately and classified as ______________.

    a) Operating activity b) Investment activity

    c) Financing activity d) Cash and cash equivalent

77. _______________ is correcting the recognition, measurement and disclosure of amounts of elements of financial statements as if prior period error had never occurred.

    a) Restatement b) Prospective restatement

    c) Retrospective restatement

78. ______________ is the spot exchange rate at the end of the reporting period.

    a) Exchange rate b) Closing rate

    c) Forward rate d) future rate

79. ________________ is the difference resulting from translating a given numbers of units in one currency into another currency at different exchange rate.

    a) Exchange difference b) Fair value

    c) Monetary item d) Exchange rate

80. _______________ is the ratio of exchange for two currencies.

    a) Exchange rate b) closing rate

    c) Exchange ratio d) Exchange difference

81. _______________ is the currency other than the functional currency of the entity.

    a) Presentation currency b) Spot rate

    c) Forward rate c) Foreign currency

82. _______________ is the currency other of the primary economic environment in which the entity operates.

    a) Functional currency b) Foreign currency

    c) Presentation currency d) Spot rate

83. ____________________ is the exchange rate for immediate delivery.

    a) Forward exchange rate b) Closing exchange rate

    c) Spot exchange rate d) Future exchange rate

84. An item for which settlement is neither planned nor likely to occur in the foreseeable future is, in substance form parts of entity's _____________________.

    a) Equity

    b) Net investment in foreign operation

    c) Gross investment in foreign operation

    d) Expenses

85. A foreign currency transaction is a transaction that is denominated or requires settlement in _______________.

    a) Functional currency b) Spot rate

    c) Presentation currency d) Foreign currency

86. When a gain or loss on a non-monetary item is recognized in other comprehensive income, any exchange component of that gain or loss shall be recognized in _______________________.

    a) Profit or loss b) Equity

    c) Other comprehensive income d) Statement of cash flow

87. When a gain or loss on a non-monetary item is recognized in profit or loss, any exchange component of that gain or loss shall be recognized in _________________.

    a) Profit or loss b) Equity

    c) Other comprehensive income d) Statement of cash flow

88. Exchange difference arising on monetary item that forms part of a reporting entity's net investment in foreign operation shall be recognized in ________________ in consolidated financial statement.

a) Profit or loss b) Equity
c) Other comprehensive income d) Statement of cash flow

89. While translating financial position of an entity from functional currency to presentation currency, Income and expenses for each statement presenting profit or loss and other comprehensive income shall be translated at exchange rates at the dates of the ________________.

a) Balance sheet b) Transaction
c) Beginning Balance sheet d) Profit or loss

90. While translating financials from functional currency to presentation currency, all resulting exchange difference shall be recognized in ________________.

a) Profit or loss b) Equity
c) Other comprehensive income d) Statement of cash flow

91. On disposal of foreign operation, the cumulative amount of exchange difference relating to foreign operation shall be reclassified from equity to ________________.

a) Profit or loss b) Equity
c) Other comprehensive income d) Statement of cash flow

92. On disposal of a subsidiary that includes a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation that have been attributed to the non-controlling interests shall be derecognised, but shall not be reclassified to ________________.

a) Profit or loss b) Equity
c) Other comprehensive income d) Statement of cash flow

93. Balance Sheet amounts not already expressed in terms of the measuring unit current at the end of the reporting period in case of hyperinflationary economy are restated by applying a ________________.

a) Bank interest rate b) General Price Index
c) bank borrowing rate d) entity borrowing rate

94. ____________ is an increase in earnings per share or a reduction in loss per share resulting from the assumption that convertible instruments are converted, that options or warrants are exercised, or that ordinary shares are issued upon the satisfaction of specified conditions.

a) Dilution
b) Contingent share agreement
c) Antidilution
d) Options

95. An agreement to issue subject to satisfaction of specified condition is known as ____________.

a) Contingently issuable ordinary shares
b) Potential ordinary shares
c) Put option
d) Contingent share agreement

96. An ordinary share is an equity instrument that is __________ to all other classes of equity instruments.

a) Superior
b) Subordinate
c) Equal
d) Dependent

97. A potential ordinary share is a financial instrument or other contract that may entitle its holder to __________.

a) Ordinary shares
b) Preference shares
c) Put options
d) Contingently issuable ordinary shares

98. Ordinary shares issued on voluntary reinvestment of dividend shall be included in the calculation of weighted average number of ordinary shares when ____________________.

a) beginning of the earliest period
b) beginning of the current period
c) dividends are reinvested
d) at the end of the current period

99. While calculating dilutive earnings per share, an entity shall adjust the amount of profit or loss attributable to equity holders and the weighted average number of ordinary shares outstanding for the effect of all dilutive _____________ shares.

a) Contingent share agreement
b) Contingently issuable ordinary
c) Put options
d) Potential ordinary

100. Potential ordinary shares shall be treated as dilutive when, and only when, their conversion to ordinary shares would _________ earnings per share from continuing operations.

a) Increase b) Decrease

c) Not change d) Calculate

101. Options and warrants have a dilutive effect only when the average market price of ordinary shares during the period exceeds _____________ of the options and warrants.

a) Exercise price b) Spot price

c) Future value d) Fair value

102. Options held by an entity on its own shares are not included in the calculation of diluted earnings per share because including them would be ______________.

a) Dilutive b) Antidilutive

c) Impossible d) Impractical

103. Entity shall disclose the __________ of number of ordinary shares used for the purpose of calculation of basic and diluted earnings per share.

a) Market value b) Fair value

c) Reconciliation d) Cost

104. _______ options on ordinary shares are contract that give the holder the right to sell ordinary shares at a specified price, for a given period.

a) Call b) Put

c) Forward d) Future

105. Partly paid shares are treated in the calculation of basic earnings per share as fraction, to the extent they were entitled to participate in dividends relative to _____________.

a) Preference share b) Fully paid shares

c) Options d) Debentures

106. _____________ is a financial reporting period shorter than a full financial year.

a) Interim period b) Annual period

c) Semiannual d) Quarterly

107. ___________________ means a financial report containing either a complete set of financial statements or a set of condensed financial statements for an interim period.

a) Annual financial report b) Interim financial report

c) Litigation settlement d) Significant events and transaction

108. An entity shall disclose in its interim financial report all significant transactions and events necessary for understanding of the changes in the financial position and performance of the entity since ___________________.

a) Beginning of the last year
b) Any period during the current year
c) 2000
d) The end of the last annual reporting period

109. Entity shall disclose in that same accounting policy and methods of computation are followed in the _____________________ as compared with the most recent annual financial statement.

a) Interim financial statement
b) Last annual financial year
c) Last 5 years
d) Guidelines

110. An item is considered to be material if its omission or misstatement could influence the ________ decisions of users of the financial statement.

a) Personal
b) Family
c) Economic
d) Global

111. Income tax expense is recognised in each interim period based on the best estimate of the ___________________rate expected for the full financial year.

a) Simple average annual income tax
b) Weighted average annual income tax
c) Median annual income tax
d) Mode annual income tax

112. __________ are recognised in the statement of profit & loss when decrease in future economic benefits related to a decrease in an asset or an increase of a liability has arisen that can be measured reliably.

a) Income
b) Equity
c) Expenses
d) Exchange gain or loss

113. _____________ shall be reflected by restating the financial statements of prior interim periods of the current financial year and the comparable interim period of any prior financial years that will be restated in the annual financial statements.

a) Change in accounting policy
b) Change in accounting estimate
c) New accounting policy
d) Share based payment

Solutions to MCQs

1. a) Transactions and events, other than those changes resulting from transactions with owners in their capacity as owners.

2. d) Entity cannot rectify inappropriate accounting policies.

3. b) Entity need not required to present the related notes to the opening Balance Sheet at the beginning of the preceding period.

4. b) Financial Statements.

5. c) Nature of expense method.

6. b) Statement of change in equity or in notes.

7. a) For which financial statements are presented.

8. a) Operating activities.

9. d) Classified in the same manner as the cash flow of the position being hedged.

10. a) Direct method.

11. c) Exchange rate that approximates the actual rate.

12. d) Not be disclosed in the statement of cash flow.

13. c) is not change in accounting policy.

14. c) adjust the opening balance of each affect component of equity for the earliest period presented and the other comparative amount disclosed for each prior period presented.

15. b) change in accounting estimate

16. c) the entity must restate the opening balances for the earliest period presented.

17. b) the date when the financial statements are approved by the Board of Directors.

18. b) the activities of which are based or conducted in a country or currency other than those of the reporting entity.

19. d) to be received or paid in a fixed or determinable number of units of currency.

20. b) the currency in which the financial statement are presented

21. c) functional currency of foreign operation is the same as that of the reporting entity.

22. a) right to receive fixed or determinable number of units of currency.

23. d) 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.

24. c) Closing rate

25. a) Using the exchange rate at the date of the transaction.
26. b) Using the exchange rates at the date when the fair value was measured.
27. a) be recognised in profit or loss in the period in which they arise.
28. b) all the exchange difference is recognised in that period.
29. c) be recognised in profit or loss in the separate financial statements of the reporting entity.
30. d) initially recognised in other comprehensive income shall be reclassified to profit or loss.
31. b) new functional currency prospectively.
32. a) are not reclassified from equity to profit or loss on change in functional currency.
33. c) the results and financial position of each entity are expressed in a common currency for the purpose of consolidation.
34. b) at the closing rate at the date of that Balance Sheet.
35. a) and recognised as part of, non-controlling interests in the consolidated Balance Sheet.
36. d) the amount of assets, liabilities, income, expenses and equity at closing rate at the date of the most recent Balance Sheet.
37. a) the foreign operation often prepares additional statements as of the same date as the reporting entity's financial statements.
38. b) reclassify the exchange difference relating to that foreign operation from equity to profit or loss.
39. c) the entity shall re-attribute the proportionate share of the cumulative amount of the exchange differences recognised in other comprehensive income to the non-controlling interests in that foreign operation.
40. a) does not constitute a partial disposal.
41. b) entity shall state the fact along with reasons.
42. a) whether they are based on a historical cost approach or a current cost approach, shall be stated in terms of the measuring unit current at the end of the reporting period.
43. b) it should treat the amount expressed in the measuring unit at the end of previous reporting as the basis for the carrying amounts in its subsequent financial statements
44. b) based on both consolidated financial statements and separate financial statements

45. c) increase in earnings per share or reduction in loss per share resulting from the assumption that convertible instruments are converted, that options or warrants are exercised, or that ordinary shares are issued upon the satisfaction of specified conditions.

46. d) profit or loss attributable to ordinary equity holders of the parent entity.

47. a) by the weighted average number of ordinary shares outstanding during the period.

48. c) be included in calculation of weighted average number of shares from the settlement date.

49. a) be included in the calculation of weighted average number of shares on the date on which the acquisition is recognized.

50. b) shall be adjusted for events, other than conversion of potential ordinary shares, that have changed the number of ordinary shares outstanding without a corresponding change in resources.

51. a) is adjusted for the proportionate change in the number of ordinary shares outstanding as if the event had occurred at the beginning of the earliest period presented.

52. c) at the beginning of the period or, if later, the date of the issue of the potential ordinary shares.

53. b) they are included in the calculation of diluted earnings per share.

54. d) each issue or series of potential ordinary shares is considered separately rather than in aggregate.

55. a) the difference between the number of shares issued and number of shares that would have been issued at average market price shall be treated as an issue of shares for no consideration.

56. c) the contract will be settled in ordinary shares, and the resulting potential ordinary shares shall be included in diluted earnings per share.

57. b) the more dilutive of cash settlement and share settlement shall be used in calculating dilutive earnings per share.

58. a) for at least one period, it shall be reported for all period presented.

59. c) disclose the basic and diluted earnings per share for the discontinued operation either in the statement of profit and loss or in the notes.

60. b) present earnings per share, even if the amount is negative.

61. d) the form and content of those statements shall conform to the requirements of Ind. AS 1 for a complete set of financial statements.

62. a) only if Ind AS 108 requires that entity to disclose segment information in its annual financial statements.

63. c) a comparative Balance Sheet as of the end of immediately preceding financial year.

64. b) for the comparable year-to-date period of the immediately preceding financial year.

65. d) rely on estimates on greater extent than measurements of annual financial data.

66. a) shall not be anticipated or deferred as of an interim date if anticipation or deferral would not be appropriate at the end of the entity's financial year.

67. c) shall be anticipated or deferred for interim reporting purposes if, it is also appropriate to anticipate or defer that type of cost at the end of the financial year.

68. a) General Purpose financial statement

69. c) Cash Flow Statement

70. a) Notes to Accounts

71. b) Insignificant

72. c) Long term assets

73. a) Borrowings

74. d) Cash and cash equivalents

75. a) Cash flow

76. b) Investing activities

77. c) Retrospective restatement

78. b) Closing rate

79. a) Exchange difference

80. c) Exchange ratio

81. d) Foreign currency

82. a) Functional currency

83. c) Spot exchange rate

84. b) Net investment in foreign operation

85. d) Foreign currency

86. c) Other comprehensive income

87. a) Profit or loss

88. c) Other comprehensive income

89. b) Transactions
90. c) Other comprehensive income
91. a) Profit or loss
92. a) Profit or loss
93. b) General price index
94. c) Antidilution
95. d) Contingent share agreement
96. b) Subordinate
97. a) Ordinary shares
98. c) Dividends are reinvested
99. d) Potential equity
100. b) Decrease
101. a) Exercise price
102. b) Antidilutive
103. c) Reconciliation
104. b) Put
105. b) Fully paid shares.
106. a) Interim period
107. b) Interim financial report
108. d) The end of the last annual reporting period
109. a) Interim financial statement
110. c) Economic
111. b) weighted average annual income tax
112. c) expenses
113. a) change in accounting policy

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Chapter 6
Financial Reporting by Group Entities

The relevant standards in this context are

- Ind AS 103 Business Combinations
    - o Appendix C to Ind AS 103 Business Combinations of entities under common control
- 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.

These standards are discussed hereafter.

I. Ind AS 103: BUSINESS COMBINATIONS

Business combination is a transaction or event in which an acquirer obtains control of one or more businesses (e.g. acquisition of shares or net assets, legal mergers, reverse acquisitions). A business is defined as an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing a return directly to investors or other owners, members or participants. Formations of a joint venture or the acquisition of an asset or a group of assets that does not constitute a business are not business combinations.

Scope Exclusions

- 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.

Method of Accounting for Business Combinations

A business combination must be accounted for by applying the acquisition method.

Important Terms

Control

- Ownership of more than half the voting right of another entity

- Power over more than half of the voting rights by agreement with investors
- Power to govern the financial and operating policies of the other entity under statute/ agreement
- Power to remove/appoint majority of directors
- Power to cast majority of votes

Business

- Integrated set of activities and assets
- Capable of being conducted and managed to provide return
- Returns include dividends and cost savings

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.
- This Ind AS establishes principles for recognising and measuring the
    - o identifiable assets acquired,
    - o the liabilities assumed and

  - o any non-controlling interest in 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 or calls) 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 payments and assets held for sale , which are as follows:
  - **Contingent Liabilities:** The requirements of Ind AS 37 *Provisions, 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 IAS 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 payments:** 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 shall 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.

- 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:
  - o 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.
  - o 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 indemnified 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.

APPENDIX C TO IND AS 103 BUSINESS COMBINATION OF ENTITIES UNDER COMMON CONTROL

Scope

This appendix provides specific guidance for business combinations between entities that are under common control.

Accounting Principles

Such business combinations are accounted for using the **pooling of interests method.** Under the pooling of interests method:

- All assets and liabilities of the acquiree are reflected at their previous carrying values in the books of the acquirer.
- No adjustments are made to reflect any fair values, nor are any new assets recognised.
- The only adjustment permitted is the adjustment towards uniform accounting policies

II. Ind AS 27: SEPARATE FINANCIAL STATEMENTS

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.

Key Definitions

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.*

Separate Financial Statements

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

- Investments are accounted for:
  - (i) At cost; or
  - (ii) 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.

Preparation of Separate Financial Statements

Investment in subsidiaries, joint ventures, and associates are accounted for either:

- At cost, or
- At fair value in accordance with Ind AS 109,

The entity is required to apply the same accounting for each category of investments.

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
- 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.

III. Ind AS 28: INVESTMENT IN ASSOCIATES AND JOINT VENTURES

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

Application of Standard

The standard is to be applied by all entities that are investors with joint control of, or significant influence over, an investee.

Definitions

- An *associate* is an entity over which the investor has significant influence.
- *Consolidated financial statements* are the financial statements of a group in which assets, liabilities, equity, income, expenses and cash flows of the parent and its subsidiaries are presented as those of a single economic entity.
- 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.
- The investor's profit or loss includes its share of the investee's profit or loss and the investor's other comprehensive income includes its share of the investee's other comprehensive income.
- 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.

Non Application of Equity Method

The only financial statements to which an entity does not apply the equity method are separate financial statements. It presents in accordance with Ind AS 27 *Separate Financial Statements.*

The Equity Method

- 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

Exemptions from Application of Equity Method

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

(b) **Financial Asset:** If the retained interest in the former associate or joint venture is a financial asset, the entity shall measure the retained interest at fair value.

The fair value of the retained interest shall be regarded as its fair value on initial recognition as a financial asset in accordance with Ind AS 109.

The entity shall 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 shall 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.

Disclosures

No disclosures specified in Ind AS 28.

IV. Ind AS 110: CONSOLIDATED FINANCIAL STATEMENTS

The standard establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities.

Requirements of the Standard

- Requires an entity (the *parent*) that controls one or more other entities (subsidiaries) to present consolidated financial statements;
- The standard defines the principle of *control*, and establishes control as the basis for consolidation;
- The standard sets out how to apply the principle of control to identify whether an investor controls an investee and therefore must consolidate the investee;
- The standard 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 103 on Business Combinations).

Ind AS 110 does apply to

- A parent (need not present consolidated financial statements) 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 shall 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

Factors that assist Determination of Control

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

a) The purpose and design of the investee

b) What the **relevant activities** are and how decisions about those activities are made

c) Whether the rights of the investor give it the current ability to direct the relevant activities

d) Whether the investor is exposed, or has rights, to variable returns from its involvement with the investee and

e) Whether the investor has the ability to use its power over the investee to affect the amount of the investor's returns.

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:
  - o The investee's KMP who direct relevant activities are current or previous employees of the investor
  - o Investee operations are dependent on the investor (e.g. funding, guarantees, services, materials, etc.)

- o A significant portion of the investee activities involve, or are conducted on behalf of, the investor
- o 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):
  - o 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)
  - o Whether there is a practical mechanism to facilitate multiple parties exercising rights
  - o Whether the party holding the rights would benefit from the exercise of those rights
  - o 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:
  - o Relative size and dispersion of other vote holders
  - o Potential voting rights held – by the investor and other parties
  - o Rights arising from contractual arrangements
  - o 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.

Definition of an 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.

Disclosures

No disclosures are specified in Ind AS 110.

V. Ind AS 111: JOINT ARRANGEMENTS

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.

Requirements of the Standard

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.

Definitions

Joint arrangement – An arrangement of which two or more parties have **joint control**.

Joint control – 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.

Joint operation – A **joint arrangement** whereby the parties that have **joint control** of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement.

Joint operator – A party to a **joint operation** that has **joint control** of that joint operation.

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

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

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:
  - o E.g., joint control exists if two parties hold 50% voting rights, and a 51% majority is required to make decisions regarding relevant activities
  - o 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:
  - o Substantive rights (rights that can be practically exercised) are considered in assessing power
  - o 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 shall 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 shall 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 shall account for its interest in the arrangement in accordance with Ind AS 109 *Financial Instruments*

Disclosure Requirements

The disclosure requirements for parties with joint control of a joint arrangement are specified in Ind AS 112 *Disclosure of Interests in Other Entities.*

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.

MCQs on Standards on Financial Reporting by Group Entities

1. Consolidated financial statements are the financial statements of a group in which
   a) The assets, liabilities, equity, income, expenses and cash flows of the parent and its subsidiaries are presented as those of a single economic entity.
   b) The assets, liabilities, equity, income and expenses of the parent and its subsidiaries are presented as those of a single economic entity.
   c) The assets, liabilities, equity, income, expenses and cash flow of the parent and joint venture and associates are presented as those of a single economic entity.
   d) The assets, liabilities, equity, income and expenses of the parent and joint venture and associates are presented as those of a single economic entity.
2. Where an entity prepares a separate financial statement, it shall account for investment in subsidiaries, joint ventures and associates at
   a) Market value
   b) Cost
   c) Cost or in accordance with Ind AS 109.
   d) Net realisable value
3. Entity shall apply
   a) Accounting for different investment in the same category differently.
   b) Same accounting for each category of investment.
   c) Same accounting, however can apply different accounting if wants
   d) All options in the accounting standards to a category of investment.
4. When a parent ceases to be an investment entity, or become an investment entity,
   a) It shall account for the change retrospectively.
   b) It shall account for the change prospectively
   c) When it ceases to be an investment entity, it shall be accounted for prospectively and when it becomes investment entity, it shall be accounted for retrospectively.
   d) When it ceases to be an investment entity, it shall be accounted for retrospectively and when it becomes investment entity, it shall be accounted for prospectively.
5. An entity shall recognise a dividend from a subsidiary, a joint venture or an associate in profit or loss in its separate financial statements
   a) When it receives the dividend.
   b) At the end of the reporting period.
   c) Accrued considering the profit of the entity during the year.
   d) When its right to receive the dividend is established.

6. For each business combination,
   a) One of the combining entities shall be identified as an acquirer.
   b) One of the entities has to be a joint venture.
   c) One of the entities needs to be associate of another entity.
   d) One of the entities shall be firm registered under India partnership Act.
7. The acquirer shall measure the identifiable assets acquired and the liabilities assumed
   a) At their carrying value in the books of the acquiree
   b) At their acquisition dates fair value.
   c) At fair value at the end of reporting date.
   d) At cost to the acquiree.
8. The acquirer recognises a contingent liability assumed in a business combination at the acquisition date
   a) Only if it complies with the requirement of Ind AS 37.
   b) Only if it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation.
   c) Even if it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation.
   d) Contingent liability shall not be recognised in a business combination.
9. The consideration transferred in a business combination shall be measured at
   a) Fair value, which shall be calculated as the sum of the acquisition date fair value of the assets transferred by the acquirer, the liabilities incurred by the acquirer to former owners of the acquire and the equity interests issued by the acquirer.
   b) Carrying amount of assets transferred by the acquirer, carrying amount of liabilities incurred by the acquirer and equity interest issued by the acquirer.
   c) Fair value of assets transferred by the acquirer, carrying amount of liabilities incurred by the acquirer and the equity interest issued by the acquirer.
   d) Carrying value of assets transferred by the acquirer, fair value of liabilities incurred by the acquirer and the equity interest issued by the acquirer.
10. If the transferred assets or liabilities remain within the combined entity after the business combination and the acquirer retains controls over them,
   a) It shall remeasure the assets and liabilities at fair value and recognise the resulting profit or loss in other comprehensive income
   b) It shall remeasure the assets and liabilities at fair value and recognise the resulting profit or loss in profit or loss

c) It shall remeasure the assets and liabilities at fair value and recognise the resulting profit or loss in goodwill.

d) It shall not remeasure the transferred assets or liabilities.

11. The consideration the acquirer transfers in exchange for the acquiree

a) Does not includes any asset or liability resulting from a contingent consideration arrangement.

b) Includes any asset or liability resulting from a contingent consideration arrangement.

c) Includes asset but not liability resulting from a contingent consideration arrangement.

d) Includes liability but not assets resulting from a contingent consideration arrangement.

12. If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs,

a) The acquirer cannot present its financial statements.

b) The acquirer shall report in its financial statement the carrying amount of the assets and liabilities of the acquiree on the date of acquisition.

c) The acquirer shall report in its financial statements provisional amounts for the items for which the accounting is incomplete.

d) The acquirer shall not state the information about the business combination in the financial statement.

13. The acquirer shall account for acquisition related cost

a) As preliminary expense and write off over the period of 5 years.

b) In the period in which cost in incurred.

c) Shall be absorbed in goodwill recognised in business combination.

d) Shall not be accounted in the books of account.

14. Reacquired right recognized as an intangible asset in a business combination

a) Shall be amortised over the remaining contractual period of the contract.

b) Shall not be amortised.

c) Shall be sold immediately to third party.

d) Shall be amortised over the period in which goodwill will be amortised.

15. A group of individuals shall be regarded as controlling an entity when, as a result of contractual arrangements,

a) They do not have the power to govern its financial and operating policies

b) One of them has the power to govern its financial and operating policies.

c) Few of them have the power to govern its financial and operating policies.

d) They collectively have the power to govern its financial and operating policies.

16. In reverse acquisition,

a) The entity that issues securities is identified as the acquirer for accounting purpose.

b) The entity that receives securities is identified as the acquirer for accounting purpose.

c) The entity that receives securities is identified as the acquiree for accounting purpose.

d) The acquirer and acquiree cannot be identifiable.

17. In reverse acquisition, the acquisition date fair value of the consideration transferred by the acquirer for its interest in the acquiree is based on

a) Fair value of assets acquired and liability assumed in the business combination.

b) Carrying amount of assets acquired and liability assumed in the business combination.

c) The number of equity interest the legal subsidiary would have had to issue to give the owners of the legal parent the same percentage of equity interest in the combined entity that results from the reverse acquisition.

d) Fair value of assets acquired and carrying value of liability assumed in the business combination.

18. In case of reverse acquisition, consolidated financial statements are

a) Prepared and issued under the name of the legal acquiree.

b) Prepared and issued under the name of the legal parent.

c) Not prepared.

d) Prepared on the joint name of the acquiree and the acquirer.

19. In case of reverse acquisition, the number of ordinary shares outstanding from the acquisition date to the end of that period shall be

a) Actual number of ordinary shares of the legal acquirer outstanding during that period.

b) Actual number of ordinary shares of the legal acquiree outstanding during that period.

c) Difference between the number of ordinary shares of the legal acquirer and number of ordinary shares of the legal acquiree outstanding during the period.

d) Sum of actual number of ordinary shares of the legal acquirer and the legal acquiree outstanding during the period.

20. In case of reverse acquisition, EPS for comparative before the acquisition shall be calculated by dividing the profit or loss of the legal acquiree attributable to the ordinary shares by

a) The legal acquiree's historical weighted average number of ordinary shares outstanding.

b) The legal acquirer weighted average number of ordinary shares outstanding before the acquisition.

c) The legal acquirer weighted average number of orginal shares outstanding before the acquisition multiplied by the exchange ratio established in the acquisition agreement.

d) The legal acquiree's historical weighted average number of ordinary shares outstanding multiplied by the exchange ratio established in the acquisition agreement.

21. In case when two mutual entities combine, the acquirer shall determine the amount of goodwill by

a) Using acquisition date fair value of the acquirer's equity interest transferred.

b) Using the acquisition date fair value of the acquiree's interest instead of the acquisition date fair value of the acquirer's equity interest transferred.

c) Using acquisition date carrying value of the acquirer's equity interest transferred.

d) Using acquisition date carrying value of the acquiree's interest.

22. Under equity method of accounting,

a) Investors profit or loss includes its share of the investee's profit or loss recognised in the investor's other comprehensive income.

b) Investors profit or loss includes its share of the investee's profit or loss recognised in the investor's profit or loss.

c) Investors profit or loss does not included investee's profit or loss.

d) Investors financials consolidate the financials of the investee.

23. An entity loses significant influence over the investee when

a) The investor sold the shares of the investee.

b) When the investee shares listed over stock exchange

c) It loses the power to participate in the financial and operating policy decisions of that investee.

d) When the investor become a listed company on a stock exchange.

24. If an investment in an associate or joint venture is held by indirectly through venture capital organisation, the entity
    a) Shall account for those investment using equity method
    b) Shall account for those investment at fair value through profit or loss
    c) Shall not account for those investment.
    d) May elect to measure investments in those associates or joint ventures through profit or loss in accordance with Ind AS 109.
25. An entity shall discontinue the use of the equity method
    a) From the date its investment becomes a subsidiary.
    b) If the entity sells some share of the associate or a Joint venture.
    c) If the voting rights of the entity is reduced in an associate or joint venture
    d) When the management decides.
26. If an investment in an associate becomes investment in joint venture,
    a) The entity shall remeasure the retained interest.
    b) The entity shall continue to apply the equity method and does not remeasure the retained interest.
    c) The entity shall discontinue applying equity method
    d) Entity shall apply proportionate consolidation.
27. Gains or losses resulting from upstream or downstream transactions between an entity and its associates or joint venture
    a) Are recognised in the entity's financial statement
    b) Are not recognised in the entity's financial statement.
    c) Are recognised in the entity's financial statement only to the extent of unrelated investor's interest in the associate or joint venture.
    d) Are eliminated while calculating minority interest.
28. When the end of the reporting period of the entity is different from that of the associate or joint venture,
    a) Entity shall consolidate such associate or joint venture as of such other date
    b) Adjustment shall be made for the effect of significant transaction or events that occur between that date and the date of the entity's financial statements.
    c) Entity shall not consolidate such associate or joint venture
    d) Entity shall make adjustment for significant transaction or events that occur between the date and the date of the entity's financial statement, even if the difference between the end of reporting period is more than three months.

29. 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,

    a) The entity discontinues recognising its share of further losses.

    b) The entity shall continue recognising its share of further losses.

    c) Entity shall derecognise the investment and no entry is required in case of future, the entity earns any profit.

    d) The entity shall account for any further losses in other comprehensive income by reducing the amount of equity.

30. If the entity's interest is reduced to zero and if the associate or joint venture subsequently reports profit,

    a) Entity shall resume recognising its share of profit.

    b) Entity shall not recognise any profits.

    c) Entity shall resume recognising its share of profit only after its share of the profits equal the share of losses not recognised.

    d) Entity shall recognise its share of profit only if it had recognise its share of loss, even after the entity's interest is reduced below zero.

31. If a parent loses control of a subsidiary, it shall

    a) Continue to recognises the assets and liabilities of the subsidiary in the consolidated balance sheet.

    b) Not recognises the gain or loss associated with the loss of control.

    c) Recognises the gain or loss associated with the loss of control attributable to the former controlling interest.

    d) Classify that subsidiary as discontinued operation.

32. If an investment entity has a subsidiary that provides services that relates to an investment entity's investment activities,

    a) It shall consolidate that subsidiary.

    b) It shall not consolidate that subsidiary.

    c) It shall account for the entity as an associate

    d) It shall account for the entity as Joint Venture.

33. When assessing whether an investor has control of an investee, the investor determines

    a) Whether it is exposed, or has rights to variable returns from its involvement with the investee.

    b) Whether it holds equity of the investee.

c) If it participates in the decision making of the entity.

d) If considered its relationship with other parties.

34. Income and expenses of the subsidiary are recorded in the consolidated financial statements based on

a) The amount of the assets and liabilities recognised in the separate financial statement.

b) The fair value of assets and liabilities on the reporting date

c) The amount of the assets and liabilities recognised in the consolidated financial statement.

d) The realisable value of the assets and liabilities on the reporting date.

35. The requirement for unanimous consent means that

a) Party has voting rights in the other entity.

b) Party can influence the decision making of the entity.

c) Any party of joint control of the arrangement can make any decision without the consent of other parties in the group.

d) Any party with joint control of the arrangement can prevent any of the other parties, or a group of the parties, from making unilateral decisions (about the relevant activities) without its consent.

36. If any change in equity attributable to owners of the parent of any changes in the ownership interest in a subsidiary that do not result in loss of control,

a) The same is not required to disclose.

b) The same is required to disclose.

c) Entity shall discontinue consolidation

d) Entity shall change the basis of accounting its investment in its separate financial statement.

37. An entity shall account for each business combination by applying the ____________ method.

a) Acquisition b) Pooling of interest

c) Equity d) Consolidation

38. The acquirer shall identify the acquisition date, which is the date on which it obtains ________________.

a) Shares b) Voting rights

c) Equity interest d) Control of the acquiree

39. As of the acquisition date, the acquiree shall recognize separately from goodwill, the identifiable assets acquired, the liabilities assumed and any ______________ in the acquiree.

    a) Income b) Expenses

    c) Non-controlling interest d) Profit

40. The acquirer shall measure the value of a reacquired right recognized as an ____________ on the basis of the remaining contractual term of the related contract.

    a) Property, plant and equipment b) Intangible assets

    c) Investment d) Liability

41. The consideration transferred in business combination shall be fair value of the asset transferred, liabilities incurred and ___________ issued by the acquirer.

    a) Equity interest b) Property, plant and equipment

    c) Debt d) Investment

42. After the measurement period ends, the acquirer shall revise the accounting for a business combination only to _____________.

    a) Change of estimate b) Correction of error

    c) Recorded new update d) Consolidate.

43. Acquiree is the business or businesses that the acquirer obtains control of in a ______________.

    a) Sale transaction b) Creation of asset

    c) Business combination d) Inter-state sale

44. _______________ is the date on which the acquirer obtains control of the acquiree.

    a) Measurement date b) Grant date

    c) Recording date d) Acquisition date

45. ___________________ is an obligation of the acquirer to transfer additional assets or equity interest to the former owners of an acquiree as part of exchange for control of the acquiree if specified future events occurs or conditions are met.

    a) Fair value b) Contingent consideration

    c) Liability d) Equity

46. The equity in a subsidiary not attributable, directly or indirectly to a parent is _____________.

    a) Profit b) Income

    c) Non controlling interest d) Assets

47. The acquirer in business combination is the one who as a group retain or receive the largest portion of the voting rights in the ____________.

    a) Parent b) Subsidiary

    c) Combined entity d) Other group entity

48. An intangible is identifiable if it meets either the separability criteria or the _____________ criteria.

    a) Contractual-legal b) Legal

    c) Contractual d) Constructive

49. The value of intangible assets that is not identifiable on the date of acquisition is subsumes into ________.

    a) Reserve b) Goodwill

    c) Investment in subsidiary d) Other asset

50. Business combination involving ________________________ is one in which all of the combining businesses ultimately are controlled by the same party or parties, both before and after the combination and that control is not transitory.

    a) Entities b) Businesses

    c) Entities or businesses d) Group

51. _________________ is a contractual agreement, whereby parties undertake an activity that is subject to joint control.

    a) Associate b) Subsidiary

    c) Parent d) Joint venture

52. ___________ is a method of accounting whereby the investment is initially recognized at cost and adjusted thereafter for the post acquisition change in the investors share of the investee's net assets.

    a) Proportionate consolidation b) Equity method

    c) Complete consolidation d) Fair value

53. Contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control is _____________.

    a) Associate b) Joint control

    c) Parent d) Being investor

54. An entity with joint control of, or significant influence over, an investee shall account for its investment in an associate or a joint venture using the __________.

    a) Proportionate consolidation b) Complete consolidation

    c) Equity method d) Fair value

55. After the entity's interest is reduced to zero, additional losses are provided for and liability is recognized only to the extent that entity has incurred ___________ obligation or made payment on behalf of the associate or joint venture.

a) Legal or constructive b) Constructive

c) Legal d) Neither legal nor constructive

56. 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 _______.

a) Associate b) Joint venture

c) Subsidiary d) Investee.

57. A parent shall prepare the consolidated financial statements using ______ accounting policies for like transactions and other events in similar circumstances.

a) Similar b) Uniform

c) Fair value d) Conventional

58. An investment entity shall measure an investment in a subsidiary at ___________________.

a) Amortised cost b) Cost

c) Fair value through profit or loss d) Cost less accumulated depreciation

59. Equity in subsidiary not attributable directly or indirectly to a parent is _________________.

a) Non controlling interest b) Other comprehensive income

c) Non operating income d) Not recorded

60. ________________ are rights designed to protect the interest of the party holding those rights without giving that party power over the entity to which those right relate.

a) Power b) Protective rights

c) Removal rights d) Control

61. Rights designed to protect the interest of the party holding those rights without giving power over the entity to which it relates is ______________.

a) Power b) Protective rights

c) Removal rights d) Control

62. ____________ is an entity controlled by another entity.

a) Associate b) Joint venture

c) Subsidiary d) Investee

63. Under franchise agreement, the franchisee has made a unilateral decision to operate its business in accordance with the term of the franchisee and franchisor has only ___________ rights.

a)	Power	b)	Protective
c)	Removal	d)	Control

64. On disposal of the asset, the parent shall transfer the revaluation reserve to ___________.

a)	Profit or loss	b)	Other comprehensive income
c)	Common stock	d)	Retained earnings

65. _____________ is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement.

a)	Joint operator	b)	Joint operation
c)	Joint Venture	d)	Separate vehicle

66. ____________ 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 Venture	b)	Joint operation
c)	Joint operator	d)	Separate vehicle

67. A joint operator shall account for the assets, liabilities, revenues and expenses relating to ________ in a joint operation.

a)	Entire operation	b)	Its interest
c)	Other operators interest	d)	Its own books

68. A joint venturer shall recognise its interest in a joint venture as an investment and shall account for that investment using the __________.

a)	Equity method	b)	Proportionate consolidation
c)	Complete consolidation	d)	Fair value

69. _______________ is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities requires the unanimous consent of the parties sharing control.

a)	Joint arrangement	b)	Joint venture
c)	Joint control	d)	Joint operation

70. Under _____________ the contractual arrangement establishes that the assets brought into the arrangement or subsequently acquired by the joint arrangement are the arrangement assets and the parties have no interest in the arrangement.

a)	Joint arrangement	b)	Joint operation
c)	Joint control	d)	Joint venture

71. When an entity enters into a transaction with a joint operation in which it is a joint operator, it shall recognise the gains or losses resulting from such a transaction only to the extent of _____________ interest in the joint operation.

a)	Its own	b)	Other parties
c)	Total	d)	Equal

72. An entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity is _________________.

a)	Structured entity	b)	Separate vehicle
c)	Joint venture	d)	Joint control

73. An interest in another entity refers to contractual or non-contractual involvement that exposes an entity to ___________ of returns from the performance of the other entity.

a)	Variability	b)	Equal amount
c)	Similar amount	d)	Fluctuations

Solutions

1. a) The assets, liabilities, equity, income, expenses and cash flows of the parent and its subsidiaries are presented as those of a single economic entity.

2. c) Cost or in accordance with Ind AS 109.

3. b) Same accounting for each category of investment.

4. b) It shall account for the change prospectively

5. d) When its right to receive the dividend is established.

6. a) One of the combining entities shall be identified as an acquirer.

7. b) At their acquisition dates fair value.

8. c) Even if it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation.

9. a) Fair value, which shall be calculated as the sum of the acquisition date fair value of the assets transferred by the acquirer, the liabilities incurred by the acquirer to former owners of the acquire and the equity interests issued by the acquirer.

10. d) It shall not re-measure the transferred assets or liabilities.

11. b) Includes any asset or liability resulting from a contingent consideration arrangement.
12. c) The acquirer shall report in its financial statements provisional amounts for the items for which the accounting is incomplete.
13. b) In the period in which cost in incurred.
14. a) Shall be amortised over the remaining contractual period of the contract.
15. d) They collectively have the power to govern its financial and operating policies.
16. a) The entity that issue securities is identified as the acquirer for accounting purpose.
17. c) The number of equity interest the legal subsidiary would have had to issue to give the owners of the legal parent the same percentage of equity interest in the combined entity that results from the reverse acquisition.
18. b) Prepared and issued under the name of the legal parent.
19. a) Actual number of ordinary shares of the legal acquirer outstanding during that period.
20. d) The legal acquiree's historical weighted average number of ordinary shares outstanding multiplied by the exchange ratio established in the acquisition agreement.
21. b) Using the acquisition date fair value of the acquiree's interest instead of the acquisition date fair value of the acquirer's equity interest transferred.
22. b) Investors profit or loss includes its share of the investee's profit or loss recognised in the investor's profit or loss.
23. c) It loses the power to participate in the financial and operating policy decisions of that investee.
24. d) May elect to measure investments in those associate or joint venture through profit or loss in accordance with Ind AS 109.
25. a) From the date its investment becomes a subsidiary.
26. b) The entity shall continue to apply the equity method and does not re-measure the retained interest.
27. c) Are recognised in the entity's financial statement only to the extent of unrelated investor's interest in the associate or joint venture.
28. b) Adjustment shall be made for the effect of significant transaction or events that occur between that date and the date of the entity's financial statements.
29. a) The entity discontinues recognising its share of further losses.

30. c) Entity shall resume recognising its share of profit only after its share of the profits equal the share of losses not recognised.

31. c) Recognises the gain or loss associated with the loss of control attributable to the former controlling interest.

32. a) It shall consolidate that subsidiary.

33. a) Whether it is exposed, or has rights to variable returns from its involvement with the investee.

34. c) The amount of the assets and liabilities recognised in the consolidated financial statement.

35. d) Any party with joint control of the arrangement can prevent any of the other parties, or a group of the parties, from making unilateral decisions (about the relevant activities) without its consent.

36. b) The same is required to disclose.

37. a) Acquisition

38. d) Control of the acquiree

39. c) Non-controlling interest

40. b) Intangible asset

41. a) Equity interest

42. b) Correct the error

43. c) Business combination

44. d) Acquisition date

45. b) Contingent consideration

46. c) Non-controlling interest

47. c) Combined entity

48. a) Contractual legal

49. b) Goodwill

50. c) Entities or businesses

51. d) Joint Venture

52. b) Equity method

53. b) Joint control

54. c) Equity method

55. a) Legal or constructive
56. d) Investee
57. b) Uniform
58. c) Fair value through profit or loss
59. a) Non controlling interest
60. b) Protective rights
61. b) Protective rights
62. c) Subsidiary
63. b) Protective
64. d) Retained earnings
65. b) Joint operation
66. a) Joint venture
67. b) Its interest
68. a) Equity method
69. c) Joint control
70. d) Joint venture
71. b) Other parties
72. a) Structured entity
73. a) Variability

Chapter 7
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,
  - o Appendix A to Ind AS 16: Changes in Existing Decommissioning, Restoration and Similar Liabilities,
  - o Appendix B to Ind AS 16: Stripping Costs in the Production Stage of Surface Mine,
- Ind AS 17 Leases,
  - o Appendix A to Ind AS 17: Operating Lease- Incentives,
  - o Appendix B to Ind AS 17: Evaluating the Substance of Transaction Involving the Legal Form of a Lease,
  - o Appendix C to Ind AS 17: Determining whether an Arrangement contains a Lease,
- Ind AS 23 Borrowing Costs
- Ind AS 36 Impairment of Assets
- Ind AS 38 Intangible Assets,
  - o Appendix A to Ind AS 38: Website Costs
- 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.

I. Ind AS 2: INVENTORIES

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

The costs of purchase of inventories comprise 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

The costs of conversion of inventories for manufactured goods include 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.

A Case Study

The following are relevant pieces of information for entity X:

a) Production in full capacity is 20,000 units/ year

b) Normal capacity is 15,000 units/ year

c) Actual production in year 2xx8 is 13,000 units

d) Total fixed production overhead is ` 45,00,000

e) Total variable production overhead is ` 26,00,000

f) Out of 13,000 units produced in current year 2000 unit is in stock at the end of the year

How will be the fixed and variable over heads allocated to the inventories?

Solution

Variable OH absorption rate: Variable Production OH/ No. of units actually produced

= ` 26,00,000/13000 units

= ` 200/unit

Fixed OH absorption rate: Total Fixed OH/No. of units produced in normal capacity

= ` 45,00,000/15,000

= ` 300/unit

Note: The amount of fixed overhead allocated to inventory will not be increased as a result of low production by using normal capacity to allocate fixed overhead.

Total OH absorption rate	=	Fixed OH + Variable OH
	=	200 + 300
	=	` 500/unit
Overall production overhead recognized as part of cost of inventory is		
	=	Total OH absorption rate * no of units
	=	500 * 2000
	=	` 10,00,000
Amount of OH expensed in profit or loss for the year		
	=	26,00,000+ 45,00,000- 10,00,000
	=	` 61,00,000

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

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. To illustrate this, suppose an entity A purchase certain raw material from entity B at ` 1,05,000 which it would pay to entity B after 3 months. The normal credit period allowed by entity B is 1 weak in which case it charges ` 1,00,000 for similar merchandise. In this case, ` 1,00,000 will only be considered in the cost of purchases of material and ` 5000 will be regarded as financing charges and expensed in profit or loss accordingly.

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.

The expenses which are not recognized in cost of inventory of a service provider are

i. Labour and other costs relating to sales and general administrative personnel and non-attributable overheads as these costs are recognized as expenses in the period in which they are incurred; and

ii. profit margins.

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. Generally, the allocation is based on the relative sales value of each product either at the stage in the production process when the products become separately identifiable, or at the completion of production. Often after the split off, each product may require certain additional costs to be incurred for their completion and ready for sale. The allocation of joint cost, in such case should take into account the additional individual product costs yet to incurred after the point at which joint production ceases.

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 shall 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.

II. Ind AS 16: PROPERTY, PLANT AND EQUIPMENT

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.

Ind AS 16 does not prescribe the unit of measure for recognition – what constitutes an item of property, plant, and equipment. Note, however, that if the cost model is used (see below) each part of an item of property, plant, and equipment with a cost that is significant in relation to the total cost of the item must be depreciated separately.

Ind AS 16 recognises that parts of some items of property, plant, and equipment may require replacement at regular intervals. The carrying amount of an item of property, plant, and equipment will include the cost of replacing the part of such an item when that cost is incurred if the recognition criteria (future benefits and measurement reliability) are met. 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 shall 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.

APPENDIX A TO IND AS 16: CHANGES IN EXISTING DECOMMISSIONING, RESTORATION AND SIMILAR LIABILITIES

Background & Issue

Many entities have obligations to dismantle, remove and restore items of property, plant and equipment and in this Appendix such obligations are referred to as 'decommissioning, restoration and similar liabilities'. Under Ind AS 16 Property, Plant and Equipment, the cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period. Ind AS 37 Provisions, Contingent Liabilities and Contingent Assets contains requirements on how to measure decommissioning, restoration and similar liabilities. This Appendix provides guidance on how to account for the effect of subsequent changes in the measurement of existing decommissioning, restoration and similar liabilities. It applies to changes in the measurement of any existing decommissioning, restoration or similar liability that is both:

- Recognised as part of the cost of an item of property, plant and equipment in accordance with Ind AS 16; and
- Recognised as a liability in accordance with Ind AS 37.

For example, a decommissioning, restoration or similar liability may exist for decommissioning a plant or rehabilitating environmental damage, in extractive industries, or the removal of equipment.

Accounting Policy

Changes in the measurement of an existing decommissioning, restoration and similar liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits required to settle the obligation, or a change in the discount rate, are accounted for as detailed below:

A. Asset measured using Cost Model

- Changes in the liability are added to, or deducted from, the cost of the related asset in the current period.
- The amount deducted from the cost of the asset cannot exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in profit or loss.
- If the adjustment results in an addition to the cost of an asset, the entity considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the entity tests the asset for impairment by estimating its recoverable amount, and accounts for any impairment loss, in accordance with Ind AS 36 Impairment of Assets.

B. Related asset measured using revaluation model

Changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that

- A decrease in the liability is recognised in other comprehensive income and increases the revaluation surplus within equity, except that it is recognised in profit or loss to the extent that it reverses a revaluation deficit on the asset that was previously recognised in profit or loss.
- An increase in the liability is recognised in profit or loss, except that it is recognised in other comprehensive income and reduces the revaluation surplus within equity to the extent of any credit balance existing in the revaluation surplus in respect of that asset.
- In the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess is recognised immediately in profit or loss.
- A change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.
- The change in the revaluation surplus arising from a change in the liability is separately identified and disclosed as such.

C. Discount

The periodic unwinding of discount is recognised in profit or loss as a finance cost as it occurs. Capitalisation under Ind AS 23 *Borrowing Costs* is not permitted

D. Depreciation

The adjusted depreciable amount of the asset is depreciated over its useful life. Therefore, once the related asset has reached the end of its useful life, all subsequent changes in the liability are recognised in profit or loss as they occur. This applies under both the cost model and the revaluation model.

APPENDIX B TO IND AS 16: STRIPPING COSTS IN THE PRODUCTION PHASE OF A SURFACE MINE

Issue

Appendix B to Ind AS 16, applies to waste removal (stripping) costs that are incurred in surface mining activity, during the production phase of the mine. It addresses the following issues:

- Is the definition of an asset met (for stripping activity costs incurred)?
- When should a stripping-activity-asset be recognised?
- How should the stripping-activity-asset be measured initially?
- How should the stripping-activity-asset be measured subsequently?

Important Terms

Stripping activities – activities undertaken to gain access to a specific section of the ore body - more aggressive activities than routine waste clearing activities. It is planned in advance with a defined start-date, and forms part of the overall mine plan.

Accounting Policy

A. Recognition of Production Stripping Costs as an Asset

a. Costs that improve access to ore

The benefit of improved access to ore qualifies for recognition as part of (a component of) an existing asset when:

- It is probable that the future economic benefit (i.e., improved access to the ore body) associated with the stripping activity will flow to the entity.
- The component of the ore body for which access has been improved can be identified.
- The stripping activity costs can be reliably measured.

Such costs will be classified as a tangible or an intangible non-current asset according to the nature of the existing asset to which they relate. The stripping-activity-asset is specifically associated with the section of ore that becomes directly accessible as a result of the stripping activity.

b. Costs that produce ore

The benefits from stripping activities that are released in the form of inventory (ore) are recognised in accordance with Ind AS 2 Inventories.

c. Routine stripping costs

Routine stripping costs that are not incurred as part of the stripping activities are accounted for as current costs of production in accordance with Ind AS 2.

B. Initial Measurement

The stripping-activity-asset is initially measured at cost which is accumulation of:

- Cost that are directly incurred to perform the stripping activity.
- An allocation of directly attributable costs.

Costs associated with incidental operations occurring concurrently with stripping activity are not included in the cost of the stripping-activity-asset.

When costs of the stripping-activity-asset and inventory produced are not separately identifiable, they are allocated based on a relevant production measure calculated for the identified component of the ore body and used as a benchmark to identify the extent to which additional activity of creating future benefit has taken place.

C. SUBSEQUENT MEASUREMENT

They are subsequently carried at cost or revalued amount, less depreciation (or amortisation), less accumulated impairment losses.

Method of depreciation (or amortisation) used must be rational and systematic basis, over the expected useful life of the specific section of the ore body that becomes directly accessible as a result of the stripping activities. The units-of-production method is applied unless another method is more appropriate.

Expected useful life of the specific section of the ore body is likely to differ from the expected life of the mine and/or the related life-of-mine assets. This is because stripping activities will give access only to a portion of the total ore body.

Impairment if any is accounted for in accordance with Ind AS 36 *Impairment of Assets*.

III. Ind AS 40: INVESTMENT PROPERTY

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:

(a) Use in the production or supply of goods or services or for administrative purposes; or

(b) 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 (Ind AS 2 *Inventories*);
- property being constructed or developed on behalf of third parties (Ind AS 11 *Construction Contracts*);
- owner-occupied property (Ind AS 16 *Property, Plant and Equipment*), including property held for future use as owner-occupied property, property held for future development and subsequent use as owner-occupied property, property occupied by employees and owner-occupied property awaiting disposal; and
- property leased to another entity under an finance lease.

Recognition

Investment property shall 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 shall be measured initially at its cost. Transaction costs shall be included in the initial measurement.

The initial cost of a property interest held under a lease and classified as an investment property shall be as prescribed for a finance lease by para 20 of Ind AS 17, i.e. the asset shall be recognised at the lower of the fair value of the property and the present value of the minimum lease payments. An equivalent amount shall 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 shall 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 shall be determined as the difference between the net disposal proceeds and the carrying amount of the asset and shall 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 shall 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 shall 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 shall 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

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 shall 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

1. Operating Leases

  - Lessors shall present assets subject to operating leases in their statements of financial position according to the nature of the asset.
  - The depreciation policy for depreciable leased assets shall be consistent with the lessor's normal depreciation policy for similar assets, and depreciation shall be calculated in accordance with Ind AS 16 and Ind AS 38.

- Lease income from operating leases shall 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.

2. Finance Leases

- Lessors shall recognise assets held under a finance lease in their statements of financial position and present them as a receivable at an amount equal to the net investment in the lease.
- The recognition of finance income shall 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 shall 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 shall 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 shall be recognised as an expense when the selling profit is recognised.

APPENDIX A TO Ind AS 17: OPERATING LEASE: INCENTIVES

ISSUE

In negotiating a new or renewed operating lease, the lessor may provide incentives for the lessee to enter into the agreement. Examples of such incentives are an up-front cash payment to the lessee or the reimbursement or assumption by the lessor of costs of the lessee (such as relocation costs, leasehold improvements and costs associated with a pre-existing lease commitment of the lessee). Alternatively, initial periods of the lease term may be agreed to be rent-free or at a reduced rent. The issue addressed in this appendix is how incentives in an operating lease should be recognised in the financial statements of both the lessee and the lessor.

Accounting Principles

This Appendix establishes the following accounting principle:

- All incentives for the agreement of a new or renewed operating lease are recognised as an integral part of the net consideration agreed for the use of the leased asset, irrespective of the incentive's nature or form or the timing of payments.
- The **lessor** recognises the aggregate cost of incentives as a reduction of rental income over the lease term, on a straight-line basis unless another systematic basis is representative of the time pattern over which the benefit of the leased asset is diminished.

- The **lessee** recognises the aggregate benefit of incentives as a reduction of rental expense over the lease term, on a straight-line basis unless another systematic basis is representative of the time pattern of the lessee's benefit from the use of the leased asset.
- Costs incurred by the lessee, including costs in connection with a pre-existing lease (for example costs for termination, relocation or leasehold improvements), are accounted for by the lessee in accordance with the Ind ASs applicable to those costs, including costs which are effectively reimbursed through an incentive arrangement.

APPENDIX B TO Ind AS 17: EVALUATING THE SUBSTANCE OF TRANSACTIONS INVOLVING THE LEGAL FORM OF A LEASE

Issue

Appendix B to Ind AS 17 applies to situations where an entity A leases or sales an asset to an investor B and leases the same asset back. The lease may cover the whole economic life or the entity may have the right to buy the asset back at the end of the lease period. The purpose of the arrangement is often to achieve a tax advantage. When an arrangement with an investor involves the legal form of a lease, the issues are:

- How to determine whether a series of transactions is linked and should be accounted for as one transaction?
- Whether the arrangement meets the definition of a lease under Ind AS 17 *Leases*; and, if not:
  - o Whether a separate investment account and lease payment obligations that might exist represent assets and liabilities of the entity?
  - o How the entity should account for other obligations resulting from the arrangement?
  - o How the entity should account for a fee it might receive from an investor?

Accounting Policy

This appendix establishes following policies:

- A series of transactions that involve the legal form of a lease are linked and are accounted for as one transaction when the overall economic effect cannot be understood without reference to the series of transactions as a whole.
- Ind AS 17 applies when the substance of an arrangement includes the conveyance of the right to use an asset for an agreed period of time. Indicators that individually demonstrate that an arrangement may not, in substance, involve a lease under Ind AS 17 include:
  - o An entity retains all the risks and rewards incident to ownership of an underlying asset and enjoys substantially the same rights to its use as before the arrangement.

  - o The primary reason for the arrangement is to achieve a particular tax result, and not to convey the right to use an asset.
  - o An option is included on terms that make its exercise almost certain (e.g., a put option that is exercisable at a price sufficiently higher than the expected fair value when it becomes exercisable).

- The definitions and guidance in the Framework should be applied in determining whether, in substance, a separate investment account and lease payment obligations represent assets and liabilities of the entity. Indicators that collectively demonstrate that, in substance, a separate investment account and lease payment obligations do not meet the definitions of an asset and a liability and should not be recognised by the entity include:
  - o The entity is not able to control the investment account in pursuit of its own objectives and is not obligated to pay the lease payments.
  - o The entity has only a remote risk of reimbursing the entire amount of any fee received from an investor and possibly paying some additional amount, or, when a fee has not been received, only a remote risk of paying an amount under other obligations.
  - o Other than the initial cash flows at inception of the arrangement, the only cash flows expected under the arrangement are the lease payments that are satisfied solely from funds withdrawn from the separate investment account established with the initial cash flows.
- Other obligations of an arrangement, including any guarantees provided and obligations incurred upon early termination, should be accounted for under Ind AS 37 Provisions, Contingent Liabilities and Contingent Assets, or Ind AS 104 Insurance Contracts or Ind AS 109, depending on the terms.
- The criteria in Ind AS 18 Revenue are applied to the facts and circumstances of each arrangement to determine when to recognise a fee as income that the entity might receive.
- The fee should be presented in the statement of profit & loss based on its economic substance and nature.

DISCLOSURE

An entity discloses the following in each period that an arrangement exists:

- A description of the arrangement including:
  - o The underlying asset and any restrictions on its use
  - o The life and other significant terms of the arrangement
  - o The transactions that are linked together, including any options

  - o The accounting treatment applied to any fee received, the amount recognised as income in the period, and the line item of the statement of profit or loss in which it is included.

- Disclosure is required to be provided individually for each arrangement or in aggregate for each class of arrangement.

APPENDIX C TO IND AS 17: DETERMINING WHETHER AN ARRANGEMENT CONTAINS A LEASE

Issue

An entity may enter into an arrangement, comprising a transaction or a series of related transactions, that does not take the legal form of a lease but conveys a right to use an asset (e.g., an item of property, plant or equipment) in return for a payment or series of payments. Examples include arrangements in which one entity (the supplier) may convey such a right to use an asset to another entity (the purchaser), often together with related services.

This Appendix provides guidance for determining whether such arrangements are, or contain, leases that should be accounted for in accordance with Ind AS 17 *Leases*. It does not provide guidance for determining how such a lease should be classified under that Standard.

In some arrangements, the underlying asset that is the subject of the lease is a portion of a larger asset. This Appendix does not address how to determine when a portion of a larger asset is itself the underlying asset for the purposes of applying Ind AS 17. Nevertheless, arrangements in which the underlying asset would represent a unit of account in either Ind AS 16 *Property, Plant and Equipment* or Ind AS 38 *Intangible Assets* are within the scope of this Appendix.

This Appendix does not apply to arrangements that:

- Are, or contain, leases excluded from the scope of Ind AS 17
- Are public-to-private service concession arrangements

The issues addressed in this Appendix are:

- How to determine whether an arrangement is, or contains, a lease as defined in Ind AS 17
- When the assessment or a reassessment of whether an arrangement is, or contains, a lease should be made
- If an arrangement is, or contains, a lease, how the payments for the lease should be separated from payments for any other elements in the arrangement

Accounting Principles

Determining whether an arrangement is, or contains, a lease

Determining whether an arrangement is, or contains, a lease is based on the substance of the arrangement and requires an assessment of whether:

- Fulfilment of the arrangement is dependent on the use of a specific asset or assets : Although a specific asset may be explicitly identified in an arrangement, it is not the subject of a lease if fulfilment of the arrangement is not dependent on the use of the specified asset.
- The arrangement conveys a right to use the asset: An arrangement conveys the right to use the asset if the arrangement conveys to the purchaser (lessee) the right to control the use of the underlying asset. The right to control the use of the underlying asset is conveyed if any one of the following conditions is met:
  - The purchaser has the ability or right to operate the asset or direct others to operate the asset in a manner it determines while obtaining or controlling more than an insignificant amount of the output or other utility of the asset
  - The purchaser has the ability or right to control physical access to the underlying asset while obtaining or controlling more than an insignificant amount of the output or other utility of the asset
  - Facts and circumstances indicate that it is remote that one or more parties other than the purchaser will take more than an insignificant amount of the output or other utility that will be produced or generated by the asset during the term of the arrangement, and the price that the purchaser will pay for the output is neither contractually fixed per unit of output nor equal to the current market price per unit of output as of the time of delivery of the output.

Assessing or reassessing whether an arrangement is or contains Lease

The assessment of whether an arrangement contains a lease is made at the inception of the arrangement, being the earlier of the date of the arrangement and the date of commitment by the parties to the principal terms of the arrangement, on the basis of all of the facts and circumstances. A reassessment of whether the arrangement contains a lease after the inception of the arrangement is made only if any one of the following conditions is met:

- There is a change in the contractual terms, unless the change only renews or extends the arrangement
- A renewal option is exercised or an extension is agreed to by the parties to the arrangement, unless the term of the renewal or extension had initially been included in the lease term in accordance with Ind AS 17. A renewal or extension of the arrangement that does not include modification of any of the terms in the original arrangement before the end of the term of the original arrangement is evaluated under this Appendix only with respect to the renewal or extension period
- There is a change in the determination of whether fulfilment is dependent on a specified asset
- There is a substantial change to the asset, for example a substantial physical change to property, plant or equipment.

A reassessment of an arrangement is based on the facts and circumstances as of the date of reassessment, including the remaining term of the arrangement. Changes in estimate (for example, the estimated amount of output to be delivered to the purchaser or other potential purchasers) do not trigger a reassessment. If an arrangement is reassessed and is determined to contain a lease (or not to contain a lease), lease accounting is applied (or ceases to apply).

Separating payments for the lease from other payments

If an arrangement contains a lease, the parties to the arrangement apply the requirements of Ind AS 17 to the lease element of the arrangement, unless exempted from those requirements in accordance with Ind AS 17.

- Accordingly, if an arrangement contains a lease, that lease is classified as a finance lease or an operating lease in accordance with Ind AS 17. Other elements of the arrangement not within the scope of Ind AS 17 are accounted for in accordance with other Ind ASs.
- Payments and other consideration required by arrangement are separated at inception or upon reassessment into those for the lease and those other elements on the basis of relative fair values, which may require the use of estimation techniques.
- Guidance is provided for circumstances in which it is impracticable to separate payments reliably into the various components.

V. 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:

I. identifiability

II. control (power to obtain benefits from the asset)

III. 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:

(a) The definition of an intangible asset; and

(b) 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 shall 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 shall 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.

(a) In accordance with this Standard and Ind AS 103, an acquirer recognises at the acquisition date, separately from goodwill, an intangible asset of the acquiree, irrespective of whether the asset had been recognised by the acquire before the business combination. This means that the acquirer recognises as an asset separately from goodwill an in-process research and development project of the acquiree if the project meets the definition of an intangible asset.

Internally generated intangible assets

Internally generated goodwill shall not be recognised as an asset.

No intangible asset arising from research (or from the research phase of an internal project) shall be recognised. Expenditure on research (or on the research phase of an internal project) shall be recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) shall 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 shall not be recognised as intangible assets.

Measurement after recognition

An entity shall 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 shall 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 shall be carried at its cost less any accumulated amortisation and any accumulated impairment losses.

Revaluation model: After initial recognition, an intangible asset shall 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 shall be determined by reference to an active market. Revaluations shall 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 shall be recognised in other comprehensive income and accumulated in equity under the heading of revaluation surplus. However, the increase shall 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 shall be recognised in profit or loss. However, the decrease shall 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 shall 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 shall 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 shall 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 shall 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 shall 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 shall 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 shall 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 Assets Held for Sale and Discontinued Operations* and the date that the asset is derecognised. The amortisation method used shall 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 shall be used. The amortisation charge for each period shall 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 shall 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 shall 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 shall 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 shall be changed to reflect the changed pattern. Such changes shall 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 shall 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

(a) Annually, and

(b) Whenever there is an indication that the intangible asset may be impaired.

The useful life of an intangible asset that is not being amortised shall 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 shall be accounted for as a change in an accounting estimate in accordance with Ind AS 8 *Accounting Policies, Changes in Accounting Estimates and Errors.*

APPENDIX A TO Ind AS 38: WEBSITE COSTS

Issue

When accounting for internal expenditure on the development and operation of an entity's own website for internal or external access, the issues are:

- Whether the website is an internally generated intangible asset that is subject to the requirements of Ind AS 38 *Intangible Assets*
- The appropriate accounting treatment of such expenditure.
- This appendix does not apply to expenditure on purchasing, developing and operating hardware of a website.

Accounting Principles

An entity's own website that arises from development and is for internal or external access is an internally generated intangible asset that is subject to the requirements of Ind AS 38. Any internal expenditure on the development and operation of an entity's own web site is accounted for in accordance with Ind AS 38. The nature of each activity for which expenditure is incurred (e.g. training employees and maintaining the website) and the web site's stage of development or post-development is evaluated to determine the appropriate accounting treatment and accordingly:

- Cost incurred are only capitalised if the criteria in Ind AS 38 are all met
- The best estimate of a website's useful life should be short.

VI. 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 (see Ind AS 2)
- assets arising from construction contracts (see Ind AS 11)
- deferred tax assets (see Ind AS 12)
- assets arising from employee benefits (see Ind AS 19)
- financial assets (see Ind AS 109)
- certain agricultural assets carried at fair value less cost to sell (see Ind AS 41)
- insurance contract assets (see Ind AS 104)
- assets held for sale (see Ind AS 105)

Therefore, Ind AS 36 applies to (among other assets):

- land
- buildings
- machinery and equipment
- investment properties
- intangible assets
- goodwill
- investments in subsidiaries, associates, and joint ventures
- assets carried at revalued amounts under Ind AS 16 and Ind AS 38

Key definitions

Carrying amount: the amount at which an asset is recognised in the Balance Sheet after deducting accumulated depreciation and accumulated impairment losses

Recoverable amount: The higher of an asset's fair value less costs to sell (sometimes called net selling price) and its value in use

Fair value: The amount obtainable from the sale of an asset in a bargained transaction between knowledgeable, willing parties.

Value in use: The discounted present value of estimated future cash flows expected to arise from:

- the continuing use of an asset, and from
- its disposal at the end of its useful life.

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 you 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. Ind AS 36 presumes that budgets and forecasts should not go beyond five years; for periods after five years, extrapolate from the earlier budgets. Management should assess the reasonableness of its assumptions by examining the causes of differences between past cash flow projections and actual cash flows.

Cash flow projections should relate to the asset in its current condition – future restructurings to which the entity is not committed and expenditures to improve or enhance the asset's performance should not be anticipated.

Estimates of future cash flows should not include cash inflows or outflows from financing activities, or income tax receipts or payments.

Discount Rate

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.

The discount rate should not reflect risks for which future cash flows have been adjusted and should equal the rate of return that investors would require if they were to choose an investment that would generate cash flows equivalent to those expected from 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).
- Adjust depreciation for future periods.

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, and
- that 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 shall:

- 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 shall 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.

VII. 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 under Ind AS 39),
- 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 <u>qualifying asset</u> 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 shall 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 shall 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 shall 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 shall determine the amount of borrowing costs eligible for capitalisation by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate shall 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 shall not exceed the amount of borrowing costs it incurred during that period.

An entity shall 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 shall suspend capitalisation of borrowing costs during extended periods in which it suspends active development of a qualifying asset.

An entity shall cease capitalising borrowing costs when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are completed.

VIII. Ind AS 41 : AGRICULTURE

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.

Agricultural produce should be measured at fair value less estimated point-of-sale costs at the point of harvest. 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.

A gain on initial recognition of agricultural produce at fair value should be included in net profit or loss for the period in which it arises.

All costs related to biological assets that are measured at fair value are recognised as expenses when incurred, other than costs to purchase biological assets.

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.

IX. 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.

Scope

This standard applies to all recognised non-current assets and disposal groups of an entity that are:

- held for sale; or
- held for distribution to owners.

Assets classified as non-current in accordance with Ind AS 1 *Presentation of Financial Statements* shall 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 *Property, Plant and Equipment*
- When an entity acquires a non-current asset exclusively with a view to its subsequent disposal, it shall 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.

DISCLOSURES

- Non-current assets (or a disposal group) held for sale are disclosed separately from other assets in the Balance Sheet. If there are any liabilities, these are disclosed separately from other liabilities.
- Description of the nature of assets (or disposal group) held for sale and facts and circumstances surrounding the sale
- A gain or loss resulting from the initial or subsequent fair value measurement of the disposable group or non-current asset held for sale if not presented separately in the statement of Profit or Loss and the line item that includes that gain or loss
- Prior year balances in the Balance Sheet are not reclassified as held for sale
- If applicable, the reportable segment (Ind AS 108) in which the non-current asset or disposable group is presented.

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.

X. Ind AS 20: ACCOUNTING FOR GOVERNMENT GRANTS AND DISCLOSURE OF GOVERNMENT ASSISTANCE

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, shall 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 shall 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 shall 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, shall 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 shall 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 income shall 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 shall be recognised immediately in profit or loss. **Repayment of a grant related to an asset** shall be recognised by reducing the deferred income balance by the amount repayable.

Disclosures

The following matters shall 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.

APPENDIX A TO IND AS 20: GOVERNMENT ASSISTANCE—NO SPECIFIC RELATION TO OPERATING ACTIVITIES

Issue

Government assistance to entities may be aimed at encouragement or long-term support of business activities either in certain regions or industry sectors. Conditions to receive such assistance may not be specifically related to the operating activities of the entity. Examples of such assistance are transfers of resources by governments to entities which:

- Operate in a particular industry
- Continue operating in recently privatised industries
- Start or continue to run their business in underdeveloped areas.

The issue is whether such Government assistance is a 'Government grant' within the scope of Ind AS 20 *Accounting for Government Grants and Disclosure of Government Assistance* and, therefore, should be accounted for in accordance therewith.

Accounting Principles

Government assistance to entities meets the definition of Government grants in Ind AS 20, even if there are no conditions specifically relating to the operating activities of the entity other than the requirement to operate in certain regions or industry sectors. Such grants are therefore not credited directly to shareholders' interests and are thus required to be recognised in profit or loss.

MCQs on Standards on Assets

1. In case of large number of rapidly changing items with similar margins for which it is impracticable to use other costing methods,
   a) Standard costing method is used
   b) FIFO method is used
   c) LIFO method is used
   d) Retail method is used.
2. The cost of inventories shall be assigned by using
   a) FIFO or LIFO method
   b) FIFO or Weighted average method
   c) FIFO, LIFO or weighted average method
   d) LIFO method
3. The amount of any written down of inventories to net realizable value and all losses of inventories shall be
   a) recognized as an expense in the period in which the inventories are sold.
   b) recognised as expense in the period the written down or loss occurs.
   c) allocated to other assets.
   d) accumulated under reserve.
4. Fixed production overheads incurred, when the production stops
   a) shall be included in the costs of inventory.
   b) shall be recognised as expenses.
   c) shall be charged to other fixed assets.
   d) is not recorded in the books.
5. Items of property, plant and equipment acquired for safety or environmental reasons
   a) need not be capitalized as they do not increase the future economic benefits.
   b) shall be expensed in the year of purchase
   c) shall be capitalized
   d) shall not be recorded at all

6. Cost of relocation or reorganising part or all of an entity's operation shall

   a) not be capitalized to the cost of Property, plant and equipment.

   b) be capitalized to the cost of Property, plant and equipment.

7. Income earned through using a building site as a car park until construction starts shall

   a) be deducted from the cost of Property, Plant and equipment.

   b) be recognised in statement of equity.

   c) be recognised in statement of profit and loss as other comprehensive income.

   d) be recognised in profit or loss account.

8. The cost of abnormal amount of wasted material, labour or other resources incurred in self-constructing an asset is

   a) not included in the cost of the asset.

   b) Included in the cost of the asset.

   c) Included in the statement of change in equity.

   d) Included in other comprehensive income.

9. If an item of property, plant and equipment is revalued,

   a) it shall be revalued every year.

   b) the entire class to which that asset belongs will also be revalued.

   c) only that particular item needs to be revalued

   d) entity shall disclose the fact as notes to accounts.

10. The date from which the lessee is entitled to exercise its rights to use the leased asset is

   a) Commencement of lease

   b) Inception of lease

   c) Renewal of lease

   d) Lease term

11. Minimum lease payment in case of lessee includes any amount guaranteed to the lessor by

   a) the lessee

   b) the lessee or any party related to the lessor

   c) any party related to the lessee

   d) the lessee or any party related to the lessee.

12. Lease classification is made at
    a) the commencement of the lease.
    b) inception of the lease.
    c) renewal of lease.
    d) any time during lease term.
13. Liabilities for leased assets in the financial statement shall
    a) be presented as deduction from lease assets.
    b) be presented as part of statement of change in equity.
    c) not be presented as deduction from lease assets.
    d) be presented as part of statement of profit & loss.
14. Contingent rent shall be
    a) charged as expense in the period in which it is incurred.
    b) included as part of minimum lease payment.
    c) capitalized
    d) deferred and amortized over the lease term.
15. Depreciation policy for leased assets shall
    a) be to amortised assets over the period of 10 years.
    b) be consistent with that for depreciation assets that are owned.
    c) shall be amortised over the lease term.
    d) not required.
16. Leased asset shall be fully depreciated over the
    a) lower of the lease term and its useful life.
    b) higher of the lease term and its useful life.
    c) period of lease term.
    d) period of useful life.
17. Cost incurred by manufacturer or dealer lessor in connection with negotiation and arranging a lease shall
    a) be deferred and amortised over the lease term
    b) be deducted from revenue while recognizing revenue.

c) shall be capitalised

d) be recognized as an expense when the selling profit is recognized.

18. If low rate of interest has been quoted by the manufacturer or dealer lessor, selling profit shall be restricted to the amount determined,

    a) based on actual rate of interest charged.

    b) based on interest rate implicit in the lease.

    c) considering market rate of interest were charged.

    d) considering the borrowing rate for the lessor.

19. In case of sale and leaseback transaction results in finance lease, any excess of sales proceeds over the carrying amount shall

    a) be recognised immediately.

    b) be amortised over the economic life of the assets.

    c) be amortised over the useful life of the assets.

    d) shall be deferred and amortised over the lease term.

20. In case of sale and lease back transaction result in operating lease, if the fair value of transaction is less than the carrying amount of the asset,

    a) a loss equal to difference between the carrying amount and the fair value shall be recognized immediately.

    b) The profit or loss shall be amortised over the period, the asset is expected to be used.

    c) The profit or loss shall be recognised immediately.

    d) Profit or loss shall be amortised over the economic life of the assets.

21. Change in the estimates of the economic life or the residual value of the leased property

    a) results in new classification of lease.

    b) do not results in a new classification of a lease.

    c) results in lease being classified as operating lease.

    d) results in lease being classified as finance lease.

22. Assistance provided indirectly through action affecting the general trading conditions shall

    a) Be considered as Government assistance.

    b) Be considered as Government grant.

c) Not be considered as Government grant.

d) Be considered as grant relating to income.

23. Government assistance which cannot have a value placed upon them and transactions with government as normal trading transactions shall

a) not be regarded as Government grant.

b) be regarded as grant related to assets.

c) be regarded as grant related to income.

d) be regarded as subsidy, subventions or premium.

24. Government grants shall be recognised when

a) the grant is received.

b) the conditions attached to them have been complied irrespective of probability of receipt.

c) when entity becomes aware of the conditions to be complied.

d) there is a reasonable assurance that the entity will comply with the conditions attached to them and the grants will be received.

25. The benefit of Government loan in the form of below market rate of interest

a) cannot be treated as Government grant.

b) is treated as Government grant

c) is regarded as change in the normal trading transaction.

d) is regarding as benefit in the form of general trading condition.

26. Government grants shall be recognized in profit or loss

a) On receipt basis

b) shall not be recognised

c) over the periods in which the entity recognises as expenses the related costs for which the grants are intended to compensate.

d) all of the above

27. Under capital approach of accounting for government grants, government grants are

a) recognised outside profit or loss

b) recognised in profit or loss

c) recognised in trading account

d) not recognised.

28. Grant related to depreciable assets are
    a) recognized on receipt of grant.
    b) recognised over the periods and in proportions in which depreciation expenses on those assets is recognised.
    c) not recognised
    d) added to the cost of assets.
29. 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 shall
    a) be recognised in the year of receipt.
    b) not be recognised.
    c) be recognized in profit or loss of the period in which it becomes receivable.
    d) be capitalized in statement of equity.
30. Government grant in the form of non-monetary asset, for the use of the entity shall
    a) not be recognized in the books.
    b) be recognised at fair value of assets or at a nominal amount.
    c) be recognised at nominal amount.
    d) be recognised at fair value.
31. Government grants related to assets, including non-monetary grants at fair value, shall be presented in the balance sheet
    a) by setting up the grant as deferred income.
    b) by deducting the grant in arriving at the carrying amount of the asset.
    c) either by setting up the grant as deferred income or by deducting the grant in arriving at the carrying amount of the asset.
    d) other than by setting up the grant as deferred income or by deducting the grant in arriving at the carrying amount of the asset.
32. Purchase of assets and receipt of related grants are disclosed
    a) as single item in the statement of cash flow.
    b) as separate items in the statement of cash flow.
    c) Always as part of operating activity.
    d) Below the cash flow.

33. Grants related to income are presented as part of profit or loss,
    a) Separately.
    b) under the general heading as “other income”.
    c) deducted from the related expenses.
    d) either separately or under the general heading as “other income”, or they are deducted in reporting the related expenses.
34. Repayment of grant in respect of income shall be
    a) recognised by increasing the carrying amount of asset.
    b) recognised in profit or loss.
    c) first applied against any unamortised deferred credit in respect of grant. Any excess shall be recognised in profit or loss.
    d) recognised by reducing the deferred income balance related to asset.
35. Repayment of a grant related to an asset shall
    a) be recognised by increasing the carrying amount of the asset.
    b) be recognised by reducing the deferred income balance by the amount payable.
    c) be recognised in profit or loss.
    d) not be recognised.
36. Capital approach to government grants considers that government grants
    a) represents an incentive provided by government without related cost.
    b) represents receipt from source other than shareholders.
    c) are earned through compliance with conditions and meeting the envisaged obligation.
    d) are extension of government policy like income tax and other taxes.
37. Borrowing cost that do not form part of cost of asset,
    a) will be recognised as part of equity.
    b) will be recognised as part of other comprehensive income.
    c) shall not be recognised.
    d) will be recognised as expenses.

38. Investment income earned on temporary investment of specifically borrowed funds
    a) shall be recognized in profit or loss.
    b) shall be reduced from the amount of borrowing cost.
    c) shall be recognised in other comprehensive income.
    d) shall not be recognised.
39. The capitalization rate for the purpose of borrowing cost shall be
    a) the simple average of the borrowing costs applicable to the borrowing of the entity that are outstanding during the period.
    b) the risk free interest rate on government securities.
    c) the weighted average of the borrowing costs applicable to the borrowing of the entity that are outstanding during the period.
    d) incremental borrowing rate for the entity.
40. The amount of borrowing cost capitalize during the period
    a) shall not exceed the amount of borrowing cost it incurred during that period.
    b) shall not be recorded during the period.
    c) can exceed the amount of borrowing cost incurred during the period.
    d) shall also be expense out during the period.
41. The commencement date for capitalization is the date
    a) when the entity first incur expenditure, undertakes activities necessary to prepare the asset for its intended use or it incurs borrowing cost.
    b) when the entity first incur expenditure, undertakes activities necessary to prepare the asset for its intended use and it incurs borrowing cost.
    c) earlier of entity first incur expenditure, undertakes activities necessary to prepare the assets for its intended use and it incurs borrowing cost.
    d) when the entity incurs borrowing cost.
42. When the development activity of qualifying asset has been suspended the entity
    a) continue the capitalization of borrowing cost.
    b) the entity cease the capitalization of borrowing cost.
    c) suspends capitalization of borrowing cost.
    d) disclose the fact.

43. An entity shall cease capitalising borrowing costs

    a) when the development of the qualifying assets has been suspended.

    b) when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

    c) When the entity carry out substantial technical and administrative work.

    d) at will.

44. When an entity completes the construction of a qualifying asset in parts and each part is capable of being used while construction continues on other parts, the entity shall cease capitalising borrowing costs

    a) when it completes all the activities necessary to prepare the entire qualifying assets.

    b) when the development of the qualifying assets has been suspended.

    c) when the amount of borrowing cost reaches 10% of the cost of assets.

    d) when it completes substantially all the activities necessary to prepare that part for its intended use or sale.

45. Entity shall disclose in their financials

    a) the amount of borrowing cost capitalise and the capitalisation rate used to determine the amount of borrowing cost eligible for capitalisation.

    b) the amount of borrowing cost capitalise.

    c) the capitalisation rate used to determine the amount of borrowing cost eligible for capitalisation.

    d) the amount of borrowing cost capitalise or the capitalisation rate used to determine the amount of borrowing cost eligible for capitalisation.

46. A cash-generating unit is the

    a) largest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

    b) smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

    c) largest identifiable group of assets that generates cash inflows that are largely dependent of the cash inflows from other assets or groups of assets.

    d) smallest identifiable group of assets that generates cash inflows that are largely dependent of the cash inflows from other assets or groups of assets.

47. Present value of future cash flow expected to be derived from an asset or cash generating unit is

    a) recoverable amount.

    b) realisable value

    c) market value

    d) Value in use.

48. Intangible assets with an indefinite useful life to be tested for impairment

    a) only if there is any indication of impairment.

    b) annually, irrespectively of whether there is any indication that it may be impaired.

    c) semiannually, irrespectively of whether there is any indication that it may be impaired.

    d) only at the time of acquisition.

49. An impairment loss shall be recognized

    a) in profit or loss

    b) in other comprehensive income

    c) immediately in profit or loss, unless the asset is carried at revalued amount.

    d) in other comprehensive income, unless the assets is carried at revalued amount.

50. After the recognition of an impairment loss, the depreciation charge for the asset

    a) shall be adjusted in future periods to allocate the asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

    b) shall be adjusted retrospectively

    c) shall be adjusted in future periods to allocate the asset's revised carrying amount, on a systematic basis over its remaining useful life.

    d) shall not be adjusted.

51. the recoverable amount of a cash-generating unit is

    a) the higher of the cash-generating unit's fair value less costs of disposal and its value in use.

    b) the lower of the cash generating unit's fair value less costs of disposal and its value in use.

    c) either the cash generating unit's fair value less costs of disposal or its value in use.

    d) the higher of cash generating unit's carrying amount and its value in use.

52. The annual impairment test for a cash-generating unit to which goodwill has been allocated

    a) may be performed at any time during an annual period, provided the test is performed at the same time every year.

    b) shall be performed at the end of the reporting period.

    c) shall be performed once in five years.

    d) shall not be performed.

53. If the assets constituting the cash-generating unit to which goodwill has been allocated are tested for impairment at the same time as the unit containing the goodwill,

    a) unit shall be tested for impairment before the assets.

    b) unit shall not be tested for impairment.

    c) assets shall be tested for impairment before the unit containing the goodwill.

    d) Assets shall not be tested for impairment.

54. If corporate assets can be allocated on a reasonable and consistent basis to cash generating unit,

    a) the entity shall compare the carrying amount of the unit, excluding the portion of the carrying amount of the corporate assets, with its recoverable amount.

    b) the entity shall compare the carrying amount of the unit, including the portion of the carrying amount of the corporate assets, with its recoverable amount.

    c) the cash generating unit are not tested for impairment.

    d) the entity shall perform impairment testing once in 5 years.

55. Excess of impairment loss after allocating the impairment loss to goodwill,

    a) shall not be recognised

    b) shall be allocated to other assets, in the order of liquidity of assets.

    c) shall be allocated to other assets of the unit on pro-rata basis of the carrying amount of each asset in the unit.

    d) shall be allocated to other assets, one by one, up to the carrying amount of assets.

56. In allocating an impairment loss, an entity shall

    a) reduce the carrying amount to the lower of its fair value less cost of disposal or its value in use.

    b) not reduce the carrying amount of an asset below lower of its fair value less costs of disposal or its value in use.

c) not allocate impairment to assets.

d) not reduce the carrying amount of an asset below highest of its fair value less costs of disposal or its value in use.

57. Assets value in use has become greater than the carrying amount because the present value of future cash flow has increased as they become closer,

a) entity shall reversed the impairment loss to the extent of such increase in cash flow.

b) entity shall not reversed the impairment loss.

c) entity shall increase the value of asset to the value, had there been no impairment.

d) entity shall increase the value of assets to make it equal to assets value in use.

58. Reversal of impairment shall

a) not results in increase in carrying amount of an asset that would have been determined had no impairment loss have been recognized.

b) results in increase in carrying amount of an asset equal to fair value less cost of disposal.

c) results in increase in carrying amount of an asset equals to its value in use.

d) not results in increase in carrying amount.

59. Reversal of impairment in case of revalued assets other than goodwill

a) shall not be recognised.

b) shall be recognised in profit or loss.

c) shall be treated as a revaluation increase other than impairment loss on revalued assets was previously recognized in profit or loss.

d) shall be treated as increase in revaluation reserve.

60. An impairment loss for goodwill

a) shall not be recognised.

b) recognised earlier shall increase the carrying amount of an asset that would have been determined had no impairment loss have been recognised.

c) shall be allocated over other assets.

d) recognised earlier shall not be reversed in a subsequent period.

61. Entity shall disclose the main class of assets
    a) affected by impairment
    b) affected by impairment and main class of assets by reversals of impairment losses.
    c) affected by reversal of impairment losses.
    d) for which impairment has been tested.

62. Computer software for a computer-controlled machine tool that cannot operate without that specific software
    a) is treated as separate assets from related hardware and is treated as intangible assets.
    b) is treated as separate assets from related hardware and charged as expense in the period in which it is incurred.
    c) is treated as separate assets from related hardware and it treated as property plant and equipment.
    d) is an integral part of the related hardware and it is treated as property, plant and equipment.

63. The residual value of an intangible asset is the estimated amount that an entity would obtain
    a) at the end of its useful life 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.
    b) currently 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.
    c) currently from disposal of the asset, without 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.
    d) at the end of its useful life from disposal of the asset, without 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.

64. An intangible asset shall be measured initially
    a) at fair value.
    b) at cost.
    c) at replacement cost
    d) at net realisable value.

65. Cost incurred in redeploying an intangible asset

    a) is not included in the carrying amount of an intangible asset.

    b) is included in the carrying amount of an intangible asset.

    c) is recognised in other comprehensive income.

    d) is not recorded in the financials.

66. If payment for an intangible asset is deferred beyond normal credit terms, its cost is

    a) cash price equivalent and the difference between this amount and total payment is recognised as revenue over the period of credit terms.

    b) the total payment.

    c) cash price equivalent and the difference between this amount and total payment is recognised as interest expense over the period of credit terms.

    d) recognised when the amount is received.

67. If an intangible asset is acquired in a business combination, the cost of that intangible asset

    a) is the cost to the previous owner.

    b) is its fair value at the acquisition date.

    c) is the book value of assets on the date of acquisition.

    d) can be any amount allocated on this asset.

68. The probability recognition criterion is

    a) always considered to be satisfied for intangible assets acquired in business combinations.

    b) never considered to be satisfied for intangible assets acquired in business combinations.

    c) subject to certain terms and conditions is considered to be satisfied for intangible assets acquired in business combination.

    d) not the required criteria for the purpose of recognition of intangible assets.

69. Internally generated goodwill shall

    a) be recognized as asset at cost.

    b) be recognized at fair value of the asset.

    c) be recognized at replacement value of the assets.

    d) not be recognized.

70. Intangible asset arising from research phase shall

    a) be recognized at the cost

    b) not be recognized.

    c) be recognized at fair value of intangible asset.

    d) be recognized at net realizable value of the asset.

71. Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance shall

    a) be carried at net realisable value.

    b) be recognised at cost incurred in connection with creation of asset.

    c) not be recognised as intangible assets.

    d) be carried at fair value of the asset.

72. Expenditure on intangible assets shall

    a) be recognised as an expense unless the cost of intangible asset meets the recognition criteria.

    b) be recognised as assets unless the expenditure meets the criteria to be recognised as an expense.

    c) shall always be capitalised.

    d) shall always be expensed.

73. Expenditure on an intangible item that was initially recognised as an expense

    a) shall be reclassified as part of the cost of an intangible asset on completion of development phase.

    b) shall be reclassified as part of the cost of an intangible asset on completion of research phase.

    c) shall not be recognised as part of the cost of an intangible asset on completion of development phase.

    d) shall be reclassified to other comprehensive income.

74. If an intangible asset is accounted for using the revaluation model,

    a) all the other assets of an entity shall also be accounted for using the same model.

    b) all the other assets in its class shall also be accounted for using the same model.

    c) it does not affect the accounting of other assets in the same class.

    d) entity cannot follow revaluation model for property, plant and equipment.

75. Under cost model, intangible asset after initial recognition shall be carried at

    a) its cost less any accumulated depreciation and any accumulated impairment losses.

    b) revalued amount less any accumulated depreciation and any accumulated impairment losses.

    c) revalued amount.

    d) its cost.

76. If an intangible asset in a class of revalued intangible assets cannot be revalued because there is no active market for this asset,

    a) the asset shall be carried at Nil value.

    b) the asset shall be carried at its value in use.

    c) the asset shall be carried at nominal value.

    d) the asset shall be carried at its cost less any accumulated amortisation and impairment losses.

77. If an intangible asset's carrying amount is increased as a result of a revaluation,

    a) the increase shall be recognised in profit or loss account.

    b) the increase shall be recognised in other comprehensive income.

    c) the increase shall be reduced from property, plant and equipment.

    d) the increase shall not be recorded in the books of account.

78. If an intangible asset's carrying amount is decreased as a result of a revaluation,

    a) the decrease shall be recognised in profit or loss.

    b) the decrease shall be recognised in other comprehensive income.

    c) the revaluation cannot results in decrease in the value of intangible assets.

    d) the decrease shall not be recorded in the financials.

79. An intangible asset shall be regarded by the entity as having an indefinite useful life when,

    a) 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.

    b) management deems it fit.

    c) the life of an intangible asset is more than 10 years.

    d) the life of an intangible asset is more than 5 years.

80. If the contractual or other legal rights are conveyed for a limited term that can be renewed,

    a) the useful life of the intangible asset shall include the renewal period.

    b) the useful life of the intangible asset shall include the renewal period(s) only if there is evidence to support renewal by the entity without significant cost.

    c) the useful life of the intangible asset shall not include the renewal period.

    d) the useful life of the intangible assets shall include the renewal period(s) only if there is evidence to support renewal by the entity.

81. Useful life of an intangible asset is

    a) the higher of economic life and legal life of the asset.

    b) always deemed to be indefinite.

    c) the shorter of economic life and legal life of the asset.

    d) equal to the economic life of the asset.

82. Amortisation of an intangible asset shall cease

    a) at the later of date the asset is classified as held for sale and the date the asset is derecognised.

    b) when the asset is derecognised.

    c) when the asset is classified as held for sale.

    d) at the earlier of date the asset is classified as held for sale and the date the asset is derecognised.

83. The residual value of an intangible asset with a finite useful life shall

    a) be assumed to be zero.

    b) never assumed to be zero

    c) be calculated at estimated amount entity would received at the end of life from disposal of asset.

    d) is assumed to be 50% of the cost of the asset.

84. If an entity provides ancillary services to the occupants of property,

    a) such property shall be treated as investment property only if the services are insignificant to the arrangement as a whole.

    b) such property shall not be treated as investment property.

    c) such property shall be treated as investment property even if the services forms significant part of the arrangement as a whole.

    d) such property shall be regarded as property, plant and equipment.

85. In case an investment property have been transferred to owner-occupied property or inventories,

    a) its fair value at the date of change shall be deemed cost.

    b) it does not change the carrying amount of the property or cost of the property transferred.

    c) its realizable value on the date of transfer shall be the deemed cost.

    d) its replacement value on the date of transfer shall be the deemed cost.

86. Compensation from third parties for investment property that was impaired, lost or given up shall

    a) be recognised in other comprehensive income when the compensation becomes receivable.

    b) not be recognised until the compensation is received.

    c) be recognised in profit or loss when the compensation becomes receivable.

    d) be recognised in profit or loss when the compensation is received.

87. Agricultural produce is the

    a) harvested product of the entity's biological assets.

    b) by-product of the entity's biological assets.

    c) joint product of the entity's biological assets.

    d) waste product generated from entity's biological assets.

88. Costs to sell are

    a) the harvested product of the entity's biological assets.

    b) the incremental costs directly attributable to the disposal of an asset, including finance costs and income taxes.

    c) direct or indirect cost attributable to the disposal of an asset.

    d) price that would be received to sell an asset or paid to transfer a liability in an orderly transaction.

89. Disposal group is a group of assets

    a) to be disposed of, by sale or otherwise, together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction.

    b) already disposed off, by sale or otherwise, together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction.

c) that cannot be disposed off by the entity.

d) for which contract of sale has been done by the entity.

90. Value in use is the present value of estimated future cash flows expected to arise from

a) the continuing use of an asset

b) from the disposal at the end of its useful life.

c) the continuing use of an asset or from its disposal at the end of its useful life.

d) the continuing use of an asset and from its disposal at the end of its useful life.

91. An entity shall measure a non-current assets classified as held for sale at

a) the lower of its carrying amount and fair value less cost to sell.

b) fair value less cost to sell.

c) carrying amount.

d) its replacement value.

92. When the disposal group sale is expected to occur beyond one year, the entity shall

a) not classify it as disposal group

b) measure the cost to sell at their present value.

c) measure it at carrying amount

d) measure it at fair value less cost to sell.

93. An entity shall

a) depreciate a non-current assets while it is classified as held for sale at an accelerate rate.

b) not depreciate a non-current assets while it is classified as held for sale.

c) depreciate a non-current assets using SLM when it is classified as held for sale.

d) depreciate a non-current assets using WDV when it is classified as held for sale.

94. The entity shall measure the non-current assets that cease to be classified as held for sale at

a) the lower of carrying amount before the asset was so classified.

b) fair value on the date the assets so cease to be classified as held for sale.

c) the lower of carrying amount before the asset was so classified adjusted for depreciation, amortisation or revaluations and its recoverable amount.

d) book value on the date the assets so cease to be classified as held for sale.

95. Any gain or loss on re-measurement of disposal group, that no longer meet the definition of discontinued operation, shall

    a) be included as income from discontinuing operation.

    b) be included as income from continuing operation.

    c) be included as income in other comprehensive income

    d) not be accounted.

96. The assets and liabilities of discontinuing operation shall

    a) be presented as separate statement in the financials along with Balance sheet

    b) not be presented in the financials.

    c) be presented in statement of profit & loss

    d) be offset and presented as a single amount in the financial statement.

97. An extension of period required to complete the sale

    a) cause entity not to classify discontinued operation, until it is disposed off.

    b) does not preclude an asset from being classified as held for sale if delay is caused beyond entity control and entity remains committed to its plan to sell the asset.

    c) shall results in change in classification of asset classified as held for sale.

    d) requires permission from Ministry of Companies Affairs.

98. Inventories comprising agricultural produce that an entity has harvested from its biological assets are measured on initial recognition at their fair value less cost to sell at _________.

    a) The date of sell
    b) Point of Harvest
    c) the date goods reached the godown
    d) Post Harvest

99. __________ costs are based on normal level of output, and should be reviewed and revised regularly.

    a) Marginal
    b) Fixed
    c) Variable
    d) Standard

100. Cost is the amount of cash and cash equivalent paid or the ____________ of the other consideration given to acquire an asset at the time of its acquisition or construction or, where applicable, the amount attributable to that asset when initially recognized in accordance with the specific requirements of other Ind ASs.

    a) Cost
    b) fair value
    c) carrying amount
    d) Present value

101. ______________ is the cost of an asset, or other amount substituted for cost, less its residual value.

a) Carrying amount
b) fair value
c) present value
d) depreciable amount

102. __________ is the systematic allocation of the depreciable amount of an asset over its useful life.

a) Residual value
b) depreciation
c) carrying amount
d) cost of assets

103. Entity-specific value is the ______________ of the cash flows an entity expects to arise from the continuing use of an asset and from its disposal at the end of its useful life or expects to incur when settling a liability.

a) Fair value
b) replacement value
c) present value
d) current value

104. An ________________ is the amount by which the carrying amount of an asset exceeds its recoverable amount.

a) Impairment
b) Depreciation
c) Residual value
d) depreciable amount

105. Property, plant and equipment are ________ items that are held for use in the production or supply of goods or services for rental to others, or for administrative purpose; and are expected to be used during more than one period.

a) Intangible
b) useful
c) tangible
d) both tangible and intangible

106. __________ is the period over which an asset is expected to be available for use by the entity; or the number of production or similar units expected to be obtained from the asset by the entity.

a) Economic life
b) useful life
c) 20 years
d) available life

107. If payment of property, plant and equipment is deferred beyond normal credit terms, the difference between the cash price equivalent and the total payment is recognized as interest over the period of credit unless such interest is ________.

a) Deferred
b) expenses at the end of life
c) capitalized
d) treated as income

108. After recognition as an asset, an item of property, plant and equipment shall be carried at its cost less any accumulated depreciation and ________________________.

a) Accumulated impairment loss
b) residual value
c) Impairment loss
d) reduction other than temporary

109. Compensation from third parties for items of property, plant and equipment that were impaired, lost or given up shall be included in ________ when the compensation becomes receivable.

a) Liabilities
b) Assets
c) Profit and loss
d) other components of equity

110. The carrying amount of an item of property, plant and equipment shall be derecognized on __________ or when no future economic benefits are expected from its use or disposal.

a) Last day of the financial year
b) insolvency
c) end of reporting period
d) disposal

111. The gain or loss arising from the derecognition of an item of property, plant and equipment shall be included in _________________ when the item is derecognized.

a) Profit or loss
b) statement of change in equity
c) Balance sheet
d) other comprehensive income

112. If payment of an item is deferred the consideration received is recognized initially at the ___________________.

a) Fair value of assets given
b) cash price equivalent
c) fair value of assets received
d) amount of consideration

113. A _______ is an arrangement whereby the lessor conveys to the lessee in return for a payment or series of payments the right to use an assets for an agreed period of time.

a) Sale
b) Sale-leaseback
c) Lease
d) finance lease

114. A _______________ is a lease that transfer substantially all the risks and rewards incidental to ownership of an asset. Title may or may not be transferred.

a) Operating lease
b) Finance lease
c) Sale-leaseback
d) non-cancellable lease

115. An operating lease is a lease other than ________________.

a) Finance lease
b) sale-leaseback
c) non-cancellable lease
d) sale

116. __________________ is the earlier of the date of the lease agreement and the date of commencement by the parties to the principal provisions of the lease.

a) Commencement of lease b) inception of lease

c) renewal of lease d) term of lease

117. _________________is the non-cancellable period for which the lessee has contracted to lease the asset together with any further terms for which the lessee has the option to continue to lease the asset, with or without further payment, when at the inception of the lease it is reasonably certain that the lessee will exercise the option.

a) Commencement of lease b) Inception of lease

c) Lease term d) renewal of lease

118. ____________ is the amount for which an asset could be exchanged, or a liability settled between knowledgeable willing parties in an arm's length transaction.

a) Carrying value b) replacement value

b) Cost of assets d) fair value

119. ________________ is either the period over which an asset is expected to be economically usable by one or more users or the number of production or similar units expected to be obtained from the asset by one or more users.

a) Useful life b) Economic life

c) Depreciable period d) Lease term

120. _____________ is the estimated remaining period over which the economic benefits embodied in the asset are expected to be consumed by the entity.

a) Useful life b) Economic life

c) Depreciable period d) Lease term

121. ____________________ is the gross investment in the lease discounted at the interest rate implicit in the lease.

a) Minimum lease payment b) fair value of leased asset

c) Net investment in the lease d) Guaranteed residual value

122. Unearned finance income is the difference between the gross investment in the lease and ___________________.

a) Minimum lease payment b) fair value of leased asset

c) Net investment in the lease d) Guaranteed residual value

123. ____________________ is that portion of the lease payment which is based on the future amount of a factor those changes other than with passage of time.

a) Initial direct cost b) contingent rent

c) incremental borrowing rate d) unguaranteed residual value

124. Classification of lease is based on the extent to which ________________ incidental to ownership of a leased asset lie with the lessor or the lessee.

a) Risks and rewards b) risk

c) reward d) risk or reward

125. Finance lease shall be accounted for as _______________ in the Balance Sheet.

a) Assets b) Liabilities

c) Assets or Liabilities d) Assets and Liabilities

126. Discounting rate to be used in calculating the present value of minimum lease payment is the interest rate implicit in the lease, if impracticable, ________________ shall be used.

a) Bank rate b) incremental borrowing rate

c) Lessee net rate of return d) Lessors net rate of return.

127. Underlying principle behind accounting for finance lease is ________________.

a) Matching principle b) accrual concept

c) substance over form d) periodic concept.

128. The lessee's ________________ is the rate of interest the lessee would have to pay on a similar lease or, if that is not determinable, the rate that, at the inception of the lease, the lessee would incur to borrow over a similar term, with a similar security, the funds necessary to purchase the asset.

a) Net rate of return b) Incremental borrowing rate of interest

c) Bank rate d) overall borrowing rate of interest

129. Lease payment shall be apportioned between the _______________ and the reduction of the outstanding liability.

a) Finance charge b) Increase in assets

c) reduction in assets d) deferred revenue

130. Lease payments under an operating lease shall be recognized as an expense on a ________________ over the lease term in the books of lessee.

a) Reasonable basis
b) cash basis
c) written down value basis
d) Straight line basis

131. Lessor shall recognized assets held under a finance lease in their Balance Sheet as a ___________________ at an amount equal to net investment in the lease.

a) Liabilities
b) Receivable
c) Property plant and equipment
d) Capital

132. Lease payment under finance lease is treated by the lessor as repayment of principal and ____________.

a) Creation of assets
b) reduction of assets
c) finance income
d) finance charge

133. ___________________ are included in the initial measurement of the finance lease receivable in the books of the lessor.

a) Contingent rent
b) Initial direct cost
c) General overhead
d) Sales and marketing expenses

134. Manufacturer or dealer lessor shall recognized the selling profit or loss for ______________.

a) Economic loss
b) operating lease
c) outright sale
d) finance lease

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

a) Government
b) Government assistance
c) Government participation
d) Government grant.

136. _________________ is action by Government designed to provide an economic benefit specific to an entity or range of entities qualifying under certain criteria.

a) Government
b) Government assistance
c) Government participation
d) Government grant

137. _________________ are assistance by government in the forms of transfers of resources to an entity in return for past or future compliance with certain conditions relating to operating activities of an entity.

a) Grant related to assets
b) Grant related to income
c) Government participation
d) Government grant

138. Grants related to assets are Government grants whose primary condition is that an entity qualifying for them shall purchase, construct or otherwise acquire ____________________.

a) Assets b) Building

c) Long term asset d) Machinery

139. Grants related to income are Government grants other than those related to _________.

a) Assets b) liabilities

c) Government assistance d) income

140. ________________ are the loans which the lender undertakes to waive repayment of under certain prescribed conditions.

a) Grant related to income b) Grant related to asset

c) Forgivable loans d) Government assistance

141. ________________ that are directly attributable to the acquisition, construction or production of a qualifying asset form part of the cost of the asset.

a) Discounts b) decoration of property

c) Any cost d) borrowing cost

142. ________________ is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale.

a) Financial assets b) financial inventories

c) qualifying assets d) Assets ready for use when acquired

143. To the extent that an entity borrows funds specifically for the purpose of obtaining a qualifying asset, the entity shall determine the amount of borrowing costs eligible for capitalisation as the _______________________ incurred on that borrowing during the period.

a) Capitalization rate multiply by amount of borrowing

b) Actual borrowing cost

c) No borrowing cost

d) 10% of cost of asset

144. If an entity borrow funds generally and use the funds for the purpose of obtaining a qualifying asset, the entity shall determine the amount of borrowing cost to be capitalise by applying _______________ to the expenditures on that assets.

a) Highest borrowing rate b) capitalisation rate

c) lowest borrowing rate d) 10%

145. An entity shall begin capitalising borrowing costs as part of the cost of a qualifying asset on the __________________ date.

a) Commencement b) suspension
c) cessation d) borrowing

146. _______________ is the amount at which an asset is recognised after deducting any accumulated depreciation (amortisation) and accumulated impairment losses thereon.

a) Cost of assets b) carrying amount
c) value in use d) fair value less cost of disposal

147. Costs of disposal are ______________ directly attributable to the disposal of an asset or cash-generating unit, excluding finance costs and income tax expense.

a) Variable cost b) fixed cost
c) insignificant cost d) incremental cost

148. An impairment loss is the amount by which the carrying amount of an asset or a cash-generating unit exceeds its __________________.

a) Fair value b) value in use
c) Recoverable amount d) fair value less cost of disposal

149. The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less __________and its value in use.

a) Cost of disposal b) carrying amount
c) recoverable amount d) variable cost

150. An assessment of impairment shall be assessed at the end of each ________________.

a) Interim period b) reporting period
c) calendar year d) 5 year

151. Impairment loss is recognized shall be recognized if carrying amount is less than both fair value less cost of disposal and its ________________.

a) Net realizable value b) Market value
c) cost of assets d) value in use

152. Estimates the value in use of an asset involves estimates the future __________ and ________ from continuing use of an assets and from its ultimate disposal and applying the appropriate discount rate.

a) Revenue, expenses b) inflow, outflow
c) Purchase value, NRV d) Sale value, NRV

153. A _____________ is a programme that is planned and controlled by management and materially change either the scope of the business undertaken by an entity or the manner in which the business is conducted.

a) Restructuring | b) Annual General Meeting

c) General Meeting | d) incorporation

154. Impairment loss of a revalued asset shall be treated as decrease in _____________________.

a) Profit during the period | b) loss during the period

c) revaluation reserve | d) cost of asset

155. An impairment loss shall be allocated to reduce the carrying amount of the assets firstly to reduce the carrying amount of any _____________ allocated to the cash generating unit.

a) Assets | b) liabilities

c) profit | d) goodwill

156. An impairment loss recognised in prior periods for an asset other than goodwill shall be reversed if, and only if, there has been a change in the estimates used to determine the asset's ___________since the last impairment loss was recognised.

a) Recoverable amount | b) fair value less cost of disposal

c) Value in use | d) carrying amount

157. A reversal of an impairment loss for a cash generating unit shall be allocated to the assets of the unit, except for goodwill, pro rata with the ____________ of those assets.

a) Fair value | b) carrying amount

c) Value in use | d) Net realizable amount

158. Amortisation is the systematic allocation of the _______________ of an intangible asset over its useful life.

a) Depreciation | b) depreciable amount

c) residual value | d) impairment loss

159. ___________ is a resource controlled by an entity and from which future economic benefits are expected to flow to the entity.

a) Income | b) comprehensive income

c) Assets | d) Liabilities

160. ____________ is the application of research findings or other knowledge to a plan or design for the production of new or substantially improved materials, devices, products, processes, systems or services before the start of commercial production or use.

a) Development b) Amortisation

c) Asset d) Monetary asset

161. An _________________ is an identifiable non-monetary asset without physical substance.

a) Monetary Assets b) Impairment loss

c) Entity specific value d) Intangible asset

162. ______________ is original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding.

a) Research b) Entity specific value

c) Development d) Exchange of asset

163. An intangible asset shall be recognised if, and only if it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity and the ___________ can be measured reliably.

a) Entity specific value b) cost of the asset

c) realizable value d) replacement value

164. Cost of separately acquired intangible asset comprises of its purchase price and any _____________ cost of preparing the asset for its intended use.

a) Directly attributable b) indirect

c) standard d) other

165. One or more intangible assets may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets, such intangible asset is measured at __________.

a) Cost of assets given b) book value of assets given

c) realizable value of asset given d) fair value

166. If an entity adopts revaluation model of intangible assets, revaluation shall be done with such regularity that at the end of the reporting period the carrying amount of the asset shall not differ _____________ from its fair value.

a) insignificantly b) materially

c) residual value d) thereon

167. The depreciable amount of an intangible asset with finite useful life shall be allocated on systematic basis over its ______________.

a) Economic life b) contractual life

c) useful life d) management estimate

168. Change in the amortisation method of an intangible asset shall be accounted for as change in accounting _________.

a) Estimate b) policy

c) error d) standard

169. An intangible asset shall be derecognised on _______ or when no future economic benefits are expected from its use.

a) Recognition b) disposal

c) end of its useful d) end of its economic life

170. Gain or loss arising from derecognition of an intangible asset shall be recognised in _____________ when the asset is derecognised.

a) Other comprehensive income b) balance sheet

c) profit or loss d) cash flow

171. _______________ is the property held to earn rentals or for capital appreciation or both.

a) Investment property b) Owners occupied property

c) Inventories d) Property, plant and equipment.

172. __________________ is property held for use in the production or supply of goods or services or for administrative purpose.

a) Investment property b) Owners occupied property

c) Inventories d) Operating lease

173. An investment property shall be measured initially at _______.

a) Fair value b) Net realisable value

c) Replacement cost d) Cost

174. Gains or losses arising from the retirement or disposal of investment property shall be determined as the difference between the net disposal proceeds and the carrying amount of the asset and shall be recognised in profit or loss in the period of _____________

a) end of useful life b) end of economic life

c) retirement or disposal d) acquisition

175. _______________ is the management by an entity of the biological transformation and harvest of biological assets for sale or for conversion into agricultural produce or into additional biological assets.

a)	Agricultural activity	b)	Agricultural produce
c)	Biological transformation	d)	cost to sell

176. A _________________ is a living animal or plant.

a)	Bearer plant	b)	biological plant
c)	harvest	d)	Group of biological assets

177. __________________ comprises the processes of growth, degeneration, production and procreation that cause qualitative or quantitative changes in a biological asset.

a)	Harvest	b)	Agricultural activity
c)	Biological transformation	d)	bearer plant

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

a)	Harvest	b)	Agricultural activity
c)	Biological transformation	d)	bearer plant

179. Costs to sell are the incremental cost directly attributable to the disposal of an asset, excluding ___________ and income tax expense.

a)	Selling cost	b)	General expense
c)	finance cost	d)	Administrative expense

180. Operations and cash flow that can be clearly distinguished operationally and for financial purpose from rest of the entity is ___________.

a)	Component of the entity	b)	Subsidiary
c)	Associate of entity	d)	Joint Venture of the entity

181. An assets that does not meet the definition of current asset is _____________

a)	Current liability	b)	Non-current assets
c)	Non-current liability	d)	fixed assets

Solutions of MCQs

1. d) Retail method is used.
2. b) FIFO or Weighted average method
3. b) recognised as expense in the period the written down or loss occurs.

4. b) shall be recognised as expenses.

5. c) shall be capitalized.

6. a) not be capitalized to the cost of property, plant and equipment.

7. d) be recognised in profit or loss account.

8. a) not included in the cost of the asset.

9. b) the entire class to which that asset belongs will also be revalued.

10. a) Commencement of lease.

11. d) the lessee or any party related to the lessee.

12. b) inception of the lease.

13. c) not be presented as deduction from lease assets.

14. a) charged as expense in the period in which it is incurred.

15. b) be consistent with that for depreciation assets that are owned.

16. a) lower of the lease term and its useful life.

17. d) be recognized as an expense when the selling profit is recognized.

18. c) considering market rate of interest were charged.

19. d) shall be deferred and amortised over the lease term.

20. a) a loss equal to difference between the carrying amount and the fair value shall be recognized immediately.

21. b) do not results in a new classification of a lease.

22. c) Not be considered as Government grant.

23. a) not be regarded as Government grant.

24. d) there is a reasonable assurance that the entity will comply with the conditions attached to them and the grants will be received.

25. b) is treated as Government grant

26. c) over the periods in which the entity recognises as expenses the related costs for which the grants are intended to compensate.

27. a) recognised outside profit or loss

28. b) recognised over the periods and in proportion in which depreciation expenses on those assets is recognised.

29. c) be recognized in profit or loss of the period in which it becomes receivable.

30. d) be recognised at fair value

31. a) by setting up the grant as deferred income.

32. b) as separate items in the statement of cash flow.

33. d) either separately or under the general heading as “other income”, or they are deducted in reporting the related expenses.

34. c) first applied against any unamortised deferred credit in respect of grant. Any excess shall be recognised in profit or loss

35. b) be recognised by reducing the deferred income balance by the amount payable

36. a) represents an incentive provided by government without related cost.

37. d) will be recognised as expenses

38. b) shall be reduced from the amount of borrowing cost.

39. c) the weighted average of the borrowing costs applicable to the borrowing of the entity that are outstanding during the period.

40. a) shall not exceed the amount of borrowing cost it incurred during that period.

41. b) when the entity first incur expenditure, undertakes activities necessary to prepare the asset for its intended use and it incurs borrowing cost.

42. c) suspends capitalization of borrowing cost.

43. b) when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

44. d) when it completes substantially all the activities necessary to prepare that part for its intended use or sale.

45. a) the amount of borrowing cost capitalise and the capitalisation rate used to determine the amount of borrowing cost eligible for capitalisation.

46. b) smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

47. d) Value in use.

48. b) annually, irrespectively of whether there is any indication that it may be impaired.

49. c) immediately in profit or loss, unless the asset is carried at revalued amount.

50. a) shall be adjusted in future periods to allocate the asset’s revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

51. a) the higher of the cash-generating unit’s fair value less costs of disposal and its value in use.

52. a) may be performed at any time during an annual period, provided the test is performed at the same time every year.

53. c) assets shall be tested for impairment before the unit containing the goodwill.

54. b) the entity shall compare the carrying amount of the unit, including the portion of the carrying amount of the corporate assets, with its recoverable amount.

55. c) shall be allocated to other assets of the unit on pro-rata basis of the carrying amount of each asset in the unit.

56. d) not reduce the carrying amount of an asset below highest of its fair value less costs of disposal or its value in use.

57. b) entity shall not reversed the impairment loss.

58. a) not results in increase in carrying amount of an asset that would have been determined had no impairment loss have been recognized.

59. c) shall be treated as a revaluation increase other than impairment loss on revalued assets was previously recognized in profit or loss.

60. d) recognised earlier shall not be reversed in a subsequent period.

61. b) affected by impairment and main class of assets by reversals of impairment losses.

62. d) is an integral part of the related hardware and it is treated as property, plant and equipment.

63. b) currently 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.

64. b) at cost

65. a) is not included in the carrying amount of an intangible asset.

66. c) cash price equivalent and the difference between this amount and total payment is recognised as interest expense over the period of credit terms.

67. b) is its fair value at the acquisition date.

68. a) always considered to be satisfied for intangible assets acquired in business combinations.

69. d) not be recognized.

70. b) not be recognized.

71. c) not be recognised as intangible assets.

72. a) be recognised as an expense unless the cost of intangible asset meets the recognition criteria.

73. c) shall not be recognised as part of the cost of an intangible asset on completion of development phase.

74. b) all the other assets in its class shall also be accounted for using the same model.

75. a) its cost less any accumulated depreciation and any accumulated impairment losses.

76. d) the asset shall be carried at its cost less any accumulated amortisation and impairment losses.

77. b) the increase shall be recognised in other comprehensive income.

78. a) the decrease shall be recognised in profit or loss.

79. a) 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.

80. b) the useful life of the intangible asset shall include the renewal period(s) only if there is evidence to support renewal by the entity without significant cost.

81. c) the shorter of economic life and legal life of the asset.

82. d) at the earlier of date the asset is classified as held for sale and the date the asset is derecognised.

83. a) be assumed to be zero.

84. a) such property shall be treated as investment property only if the services are insignificant to the arrangement as a whole.

85. b) it does not change the carrying amount of the property or cost of the property transferred.

86. c) be recognised in profit or loss when the compensation becomes receivable.

87. a) harvested product of the entity's biological assets.

88. b) the incremental costs directly attributable to the disposal of an asset, including finance costs and income taxes.

89. a) to be disposed of, by sale or otherwise, together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction.

90. d) the continuing use of an asset and from its disposal at the end of its useful life.

91. a) the lower of its carrying amount and fair value less cost to sell.

92. b) measure the cost to sell at their present value.

93. b) not depreciate a non-current assets while it is classified as held for sale.

94. c) the lower of carrying amount before the asset was so classified adjusted for depreciation, amortisation or revaluations and its recoverable amount.

95. b) be included as income from continuing operation.

96. d) be offset and presented as a single amount in the financial statement.

97. b) does not preclude an asset from being classified as held for sale if delay is caused beyond entity control and entity remains committed to its plan to sell the asset.

98. b) The point of harvest

99. d) Standard

100. b) Fair value

101. d) Depreciable amount

102. b) Depreciation

103. c) Present value

104. a) Impairment loss

105. c) Tangible items

106. b) Useful life

107. c) Capitalised

108. a) accumulated Impairment losses

109. c) Profit and loss

110. d) Disposal

111. a) Profit or loss

112. b) Cash price equivalent

113. c) Lease

114. b) Finance lease

115. a) Finance lease

116. b) Inception of the lease

117. c) Lease term

118. d) Fair Value

119. b) Economic Life

120. a) Useful Life

121. c) Net investment in the lease

122. c) Net investment in the lease

123. b) Contingent rent
124. a) Risks and rewards
125. d) Assets and liabilities
126. b) Incremental borrowing rate
127. c) Substance over form
128. b) Incremental borrowing rate of interest
129. a) Finance charge
130. d) Straight line basis
131. b) Receivable
132. c) Finance income
133. b) Initial direct cost
134. c) Outright sale
135. a) Government
136. b) Government assistance
137. d) Government grants
138. c) Long term assets
139. a) Assets
140. c) Forgivable loans
141. d) Borrowing cost
142. c) Qualifying assets
143. b) Actual borrowing cost
144. b) Capitalisation rate
145. a) Commencement
146. b) Carrying amount
147. d) Incremental cost
148. c) Recoverable amount
149. a) Cost of disposal
150. b) Reporting period
151. d) Value in use
152. b) Inflow and outflow
153. a) Restructuring

154. c) Revaluation reserve
155. d) Goodwill
156. a) recoverable amount
157. b) carrying amounts
158. b) Depreciable amount
159. c) Asset
160. a) Development
161. d) Intangible asset
162. a) Research
163. b) Cost of the asset
164. a) Directly attributable
165. d) Fair value
166. b) Materially
167. c) Useful life
168. a) Estimate
169. b) Disposal
170. c) Profit or loss
171. a) Investment Property
172. b) Owner occupied property
173. d) Cost
174. c) Retirement or disposal
175. a) Agricultural activity
176. b) Biological asset
177. c) Biological transformation
178. a) Harvest
179. c) Finance cost
180. a) Component of the entity
181. b) Non-current asset

Chapter 8
Recognition, Measurement, Presentation & Disclosure of Income

Income is defined in the Framework for the Preparation and Presentation of Financial Statements (issued by ICAI) as increases in economic benefits during the accounting period in the form of inflows or enhancements of assets or decreases of liabilities that result in increases in equity, other than those relating to contributions from equity participants.

Income encompasses both revenue and gains.

Income is dealt with under the following standards

1. Ind AS 11: Construction Contracts, including
   - Appendix A to Ind AS 11: Service Concession Arrangements;
   - Appendix B to Ind AS 11: Service Concession Arrangements- Disclosures.
2. Ind AS 18: Revenue, including
   - Appendix A to Ind AS 18: Revenue—Barter Transactions Involving Advertising Services;
   - Appendix B to Ind AS 18: Customer Loyalty Programmes;
   - Appendix C to Ind AS 18: Transfers of Assets from Customers.
3. Ind AS 114: Regulatory Deferral Accounts

MCA which had earlier notified Ind AS 115 Revenue from Contracts with Customers, decided to defer its application to 1st April 2018 and thus issued Companies (Indian Accounting Standards) Rules 2016 wherein Ind AS 18 and Ind AS 11 are notified and Ind AS 115 has been removed.

I. Ind AS 11: CONSTRUCTION CONTRACTS

A construction contract is a contract specifically negotiated for the construction of

1. An asset, or
2. 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 shall 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, shall 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 shall 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 shall 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).

APPENDIX A TO IND AS 11: SERVICE CONCESSION ARRANGEMENTS

A service concession arrangement is an arrangement whereby a government or other public sector body contracts with a private operator to develop (or upgrade), operate and maintain the grantor's infrastructure assets such as roads, bridges, tunnels, airports, energy distribution networks, prisons or hospitals. The grantor controls or regulates what services the operator must provide using the assets, to whom, and at what price, and also controls any significant residual interest in the assets at the end of the term of the arrangement.

There are two types of service concession arrangement

i. Where the operator receives a **financial asset**, specifically an unconditional contractual right to receive a specified or determinable amount of cash or another financial asset from the government in return for constructing or upgrading a public sector asset, and then operating and maintaining the asset for a specified period of time. This category includes guarantees by the government to pay for any shortfall between amounts received from users of the public service and specified or determinable amounts.

ii. Where, the operator receives an **intangible asset** – a right to charge for use of a public sector asset that it constructs or upgrades and then must operate and maintain for a specified period of time. A right to charge users is not an unconditional right to receive cash because the amounts are contingent on the extent to which the public uses the service.

Accounting Treatment

Financial asset	Intangible asset
The asset is recognized to the extent that it has an unconditional contractual right to receive cash or another financial asset from or at the direction of the grantor for the construction services	The asset is recognized to the extent that it receives a right (a licence) to charge users of the public service

In both cases, the asset is measured at fair value.

APPENDIX B TO IND AS 11: DISCLOSURE – SERVICE CONCESSION ARRANGEMENTS

The following should be disclosed in each period:

- A description of the arrangement;
- Significant terms of the arrangement that may affect the amount, timing and certainty of future cash flows (such as the period of the concession, re-pricing dates, and the basis on which re-pricing or re-negotiation is determined);
- The nature and extent (quantity, time period, or amount, as appropriate) of:
  - Rights to use specified assets;
  - Obligations to provide or rights to expect provision of services;
  - Obligations to acquire or build items of property, plant and equipment;
  - Obligations to deliver or rights to receive specified assets at the end of the concession period;
  - Renewal and termination options; and
  - Other rights and obligations (for instance, major overhauls); and
- Changes in the arrangement occurring during the period.

II. 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. For example, an entity may provide interest free credit to the buyer or accept a note receivable bearing a below-market interest rate from the buyer as consideration for the sale of goods. 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.

Disclosure

i. Accounting policy for recognising revenue

ii. Amount of each of the following types of revenue:

  a) Sale of goods

  b) Rendering of services

  c) Interest

  d) Royalties

  e) Dividends

  f) Within each of the above categories, the amount of revenue from exchanges of goods or services

AGREEMENTS FOR THE CONSTRUCTION OF REAL ESTATE

In IFRS accounting practice across jurisdictions for the recognition of revenue by real estate developers for sales of units, such as apartments or houses, 'off plan' – that is, before construction is complete is dealt in IFRIC 15. However, MCA has not notified this Interpretation. Nevertheless, a footnote has been included specifying that the Guidance Note on the subject being issued by the Institute of Chartered Accountants of India shall be followed.

APPENDIX A TO IND AS 18: REVENUE - BARTER TRANSACTIONS INVOLVING ADVERTISING SERVICES

Ind AS 18 stipulates revenue cannot be recognised if the amount of revenue is not reliably measurable. Revenue from a barter transaction involving advertising cannot be measured reliably at the fair value of advertising services received. However, a seller can reliably measure revenue at the fair value of the advertising services it provides in a barter transaction by reference only to non-barter transactions that:

- Involve advertising similar to the advertising in the barter transaction;
- Occur frequently;

- Represent a predominant number of transactions and amount when compared to all transactions to provide advertising that is similar to the advertising in the barter transaction;
- Involve cash and/or another form of consideration (such as marketable securities, non-monetary assets, and other services) that has a reliably measurable fair value; and
- Do not involve the same counterparty as in the barter transaction.

APPENDIX B TO IND AS 18: CUSTOMER LOYALTY PROGRAMMES

It explains how such entities should account for their obligations to provide free or discounted goods or services [points or travel miles] to customers who redeem award credits.

Key provisions

- An entity that grants loyalty award credits shall allocate some of the proceeds of the initial sale to the award credits as a liability (its obligation to provide the awards). In effect, the award is accounted for as a separate component of the sale transaction.
- The amount of proceeds allocated to the award credits is measured by reference to their fair value, that is, the amount for which the award credits could have been sold separately.
- The entity shall recognise the deferred portion of the proceeds as revenue only when it has fulfilled its obligations. It may fulfil its obligations either by supplying the awards itself or by engaging (and paying) a third party to do so.
- If at any time the expected costs of meeting the obligation exceed the consideration received, the entity has an onerous contract for which Ind AS 37 would require recognition of a liability.
- If this appendix causes an entity to change its accounting policy for customer loyalty awards, Ind AS 8 applies.

APPENDIX C TO IND AS 18: TRANSFERS OF ASSETS FROM CUSTOMERS

Appendix C to Ind AS 18 applies to the accounting for transfers of items of property, plant and equipment by entities that receive such transfers from their customers

- Agreements within the scope of this Appendix are agreements in which an entity receives from a customer an item of PPE that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services, or to do both.
- It also applies to agreements in which an entity receives cash from a customer when that amount of cash must be used only to construct or acquire an item of PPE and the entity must then use the item of PPE either to connect the customer to a network or

to provide the customer with ongoing access to a supply of goods or services, or to do both.

Issues

This Appendix addresses the following issues for assets transferred from customers:

- Is the definition of an asset met?
- If the definition of an asset is met, how should the transferred item of property, plant and equipment (PPE) be measured on initial recognition?
- If the item of PPE is measured at fair value on initial recognition, how should the resulting credit be accounted for?
- How should the entity account for a transfer of cash from its customer?

Accounting Policies

IS THE DEFINITION OF AN ASSET MET?

- When an entity receives a transfer of an item of PPE from a customer, it assesses whether the transferred item meets the definition of an asset in accordance with the Framework. In most circumstances, the entity obtains the right of ownership of the transferred item of PPE. However, in determining whether an asset exists, the right of ownership is not essential. If the customer continues to control the transferred item, the asset definition would not be met despite a transfer of ownership.
- An entity that controls an asset can generally deal with that asset as it pleases. The entity that receives a transfer of an item of PPE from a customer is required to consider all relevant facts and circumstances when assessing control of the transferred item.

MEASUREMENT ON RECOGNITION

If the entity concludes that the definition of an asset is met, it recognises the transferred asset as an item of PPE in accordance with Ind AS 16 Property, Plant and Equipment, and measures its cost on initial recognition at its fair value.

HOW SHOULD THE CREDIT BE ACCOUNTED FOR?

A transfer of an item of PPE is an exchange for dissimilar goods or services. Consequently, the entity recognizes revenue in accordance with Ind AS 18 Revenue.

ACCOUNTING FOR A TRANSFER OF CASH

When an entity receives a transfer of cash from a customer, it assesses whether the agreement is within the scope of this Appendix. If it is, the entity assesses whether the constructed or acquired item of PPE meets the definition of an asset. If the definition of an asset is met, the entity recognises the item of PPE at its cost in accordance with Ind AS 16 and recognises revenue at the amount of cash received from the customer.

REVENUE RECOGNITION

- If only one service is identified, the entity recognises revenue when the service is performed in accordance with Ind AS 18.
- If more than one separately identifiable service is identified, the fair value of the total consideration received or receivable for the agreement is allocated to each service and the recognition criteria of Ind AS 18 are applied to each service.
- If an ongoing service is identified as part of the agreement, the period over which revenue is recognised for that service is generally determined by the terms of the agreement with the customer. If the agreement does not specify a period, the revenue is recognised over a period no longer than the useful life of the transferred asset used to provide the ongoing service.

SEPARATELY IDENTIFIABLE SERVICES

Features that indicate that connecting the customer to a network is a separately identifiable service include:

- A service connection is delivered to the customer and represents stand-alone value for that customer.
- The fair value of the service connection can be measured reliably.
- A feature that indicates that providing the customer with ongoing access to a supply of goods or services is a separately identifiable service is that, in the future, the customer making the transfer receives the ongoing access, the goods or services, or both at a price lower than would be charged without the transfer of the item of PPE.
- Conversely, a feature that indicates that the obligation to provide the customer with ongoing access to a supply of goods or services arises from the terms of the entity's operating license or other regulation rather than from the agreement relating to the transfer of an item of PPE is that customers that make a transfer pay the same price as those that do not for the ongoing access, or for the goods or services, or for both.

III. Ind AS 114: REVENUE 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 shall be entitled to apply the requirements of the previous GAAP in respect of such rate regulated activities.

Important Terms

Rate-regulated activities: Activities that are subject to rate regulation.

Rate Regulation: 'Cost of Service Regulation' as defined in the Guidance Note on Accounting for Rate Regulated Activities. [Cost of Service regulation as per the Guidance Note is a form of regulation for setting an entity's prices (rates) in which there is a cause-and-effect relationship between the entity's specific costs and its revenues.]

Rate regulator: 'Regulator' as defined in the Guidance Note [A regulator is defined in Guidance Note as 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: A 'Regulatory Asset' or a 'Regulatory Liability' as defined in the Guidance Note.

[Guidance Note defines a **regulatory asset** as an entity's right to recover fixed or determinable amounts of money towards incurred costs as a result of the actual or expected actions of its regulator under the applicable regulatory framework.

Guidance Note defines a **regulatory liability** as an entity's obligation to refund or adjust fixed or determinable amounts of money as a result of actual or expected action of its regulator under the applicable regulatory framework.]

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 shall 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.

INTERACTION WITH OTHER Ind ASs

- Estimates used in determining regulatory deferral account balances (Ind AS 10)
- Scope of income tax requirements (Ind AS 12)
- Where rates are permitted or required to be increased to recover some or all of an entity's tax expense (Ind AS 12)
- Presentation with respect to income taxes (Ind AS 12)
- Presentation of basic and diluted earnings per share (Ind AS 33)
- Impairment of regulatory deferral account balances (Ind AS 36)
- Impairment of cash generating units (CGU) containing regulatory deferral account balances (Ind AS 36)
- Recognition and measurement of regulatory deferral account balances in an acquiree (Ind AS 103)
- Presentation in respect of non-current assets held for sale and discontinued operations (Ind AS 105)
- Consistent accounting policies for subsidiaries (Ind AS 110)
- Disclosures of regulatory deferral account balances in material subsidiaries with non-controlling interests, material joint ventures, and material associates (Ind AS 112)
- Disclosures of gain or loss on the loss of control over a subsidiary (Ind AS 112).

MCQs on Revenue Standards

1. Construction of an additional asset shall not be treated as a separate construction contract

   a) when the price of the asset is negotiated without regards to the original contract price.

   b) when separate proposals have been submitted for each asset.

   c) when cost and revenues of each asset can be identified.

   d) customer has to accept or reject entire contract.

2. When cost incurred in securing a contract are recognized as an expense in the period in which they are incurred, they

   a) can be included in contract cost subsequently.

   b) are not included in contract cost if the same is obtained in a subsequent period.

   c) they shall be reversed subsequently and recognised in other comprehensive income.

   d) they shall be reversed subsequently and capitalized.

3. When an uncertainty arises about the collectability of an amount already included in contract revenue,

   a) the amount in respect of which recovery ceased to probable is recognized as expenses.

   b) the amount in respect of which recovery ceased to be probable is reduced from the revenue.

   c) the amount in respect of which recovery ceased to be probable is recognised in other comprehensive income.

   d) the amount in respect of which recovery ceased to be probable is transfer to

4. When the outcome of a construction contract cannot be estimated reliably, revenue shall

   a) not be recognised

   b) be recognized only to the extent of contract costs incurred that it is probable will be recoverable; and contract cost shall be recognized as an expenses in the period in which they are incurred.

   c) shall be recognised at complete amount.

   d) be recognised only to the extent of contract cost incurred; and contract cost shall be recognised to the extent revenue recognition is probable.

5. Revenue from sale of goods shall be recognized when entity
   a) transfer to the buyer all significant risks and rewards of ownership of the goods.
   b) retains continuing managerial involvement or effective control over the goods.
   c) Economic benefit associated with transaction will flow to buyer.
   d) the cost incurred cannot be measured reliably.
6. In case an uncertainty arises about the collectability of amount already recognized as revenue,
   a) the uncollectible amount is reduced from revenue.
   b) the uncollectible amount or the amount in respect of which recovery cease to be probable is recognized as expense.
   c) The uncollectible amount is amortised over the period of 5 years.
   d) the uncollectible amount is charged in other component of equity.
7. Dividend shall be recognized by the shareholder's
   a) when amount is received.
   b) based on past experience.
   c) at the beginning of the year.
   d) right to receive payment is established.
8. When unpaid interest has accrued before the acquisition of an interest-bearing investment,
   a) only pre-acquisition is recognised on receipt basis.
   b) the interest in recognised on receipt basis.
   c) the subsequent receipt of interest is allocated between the pre-acquisition and post acquisition. Only the post acquisition portion is recognized as revenue.
   d) Only post acquisition interest is recognised on receipt basis.
9. The entity shall disclose the amount of revenue arising from exchange of goods or services
   a) for each transaction separately.
   b) only in case of business combination.
   c) only for transactions with related party.
   d) included in each significant category of revenue.

10. When goods or services are exchanged or swapped for goods or services which are of similar nature and value,

    a) the exchange is not regarded as transaction generating revenue.

    b) the revenue is recognised at fair value of the goods or services.

    c) the revenue is recognised at cost of the goods or services.

    d) the revenue is recognised at fair value of the goods or services received, adjusted by the amount of any cash or cash equivalent transferred.

11. When goods are sold or services are rendered in exchange for dissimilar goods or services, the revenue is measured at

    a) fair value of the goods or services given, adjusted by the amount of any cash or cash equivalents.

    b) fair value of the goods or services received, adjusted by the amount of any cash or cash equivalents.

    c) Nil value

    d) cost of goods or services.

12. Where warranties are given to the buyer, the cost of warranties will be recognized immediately as an expense. If the cost of warranties cannot be measured reliably

    a) only the corresponding revenue will be recognised.

    b) the amount of revenue shall not be recognized.

    c) the amount equivalent to revenue shall be recognised as expense.

    d) no warranties cost shall be recognised as expense.

13. Subscription revenue is recognized as revenue

    a) on the date of receipt of subscription amount.

    b) on the date of last subscription.

    c) on the straight line basis over the period of subscription.

    d) any of the above basis.

14. A construction contract is a contract specifically negotiated for the construction of an ___________________ that are closely interrelated or interdependent in terms of their design, technology and function or their purpose or use.

    a) Asset or a combination of assets   b) Asset

    c) combination of assets

15. _______________ is a construction contract in which the contractor is reimbursed for allowable or otherwise defined costs plus a percentage of these costs or a fixed fee.

    a) Fixed price contract b) Cost plus contract

    c) Variable price contract d) No profit contract

16. A construction contract in which the contractor agrees to a fixed rate per unit of output, which in some cases is subject to cost escalation clauses is called _______________.

    a) Fixed price contract b) Cost plus contract

    c) Variable price contract d) No profit contract

17. Depreciation of idle plant and equipment shall be _________ from the cost of construction contract.

    a) Partly included b) Included

    c) Partly excluded d) Excluded

18. When the outcome of a construction contract can be estimated reliably, contract revenue and cost associated with the construction contract shall be recognized as revenue and expenses by reference to _______________________.

    a) Outright sale b) Contract completion

    c) Percentage of completion d) Cost plus mark-up

19. An expected loss on construction contract shall be recognized as an expenses _________.

    a) On completion b) Only if it is onerous

    c) Immediately d) At the beginning of the contract

20. _____________ is the gross inflow of economic benefits during the period arising in the course of the ordinary activities of an entity.

    a) Revenue b) Assets

    c) Expense d) Other income

21. _______________ is the price that would be received to sell an asset or paid to transfer a liability in the orderly transaction between market participants at the measurement date.

    a) Sale value b) Cost

    c) Present value d) Fair value

22. Revenue shall be measured at the fair value of the ________________ received or receivable.

    a) Consideration
    b) Assets
    c) Rights
    d) Risk and rewards.

23. The difference between the fair value and nominal amount shall be recognized as ________ in accordance with Ind AS-18.

    a) Revenue
    b) expense
    c) Interest
    d) Assets

24. The process of recognizing the amount of revenue and related expenses simultaneously is known as __________________.

    a) Accrual concept
    b) Cost concept
    c) Cash concept
    d) Matching principle

25. When the outcome of the transaction involving the rendering of services can be estimated reliably, revenue associated with the transactions shall be recognized as revenue by reference to the ___________________.

    a) Receipt of cash
    b) Percentage of completion method
    c) Straight line basis
    d) On completion of contract

26. Under percentage of completion method, revenue is recognized in the period in which _____________.

    a) Cash is received
    b) Services are completed
    c) Service is rendered
    d) Straight line basis

27. When the outcome of the transactions involving the rendering of services cannot be estimated reliably, revenue shall be recognised only to the extent of the ______________.

    a) Expenses rendered
    b) Nil value
    c) Work performed
    d) Any of the above

28. When the uncertainties that prevented the outcome of the contract being estimated reliably no longer exist, ____________ is recognized.

    a) Asset
    b) Expense
    c) Liability
    d) Revenue

29. Interest shall be recognized using the _______________ method.

    a) Straight line
    b) Effective interest
    c) Coupon rate
    d) Accrual

30. Royalties shall be recognized on an __________ basis in accordance with the substance of the relevant agreement.

    a) Cash
    b) Accrual
    c) Straight line
    d) Percentage of completion

31. A seller can reliably measure revenue at the fair value of the advertising services it provides in a barter transaction by reference to ___________________.

    a) Market value
    b) Related party transaction
    c) Non-barter transaction
    d) Cost of item

32. An entity that grants loyalty award credit shall allocate some of the proceeds of the initial sale to the award credits as a ________.

    a) Liability
    b) Asset
    c) Expenses
    d) Other income

Solutions to MCQs

1. d) customer has to accept or reject entire contract.
2. b) are not included in contract cost if the same is obtained in a subsequent period.
3. a) the amount in respect of which recovery ceased to probable is recognized as expenses.
4. b) be recognized only to the extent of contract costs incurred that it is probable will be recoverable; and contract cost shall be recognized as an expenses in the period in which they are incurred.
5. a) transfer to the buyer all significant risks and rewards of ownership of the goods.
6. b) the uncollectible amount or the amount in respect of which recovery cease to be probable is recognized as expense.
7. d) right to receive payment is established.
8. c) the subsequent receipt of interest is allocated between the pre-acquisition and post acquisition. Only the post acquisition portion is recognized as revenue.
9. d) included in each significant category of revenue.
10. a) the exchange is not regarded as transaction generating revenue.

11. b) fair value of the goods or services received, adjusted by the amount of any cash or cash equivalents.
12. b) the amount of revenue shall not be recognized.
13. c) on the straight line basis over the period of subscription.
14. a) Asset or a combination of assets
15. b) Cost plus contract
16. a) Fixed price contract
17. d) Excluded
18. c) Stage of completion or percentage of completion
19. c) Immediately
20. a) Revenue
21. d) Fair value
22. a) Consideration
23. c) Interest
24. d) Matching principle
25. b) Percentage of completion method
26. c) Service is rendered
27. a) Expenses recognized
28. d) Revenue
29. b) Effective interest
30. b) Accrual
31. c) Non barter transactions
32. a) Liability

Chapter 9
Recognition, Measurement, Presentation & Disclosure of Expenses & Liabilities

Expenses are decreases in economic benefits during the accounting period in the form of outflows or depletions of assets or incurrence of liabilities that result in decreases in equity, other than those relating to distributions to equity participants.

The definition of expenses encompasses losses as well as those expenses that arise in the course of the ordinary activities of the enterprise. Expenses that arise in the course of the ordinary activities of the enterprise include, for example, cost of sales, wages and depreciation. They usually take the form of an outflow or depletion of assets such as cash and cash equivalents, inventory, property, plant and equipment. Losses represent other items that meet the definition of expenses and may or may not, arise in the course of the ordinary activities of the enterprise. Losses represent decreases in economic benefits and as such they are no different in nature from other expenses. Hence, they are not regarded as a separate element.

A liability is a present obligation of the enterprise arising from past events, the settlement of which is expected to result in an outflow from the enterprise of resources embodying economic benefits.

List of Ind ASs dealing with Recognition, Measurement, Presentation and disclosure of Expenses and Liabilities:

- Ind AS 19 – Employee Benefits
    - Appendix B to Ind AS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction
- Ind AS 37 - Provisions, Contingent Liabilities and Contingent Assets
    - Appendix A to Ind AS 37- Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
    - Appendix B to Ind AS 37- Liabilities Arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment
    - Appendix C to Ind AS 37 - Levies
- Ind AS 12- Income Taxes
    - Appendix A to Ind AS 12 – Changes in the Tax Status of an Enterprise or its Shareholders

- Ind AS 102- Share-based Payment

Recognition of Expenses

In most cases, expenses result from the production or sale of goods and services during the period and therefore there is usually little uncertainty that future benefits have been consumed. Such expenses are usually reliably measured. However, where resources such as property, plant and equipment are consumed over a number of periods, it may be difficult to be certain about the quantum of benefits consumed in the current period. In such cases expenses are measured at some assumptions and estimation. In such cases there is a presumption that management is able to estimate expenses and losses reliably. Though the framework states that where entity cannot measure an item of expense and associated liability reliably the management should state the fact in the notes, however, this should be in very rare circumstances.

Where there can be a little ambiguity regarding recognition of item as an expense or an asset, the entity should rely on the definition and recognition criteria of assets and expenses, and on the guidance provided throughout Ind AS to determine the appropriate accounting treatment. Generally an item of cost may be included in the cost of, for example property, plant and equipment if it is directly attributable to bringing the asset to its working condition. Certain costs are capitalized under Ind AS such as :

- Borrowing costs
- Site preparation costs
- Estimated cost of dismantling and removing an asset and restoring a site
- Cost of installation, delivery etc. of property, plant and equipment.

Timing of Recognition

Expenses are recognised on accrual basis to relate with the period when they are incurred. The matching principle requires that all expenses incurred in generating revenue should be recognised in the same period in which the related revenue is recognised. Some costs like those on raw material, wages for direct labour consumed in manufacturing process are relatively easy to identify with related revenue generating activity. These costs are included in inventory and expensed as cost to sales when products are sold or revenue from it is realized. Nevertheless, entity should not use the matching concept to defer all types of expenses in the Balance Sheet that do not meet the definition of an asset, to match with the related income. Certain expenses like depreciation of property, plant and equipment is systematically recognised over a period chosen to match the asset's expected benefits. Some Ind ASs also requires or give option to defer certain expenses over a prescribed period. For e.g.

- A loss on a sale and leaseback transaction classified as a finance lease is deferred and amortised over the lease term and the asset tested for impairment

- A lessor should recognise the cost of a lease incentive over the lease period as a reduction of the lease revenue
- An actuarial loss arising from the measurement of a defined benefit liability can be either recognised immediately, or amortised over a prescribed period
- Fair value losses on financial instruments designated as cash flow hedges are deferred and amortised over a period simultaneously with earnings recognition of the hedged item.

Measurement of Expenses

Expenses are generally measured at the fair value of the amount paid or payable. Some expenses such as the cost of sales and employee costs can usually be measured easily by reference to a cash outflow or an amount due under a purchase agreement. However, expenses that arise from both permanent and periodic depletion of assets can involve complex and inexact predictions about the entity's future operating environment and depend on management's estimation.

Ind AS provides guidance for measurement of certain types of specific expenses like employee benefit cost, cost where share based payments has been made, cost of barter transaction, foreign currency losses, loss on partial disposal of subsidiary, interest expenses, etc.

LIABILITIES

Recognition of liability

The following characteristics must be present in a liability to be recognised in a Balance Sheet:

- There is a present obligation which is settled by the probable future by the entity by probable future transfer of an asset on demand or on a particular date or on happening of certain event
- This obligation is not optional for the entity and hence cannot be avoided
- The event that creates the obligation has already taken place
- The amount required to settle the obligation could be reliably measured

It should be noted that it is quite possible that an item meets the definition of a liability and still may not meet the recognition criteria. Some obligations may be due immediately and hence highly probable. Others may not be immediately due but in course of time yet not conditional on any other event, such as restoration costs, and hence less probable but still be recognised. However, conditional obligations that require the occurrence of an event not certain to occur before they become unconditional, do not satisfy the recognition criteria as liabilities. These are contingent liabilities and should only be disclosed if their possibility not very remote.

Measurement of Liability

Liabilities are initially measured at the present discounted amount of the cash outflows due to an external party. Otherwise, where liabilities are based on best estimates, the present discounted value of the amount expected to settle an obligation is recorded. A liability may be subsequently re-measured as a result of a revision of an amount due or a revision in an estimate of the obligation.

Derecognition of liability

An entity should derecognize a liability when an obligation is settled through payment, forgiveness or conversion into equity. In the case of a provision, derecognition occurs when the expenditure provided for is incurred or the provision adjusted to reflect a current best estimate.

I. Ind AS 102: SHARE-BASED PAYMENTS

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

(a) Equity,

(b) Cash, or

(c) 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 payments related to the acquisition from those related to employee services.

2. Ind AS 102 does not address share-based payments 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.

A Case Study

An entity grants 1000 share options to each of its 50 employees. Each grant is conditional upon the employee working for the entity over the next three years. The entity estimates that the fair value of each share option is `. 30. The entity estimates that 20% of the employees will leave during the three-year period and, therefore, forfeit their rights to the share options.

Solution

Application of the requirements:

Year	**Calculation**	**Expense for the year (`)**	**Cumulative Expense (`)**
1	(1000 * 50*80%*30) / 3	4,00,000	4,00,000
2	(1000 * 50*80%*30) / 3	4,00,000	8,00,000
3	(1000 * 50*80%*30) / 3	4,00,000	12,00,000

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.

A Case Study

Entity A grants 1000 share options to its managing director on the following conditions:

- that she remains in employment for 3 years and

- the market price of the related shares is increased from ` 50 to above ` 60 at the end of year 3.

Entity A determines the fair value of the option at ` 48 per option after taking into account the market condition (i.e. price of the shares would rise to ` 60). How will entity recognise the service cost in 3 years?

Solution: The market condition which is the possibility that the share price target might not be achieved is already taken into account when estimating the fair value of the options at grant date. Therefore, if the entity expects the director to complete the three-year service period and the director does so, the entity recognises the following amounts in years 1, 2 and 3:

Year	Calculation	Expense for the Year (`)	Cumulative Expense (`)
1.	(1000*48)/3	16,000	16,000
2	(1000*48)/3	16,000	32,000
3	(1000*48)/3	16,000	48,000

II. 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 shall 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 shall 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.

Thus, the amount of the post-employment benefits received by the employee is determined by the amount of contributions paid by an entity (and perhaps also the employee) to a post-employment benefit plan or to an insurance company, together with investment returns arising from the contributions; 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 shall 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 shall 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 postemployment 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 shall 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 shall 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

APPENDIX B OF IND AS 19: THE LIMIT ON A DEFINED BENEFIT ASSET, MINIMUM FUNDING REQUIREMENTS AND THEIR INTERACTION

The issues addressed in this Appendix are:

- When refunds from the plan or reductions in future contributions to the plan should be regarded as available in accordance of Ind AS 19 *Employee Benefits.*
- How a minimum funding requirement might affect the availability of reduction in future contributions
- When a minimum funding requirement might give rise to a liability

In many countries, laws or contractual terms require employers to make minimum funding payments for their pension or other employee benefit plans. This enhances the security of the retirement benefit promise made to members of an employee benefit plan.

This appendix addresses the interaction between a minimum funding requirement and the limit placed by Ind AS 19 on the measurement of the defined benefit asset or liability. When determining the limit on a defined benefit asset in accordance with Ind AS 19, entities are required to measure any economic benefit available to them in the form of refunds or reductions in future contributions at the maximum amount that is consistent with the terms and conditions of the plan and any statutory requirements in the jurisdiction of the plan. The entity's intention on how to use a surplus (for instance, whether the entity intends to improve benefits rather than reduce contributions or get a refund) must be disregarded.

Such economic benefits are regarded as available to an entity if the entity has an unconditional right to realise them at some point during the life of the plan or when the plan is settled, even if they are not realisable immediately at the Balance Sheet date. Such an unconditional right would not exist when the availability of the refund or the reduction in future contribution would be contingent upon factors beyond the entity's control (for example, approval by third parties such as plan trustees). To the extent right is contingent, no asset would be recognised.

III. 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

A deferred tax liability shall 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 shall 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.

APPENDIX A TO IND AS 12: INCOME TAXES – CHANGES IN THE TAX STATUS OF AN ENTERPRISE OR ITS SHAREHOLDERS

A change in the tax status of an enterprise or its shareholders does not give rise to increase or decrease in the pre-tax amounts recognised directly in equity. Therefore, Appendix concludes that the current and deferred tax consequences of the change in tax status would be included in net profit or loss for the period. However, where a transaction or event does result in a direct credit or charge to equity, for example the revaluation of property, plant and equipment under Ind AS 16, the related tax consequences would still be recognised directly in equity.

IV. 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 neither party 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.

Recognition

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 shall 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 shall 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 shall 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.

The main requirements of this standard are summarized as follows:

Provisions and contingent liabilities

Where, as a result of past events, there may be an outflow of resources embodying future economic benefits in settlement of: (a) a present obligation; or (b) a possible obligation 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.		
There is a present obligation that probably requires an outflow of resources	**There is a possible obligation or a present obligation that may, but probably will not, require an Outflow of resources**	**There is a possible obligation or a present obligation where the likelihood of an outflow of resources is remote**
A provision is recognised (paragraph 14)	No provision is recognised (paragraph 27)	No provision is recognised (paragraph 27)
Disclosures are required for the provision (paragraphs 84 and 85)	Disclosures are required for the contingent liability (paragraph 86)	No disclosure is required (paragraph 86)

A contingent liability also arises in the extremely rare case where there is a liability that cannot be recognised because it cannot be measured reliably. Disclosures are required for the contingent liability.

Contingent assets

Where, as a result of past events, there is a possible asset 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.		
The inflow of economic benefits is virtually certain	**The inflow of economic benefits is probable, but not virtually certain**	**The inflow is not probable**
The asset is not contingent (Paragraph 33)	No asset is recognised (Paragraph 31).	No asset is recognised (Paragraph 31)
	Disclosures are required (Paragraph 89)	No disclosure is required (Paragraph 89)

Reimbursements

Some or all of the expenditure required to settle a provision is expected to be reimbursed by another party.		
The entity has no obligation for the part of the expenditure to be reimbursed by the other party	**The obligation for the amount expected to be reimbursed remains with the entity and it is virtually certain that reimbursement will be received if the entity settles the provision**	**The obligation for the amount expected to be reimbursed remains with the entity and the reimbursement is not virtually certain if the entity settles the provision**
The entity has no liability for the amount to be reimbursed (paragraph 57)	The reimbursement is recognised as a separate asset in the Balance Sheet and may be offset against the expense in the statement of Profit & Loss. The amount recognised for the expected reimbursement does not exceed the liability (paragraphs 53 and 54)	The expected reimbursement is not recognised as an asset (paragraph 53)

No disclosure is required.	The reimbursement is disclosed together with the amount recognised for the reimbursement (paragraph 85(c)).	The expected reimbursement is disclosed (paragraph 85(c)).

APPENDIX A TO IND AS 37: RIGHTS TO INTERESTS ARISING FROM DECOMMISSIONING, RESTORATION AND ENVIRONMENTAL REHABILITATION FUNDS

Some entities have obligations to decommission assets or to perform environmental restoration or rehabilitation. Some such entities contribute to a fund established to reimburse the decommissioning, restoration or rehabilitation costs when they are incurred. The fund may be set up to meet the decommissioning costs of a single contributor or for many contributors.

Issue

The issues addressed in this Appendix are:

a) How should a contributor account for its interest in a fund?

b) When a contributor has an obligation to make additional contributions, how should that obligation be accounted for?

APPENDIX B TO IND AS 37: LIABILITIES ARISING FROM PARTICIPATING IN A SPECIFIC MARKET – WASTE ELECTRICAL AND ELECTRONIC EQUIPMENT

This Appendix clarifies when certain producers of electrical goods are required to recognise a liability under Ind AS 37 for the cost of waste management relating to the decommissioning of waste electrical and electronic equipment supplied to private households.

The event that triggers liability recognition is participation in the market during the measurement period. The measurement period is a period in which market shares are determined for the purposes of allocating waste management costs. Appendix states that it is this date, rather than the date of production of the equipment or incurrence of costs, that is the triggering event for liability recognition.

APPENDIX C OF IND AS 37 : LEVIES

It is an Appendix of Ind AS 37 Provisions, Contingent Liabilities and Contingent Assets. Ind AS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (known as an obligating event). The Appendix clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy.

MCQ on Standards on Expenses and Liabilities

1. Accounting profit is profit or loss for a period

   a) After deducting tax expenses.

   b) Before deducting tax expenses.

   c) Before considering other comprehensive income

   d) From operating activities of the company

2. Tax expenses (tax income) is the aggregate amount included in the determination of profit or loss for the period in respect of

   a) Current tax.

   b) Deferred tax.

   c) Current tax and deferred tax.

   d) Taxable profit.

3. When a non-taxable government grant related to assets is deducted in arriving at the carrying amount of an asset, but for tax purpose, it is not deducted from the assets depreciable amount, the resulting

   a) Deferred tax assets are recognized on initial recognition of an asset.

   b) Deferred tax liabilities are recognised on initial recognition of an asset.

   c) Deferred tax assets are recognised in the year of disposal.

   d) Deferred tax liabilities are recognised in the year of disposal.

4. An entity shall reassesses unrecognized deferred tax

   a) Every financial year.

   b) If there is an indication that deferred tax assets will not be recovered.

   c) Every calendar year.

   d) At the end of each reporting period.

5. Deferred tax assets or liabilities shall be measured using the rates

   a) In force on the date of transaction.

   b) That are expected to apply when the asset is realized or liability is settled.

   c) At the end of the financial year.

   d) On the date deferred tax assets or liabilities are recorded.

6. The tax expenses (income) related to profit or loss from ordinary activities shall be presented as part of

   a) Profit or loss in the statement of profit or loss

   b) Assets side of Balance sheet.

   c) Liabilities of Balance sheet.

   d) Statement of change in equity.

7. Current tax and deferred tax should be charged or credited, directly to equity, if the tax relates to items that are credited or charged in the same or a different period,

   a) To profit or loss account.

   b) Liabilities.

   c) directly to equity.

   d) Assets.

8. The present value of defined benefit obligation is the present value of expected future payments required to settle the obligation

   a) Resulting from employee service after deducting the fair value of plan assets.

   b) Resulting from employee service including any surplus or deficit.

   c) Resulting from employee service including any return on plan asset.

   d) Resulting from employee service without deducting the fair value of plan assets.

9. Short term employee benefits shall

   a) Be recognized at discounted amount during the accounting year in which the employee renders the service.

   b) Not be recognised.

   c) Be recognized at undiscounted amount during the accounting period in which the employee renders the services.

   d) Be deferred and recognised on termination.

10. An entity shall recognize the expected cost of short term employee benefits in the form of paid absence in case of non-accumulating paid absence

    a) When the absence occurs.

    b) When the employee renders the services.

    c) At the end of reporting period.

    d) At the beginning of the reporting period.

11. Entity shall recognize the cost of profit sharing and bonus as
    a) Distribution of profit.
    b) Expenses
    c) Asset
    d) None of the above
12. Multi-employer plans are
    a) Always considered as defined contribution plan.
    b) Always considered as defined benefit plan.
    c) Classified as defined contribution plan or defined benefit plan considering the terms of the plan.
    d) Not required to be accounted.
13. Defined benefit plans that share risks between the entities under common control
    a) Are multi-employer plans.
    b) Are not multi-employer plans.
    c) Are defined contribution plans.
    d) Are considered as state plans.
14. Normally insurance premiums paid to fund a post employment benefit are treated as
    a) Defined contribution plan.
    b) Defined benefit plan.
    c) Distribution of profit
    d) Part of equity.
15. An entity shall account for ______________under the formal terms of a defined benefit plan.
    a) Legal obligation
    b) Constructive obligation
    c) Neither legal nor constructive obligation
    d) Both legal and constructive obligation.
16. Surplus in a defined benefit plan shall be measured at
    a) The higher of surplus in the defined benefit plan and the asset ceiling determined using the discount rate.

b) The lower of surplus in the defined benefit plan and asset ceiling determined using the discount rate.

c) Surplus in the defined benefit plan.

d) Asset ceiling determined using the discount rate.

17. Where the amount of a benefit is a constant proportion of final salary for each year of service, future salary increases will

a) Affect the amount required to settle the obligation that exists for service before the end of the reporting period.

b) Create an additional obligation.

c) Not affect the existing obligation.

d) Be classified as defined contribution plan.

18. Mortality assumption is the best estimate of the mortality of the plan members

a) Before the employment

d) During the employment

c) After the employment

d) Both during and after employment.

19. An entity shall recognise past service cost as an expense

a) When the plan amendment or curtailment occurs.

b) When the entity recognises related restructuring costs or termination benefits.

c) Earlier of when the plan amendment or curtailment occurs or when the entity recognises related restructuring costs or termination benefits.

d) Later of when the plan amendment or curtailment occurs or when the entity recognises related restructuring costs or termination benefits.

20. The gain or loss on a settlement is the difference between

a) The present value of the defined benefit obligation being settled, as determined on the date of settlement and the value of plan assets.

b) The present value of the defined benefit obligation being settled and the settlement price including any plan assets transferred and payment in connection with settlement.

c) The present value of the defined benefit obligation being settled and the settlement price.

d) The present value of plan assets and the settlement price.

21. A settlement occurs when entity enters into a transaction that eliminates

    a) All further legal or constructive obligation for part or all the benefits provided under a defined benefit plan.

    b) All further legal obligation for part or all the benefits provided under defined benefit plan.

    c) All further constructive obligation for part or all the benefits provided under defined benefit plan.

    d) All further legal or constructive obligation for part or all the benefits provided under a defined contribution plan.

22. When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, an entity shall

    a) Reduce the amount of obligation with the amount of reimbursement.

    b) Stop recognising the amount of obligation upto the amount of reimbursement.

    c) Recognise its right to reimbursement as a separate asset and measure the asset at fair value.

    d) Not record the amount of reimbursement.

23. An entity shall offset an asset relating to one plan against a liability relating to another plan when,

    a) The entity has a legally enforceable right.

    b) The entity intend to settle the obligation on net basis.

    c) The entity has a legally enforceable right to use a surplus in one plan to settle obligation under the other plan or the entity intend to settle the obligation on net basis.

    d) The entity has a legally enforceable right to use a surplus in one plan to settle obligation under the other plan and entity intend to settle the obligation on net basis.

24. An entity reconciliation of net defined benefit liabilities (asset) from the opening balance to the closing balance shall include

    a) Plan assets

    b) The present value of the defined benefit obligation

    c) The effect of the asset ceiling.

    d) All of the above

25. If an entity participates in a defined benefit plan that share risks between entities under common control, it shall disclose

    a) The contractual agreement or stated policy for charging the net defined benefit cost.

    b) The policy for determining the contribution to be paid by the entity.

    c) If the entity accounts for an allocation of the net benefit cost, all the information about the plan.

    d) All of the above.

26. An entity shall recognise a liability and expenses from termination benefits

    a) At the later when the entity can no longer withdraw the offer of those benefits or when the entity recognise the cost of restructuring.

    b) At the earlier when the entity can no longer withdraw the offer of those benefits or when the entity recognised the cost of restructuring.

    c) Then the entity can no longer withdraw the offer of those benefits

    d) When the entity recognised the cost of restructuring.

27. Contingent liability under multi-employer plan may be any responsibility under the term of a plan

    a) To finance any shortfall in the plan, if other undertakings cease to participate.

    b) To participate in any excess in the plan.

    c) To meet the obligation of the plan

    d) To participate on day to day activity of the plan.

28. An obligating event is

    a) An event that creates a legal or constructive obligation that results in an entity having no realistic alternative to settling that obligation.

    b) A present obligation of the entity arising from the past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits.

    c) A liability of uncertain timing or amount.

    d) A contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

29. A provision shall be recognised when an entity has a present obligation as a result of a past event,

    a) Outflow of resources embodying economic benefit is certain and a reliable estimate cannot be made of the amount of the obligation.

    b) It is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate cannot be made of the amount of the obligation.

    c) It is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

    d) Outflow of resources embodying economic benefit is certain and a reliable estimate can be made of the amount of the obligation.

30. An entity shall

    a) Recognised contingent liability in profit or loss account.

    b) Not recognise contingent liability.

    c) Recognised contingent liability in other comprehensive income

    d) Recognised contingent liability in balance sheet.

31. Contingent assets are

    a) Not required to be disclosed in the financial statement.

    b) Recognised in the financial statement

    c) Required to be disclosed in the financial statement, where an inflow of economic benefits is probable.

    d) Recognised in other comprehensive income.

32. Where the time value of money is material, the amount of a provision

    a) Shall be the present value of the expenditures expected to be required to settle the obligation.

    b) Shall be the amount of expenditures expected to be required to settle the obligation.

    c) Shall not be recognised

    d) Shall be recognised over the period.

33. Gain from the expected disposal of assets

    a) Shall be considered while measuring the amount of provision.

b) Shall be recognised in the profit or loss account.

c) Shall be recognised in other comprehensive income.

d) Shall not be considered while measuring the amount of provision.

34. Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party,

a) The amount of reimbursement are not considered for the amount of provision.

b) The discounted amount of reimbursement are reduced from the amount of provision liability.

c) The reimbursement receivable shall be reduce from the amount of provision liability.

d) The amount of provision is not recognised.

35. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation,

a) The amount of previous period shall be restated.

b) The provision shall be reversed.

c) The amount of provision shall be reversed over next 5 years.

d) Entity shall disclose the amount.

36. A provision shall be used

a) Only for expenditures for which the provision was originally recognised.

b) For any expenditures incurred in the next year.

c) For any expenditure incurred in the head in which provision was originally recognised.

d) At least after 2 years from the date of creation of provison.

37. Provisions are

a) Required to be recognised for future operating losses.

b) Not required to be recognised for future operating losses.

c) Recorded at discounted amount for future operating losses.

d) Disclosed at footnote the profit or loss account.

38. A transaction with an employee in his capacity as a holder of equity instruments of an entity

a) Is a share based payment transaction.

b) Is not a share based payment transaction.

c) Shall be recorded in other comprehensive income.

d) Shall not be recorded.

39. an entity shall recognise the goods or services received or acquired in a share based payment transaction when it obtains the goods or as the services are received and

a) Shall recognise a corresponding increase in equity if the goods are received in an equity settled share based payment transaction.

b) Shall recognise a corresponding increase in equity if the goods are received in an cash settled share based payment transaction.

c) Shall recognise a corresponding increase in liability if the goods are received in an equity settled share based payment transaction.

d) Shall recognise a corresponding increase in assets if the goods are received in an equity settled share based payment transaction.

40. For equity-settled share-based payment transactions, the entity shall measure the goods or services received, and the corresponding increase in equity,

a) At the carrying amount of the goods and services received

b) At the realisable value of goods and services received.

c) At the replacement value of the goods and services received.

d) Directly, at the fair value of the goods or services received, unless that fair value cannot be estimated reliably.

41. If the equity instruments granted do not vest until the counterparty completes a specific period of service,

a) The entity shall recognise the services received in full, with a corresponding increase in equity

b) The entity shall recognise the services received in full, with a corresponding increase in liability

c) The entity shall account for those services as they are rendered by the counterparty during the vesting period, with corresponding increase in equity.

d) The entity shall account for those services as they are rendered by the counterparty during the vesting period, with corresponding increase in liability.

42. For options with a reload feature,

a) The reload feature shall be taken into account when estimating the fair value of options granted at the measurement date.

b) The reload feature shall not be taken into account when estimating the fair value of options granted at the measurement date.

c) Entity is not required to estimate the fair value of options granted at the measurement date.

d) Options are not accounted in the books.

43. The amount recognised for services received from an employee

a) Shall not subsequently reversed if the vested equity instruments are later forfeited or, in the case of share options, the options are not exercised.

b) Shall be reversed subsequently, if the vested equity instruments are later forfeited or, in the case of share options, the options are not exercised.

c) Shall be reversed only if the vested equity instruments are later forfeited

d) Shall be reversed only in case the options are not exercised.

44. If the fair value of the equity instruments cannot be estimated reliably,

a) Entity shall measure the equity instruments at their book value at the date entity obtains the goods or counterparty renders service.

b) Entity shall measure the equity instruments at their realisable value at the date entity obtains the goods or counterparty renders service.

c) Entity shall measure the equity instruments at their intrinsic value at the date entity obtains the goods or counterparty renders service.

d) Entity shall measure the equity instruments at their realisable value at the date entity obtains the goods or counterparty renders service.

45. If a grant of equity instruments is cancelled or settled during the vesting period, other than by forfeiture, the entity shall

a) Not recognised the amount that otherwise would have been recognised for services received over the reminder of vesting period.

b) Recognised immediately the amount that otherwise would have been recognised for services received over the reminder of vesting period.

c) Recognise the amount paid on cancellation or settlement as reduction in liability

d) Recognise the amount paid on cancellation or settlement as assets.

46. any payment made to the employee on the cancellation or settlement of the grant shall be accounted for as

a) Reduction of liability

b) An assets

c) As expense

d) The repurchase of an equity interest, i.e., as a deduction from equity.

47. Any payment to employees exceeds the fair value of equity instrument granted, on cancellation or settlement of the grant, measured at repurchase date shall

a) Be recognised as an expenses.

b) Not be recognised as expenses.

c) Be recognised as reduction of equity.

d) Be recognised as reduction of liability.

48. If the entity does not identify new equity instruments granted as replacement equity instrument, the entity shall

a) Account for new equity instruments as a grant of new equity instrument.

b) Account for new equity instrument as cancellation of old equity instrument.

c) Not account for the new equity instrument.

d) Account for new equity instruments as deduction of equity.

49. For cash settled share based payment transactions, until the liability is settled, the entity shall

a) Not re-measure the fair value of the liability.

b) Re-measure the fair value of the liability on the date of settlement.

c) Not re-measure the fair value of the liability on the date of settlement.

d) Re measure the fair value of the liability at the end of each reporting period and at the date of settlement.

50. For transactions with parties other than employees, in which the fair of goods or services received is measured directly, the entity shall measure the equity component of compound financial instrument

a) As fair value of goods or services received

b) As difference between the fair value of goods or services received and fair value of debt component, at the date when goods or services are received.

c) Fair vale of the debt component, at the date when goods or services are received.

d) Lower of fair value of goods or services received and fair value of debt component, at the date when goods or services are received.

51. If entity issue equity instruments on settlement rather than paying cash on settlement,
    a) The liability shall be transferred to income.
    b) The amount liability shall be written off.
    c) No accounting is required to account for the transaction.
    d) The liability shall be transferred directly to equity.
52. If the entity pays in cash on settlement rather than issuing equity instruments,
    a) The equity shall be transferred to liability
    b) The payment shall be account for as expense during the period.
    c) Cash payment shall be accounted for as the repurchase of an equity interest.
    d) The payment shall not be accounted.
53. The entity settling a share-based payment transaction when another entity in the group receives the goods or services shall recognise the transaction as an equity-settled share-based payment transaction
    a) Only if it is settled in the entity's own equity instruments.
    b) Only if it settled in cash.
    c) If it is settled either in entity's own equity instrument or in cash.
    d) Neither in entity's own instrument nor in cash.
54. For transactions with employees,
    a) The measurement date and grant date is different.
    b) The measurement date is always before grant date.
    c) The grant date is always before measurement date.
    d) There is no grant date.
55. Service conditions are vesting condition that requires the counterparty
    a) To provide assets to the entity.
    b) To complete a specified period of service during which services are provided to the entity.
    c) To sell goods to the entity
    d) To construct the property for the entity.

56. When a parent grants rights to its equity instruments to the employees of its subsidiary, subsidiary shall

    a) Not account for the transaction.

    b) Recognise the service received from its employees as liability.

    c) Measure the services received from its employees in accordance with equity settled share payment transactions and recognise the corresponding increase in equity as contribution from the parent.

    d) Recognise a liability from the parent.

57. If a subsidiary grants rights to equity instruments of its parent to its employees,

    a) It shall account for the transaction as equity settled transaction.

    b) It shall not account for the transaction.

    c) It shall account for transaction as liability towards parent.

    d) It shall account for the transaction as cash settled transaction.

58. The principle issue in accounting for income taxes is how to account for __________ and _________ tax consequence.

    a) Current; past   b) Past; future

    c) Current; future   d) Current; deferred

59. The recognition of deferred tax assets and deferred tax liabilities in a business combination affects the amount of ________.

    a) Goodwill   b) Capital

    c) Property plant and equipment   d) Working capital

60. Deferred tax liabilities are the amount of income tax ________ in future periods in respect of taxable temporary differences.

    a) Receivable   b) Payable

    c) Calculated   d) Expenses

61. The tax base of an assets or liability is the amount attributed to that asset or liability for __________.

    a) Accounting purpose   b) Tax purpose

    c) Depreciation   d) Management purpose

62. In consolidated financial statements, temporary differences are determined by comparing the carrying amount of assets and liabilities in the consolidated financial statements with tax base of ____________________.

    a) Consolidated tax return b) Stand alone tax return

63. An entity recognizes __________ only when it is probable that taxable profits will be available against which the deductible temporary difference can be utilized.

    a) Current taxes b) Tax expenses

    c) Deferred tax liability d) Deferred tax assets

64. Ind AS-12 does not require or permit __________ of deferred tax assets and liabilities.

    a) Discounting b) Calculation

    c) Accounting d) Assessment

65. An entity shall offset current tax assets and current tax liabilities if, and only if, the entity has a _________________ right to set-off the recognized amounts and intends either to settle on a net basis.

    a) Obligatory b) Legally enforceable

    c) Constructive d) Authoritative

66. A tax loss, that can be carried back to recover tax of a previous period, should be recorded as an asset in the period in which the _____________.

    a) Tax loss occur b) Entity files tax returns

    c) Loss will be recovered d) Management thinks fit

67. _______________ is the amount at which an asset is recognized after deducting any accumulated depreciation and accumulated impairment losses.

    a) Cost of assets b) Landed cost of assets

    c) Carrying amount d) Residual value

68. _________________ are all forms of consideration given by the entity in exchange for service rendered by employees or for termination of employment.

    a) Salaries b) Short term employee benefits

    c) Long term employee benefits d) Employee benefits

69. ____________________ are employee benefits that are expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related service.

    a) Short term employee benefits b) Long term employee benefits

    c) Termination benefits d) Post employment benefits.

70. ____________________ are employee benefits that are payable after the completion of employment.

    a) Short term employee benefits b) Other long term employee benefits

    c) Termination benefits d) Post employment benefits

71. ______________________ are employee benefits provided in exchange for termination of an employee's employment.

    a) Short term employee benefits b) Other long term employee benefits

    c) Termination benefits d) Post employment benefits

72. ________________________ are post-employment benefit plans under which an entity pays fixed contribution into a separate entity and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets.

    a) Defined contribution plan b) Defined benefit plan

    c) Multi-employer plan d) Current service cost

73. ______________________ are defined contribution plans or defined benefits plan that pools the assets contributed by various entities that are not under common control and use those assets to provide benefits to employees of more than one entity.

    a) State plan b) Multi employer plan

    c) Post employment plan d) Termination plan

74. The difference between the present value of the defined benefit obligation and fair value of plan assets is _____________.

    a) Exchange gain or loss b) Guaranteed residual value

    c) Deficit or surplus d) Initial direct cost

75. ____________ comprises of assets held by a long term employee benefit fund and qualifying insurance policies.

    a) Plan assets b) Net defined benefit assets

    c) Asset ceiling d) Current service cost

76. _______________ which is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

    a) Past Service cost b) Current service cost

    c) Gain or loss on settlement d) Return on plan assets

77. __________________ are change in the present value of the defined benefit obligation resulting from experience adjustment and the effects of changes in actuarial assumptions.

a) Return on plan assets b) Gain or loss on settlement

c) Actuarial gain or loss d) Asset ceiling

78. __________________ is income derived from the plan assets together with realized or unrealized gains or loss on plan assets, less any cost of managing plan assets and any tax payable by the plan.

a) Gain or loss on settlement b) Actuarial gain or loss

c) Asset ceiling d) Return on plan assets

79. When an employee has rendered service to an entity during an accounting period, the entity shall recognize the amount of __________________ expected to be paid in exchange for that service.

a) Short term employee benefits b) Termination benefit

c) Post employment benefit d) Other long term benefits

80. Expected cost of short term employee benefits in case of accumulating paid absence shall be recognized when ______________________.

a) The absence occurs b) Employee render service

c) The financial year ends d) The financial year begins.

81. Entity shall recognize the expected cost of _______________ when entity has a present legal or constructive obligation to make such payments and a reliable estimate of the obligation can be made.

a) Profit sharing and bonus b) Housing and medical care

c) Subsidized goods or service d) Actuarial gain or loss

82. Profit sharing and bonus that is not expected to settle wholly before twelve months after the end of the annual reporting period in which the employee render service, those payments are ____________.

a) Short term employee benefit b) Long term employee benefits

c) Post employment benefit d) Termination benefits

83. Under_________________ entity's legal or constructive obligation is limited to the amount that it agrees to contribute to the fund.

a) Defined benefit plan b) Multi employer plan

c) Defined contribution plan d) Termination benefits

84. Under ________________ entity's obligation is to provide agreed benefits to the employees.

    a) Defined benefit plan b) Multi employer plan

    c) Defined contribution plan d) Termination benefits

85. Entity participate in multi-employer defined benefit plan shall account for its _____________ of defined benefit obligation and cost associated with the plan.

    a) Equal share b) 50% share

    c) and others share d) Proportionate share

86. Entity participating in the multi employer defined benefit plan not having sufficient information about the plan to comply, it shall account for the plan as if it were a _____________.

    a) Defined benefit plan b) Termination benefits

    c) Defined contribution plan d) Group administration plan

87. _______________ is the aggregation of single employer plans combined to allow participating employees to pool their assets for investment o reduce management and administration, but the claims of employers are segregated for the benefit of their own employees.

    a) Group administration plan b) Multi employer plan

    c) Defined contribution plan d) Defined benefit plan

88. _____________ are established by legislation to cover all entities and are operated by national or local government or by another body that is not subject to control or influence by the reporting entity.

    a) Defined benefit plan b) Defined contribution plan

    c) Multi employer plan d) State plan

89. Where an entity fund a post employment benefit obligation by contributing to an insurance policy under which the entity retains a legal or constructive obligation, the payment of the premiums amounts to a ________________.

    a) Defined contribution plan b) Defined benefit plan

    c) State plan d) Multi employer plan

90. Under accounting for ____________________, reporting entity's obligation for each period is determined by the amounts to be contributed for that period.

    a) Defined contribution plan b) Defined benefit plan

    c) State plan d) Multi employer plan

91. The entity shall recognize the amount of contribution payable to a defined contribution plan in exchange for service as a ________ unless another Ind AS requires or permits the inclusion of the contribution in the cost of the asset.

    a) Deferred revenue b) Asset
    c) Expense d) Liabilities

92. An amount to be recognized in profit or loss is ________________ any past service cost and gain or loss on settlement and net interest on net defined benefit liability.

    a) Net defined benefit liability b) Actuarial gains or losses
    c) qualifying insurance policy d) Current service cost

93. A net defined benefit asset may arise where a defined benefit plan has been overfunded or where ________________.

    a) Actuarial gain have arisen b) Current service cost is zero
    c) Past service cost arises d) No gain or loss on settlement.

94. An entity shall use the ________________ method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost.

    a) Proportionate b) Projected unit credit
    c) Fair value d) Market value

95. Under ______________ each period of service give rise to additional units of benefits entitlement and measures each unit separately to build up the final obligation.

    a) Fair value method b) Market value method
    c) Projected unit credit method d) Proportionate method

96. If an employee's service in later years will lead to a materially higher level of benefits than in earlier years, an entity attributes benefits on ________________ until the date when further service by the employee will lead to no material amount of further benefits.

    a) Straight line method b) Written down method
    c) Period of service d) Basis of market value

97. Financial assumptions shall be based on __________, at the end of the reporting period, for the period over which the obligations are to be settled.

    a) Peer company's assumption b) Market expectation
    c) Industry assumption d) Company's estimate

98. The rate used to discount post employment benefit obligation shall be determined by reference to market yields at the end of reporting period on ____________.

    a) High quality corporate bond
    b) Inter-bank rate
    c) Government bonds
    d) Company's borrowing rate

99. Contribution from employees or third parties set out in formal terms of plan reduces __________ if they are linked to service.

    a) Actuarial gains or losses
    b) Service cost
    c) Gain or loss on settlement
    d) Insurance cost

100. Contribution from employees to third parties set out in formal terms of plan affects re measurement of the _________________ if they are not linked to service.

    a) Qualifying insurance policy
    b) Actuarial gains or losses
    c) Asset ceiling
    d) Net defined benefit liability (asset)

101. _________________ is the change in the present value of the defined benefit obligation resulting from a plan amendment or curtailment.

    a) Current Service cost
    b) Gain or loss on settlement
    c) Past service cost
    d) Actuarial gain or loss

102. An entity shall recognise a gain or loss on the settlement of a _______________ when the settlement occurs.

    a) Defined contribution plan
    b) Defined benefit plan
    c) State plan
    d) Multi employer plan

103. Plan assets are reduced by liabilities of the fund that do not relate to ______________.

    a) Employee benefits
    b) Trade payable
    c) Derivative financial instrument
    d) Other payable

104. Net interest in the net defined benefit liability shall be determined by multiplying the net defined benefit liability by ____________.

    a) High quality corporate bond rate
    b) Inter-bank rate
    c) Discount rate
    d) Company's borrowing rate

105. ___________________ results from either an entity's decision to terminate the employment or an employee's decision to accept an offer of benefits in exchange for termination of employment.

    a) Defined benefit plan benefit
    b) Defined contribution plan benefit
    c) Multi-employer plan benefit
    d) Termination benefit

106. A _______________ is where a change in the undertakings informal practices would cause unacceptable damages to its relationship with staff.

 a) Constructive obligation b) Legal obligation

 c) Actuarial risk d) Investment risk

107. ___________________ includes benefits in the form of shares, share options and other equity instruments issued to staff at less than fair value.

 a) Vendor payment b) Equity compensation benefits

 c) Past service cost d) Gain or loss on settlement

108. _________ contract are contracts under which neither party has performed any of its obligation or both parties have partially performed their obligations to an equal extent.

 a) Constructive obligation b) Executory

 c) Onerous d) Legal obligation

109. A Provision is ________ of uncertain timing or amount.

 a) Constructive obligation b) Legal obligation

 c) Liability d) Restructuring

110. A Liability is _________________ of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity or resources embodying economic benefits.

 a) Present obligation b) Future obligation

 c) Upcoming obligation d) Constructive obligation

111. ________________ is 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.

 a) Constructive obligation b) Legal obligation

 c) Obligating event d) Contingent liability

112. An _______________ is a contract in which the unavoidable cost of meeting the obligation under the contract exceed the economic benefits expected to be received under it.

 a) Onerous contract b) Present contract

 c) Restructuring d) Obligating event

113. The amount recognised as a __________shall be the best estimate of the expenditure required to settle the present obligation at the end of the reporting period.

a) Liability
b) Constructive contract
c) Provision
d) Contingent liability

114. If an entity has a contract that is onerous, the present obligation under the contract shall be recognised and measured as a ____________.

a) Liability
b) Constructive contract
c) Provision
d) Contingent liability

115. A restructuring provision shall include only the direct expenditures arising from the restructuring, which necessarily entailed by the restructuring and not associated with the _____________ of the entity.

a) Restructuring
b) Onerous contract
c) Future events
d) Ongoing activities

116. A share-based payment transaction in which the entity acquires goods or services by incurring a liability to transfer cash or other assets to the supplier of those goods or services for amounts that are based on the price (or value) of equity instruments of the entity or another group entity is known as _____________________.

a) Cash settled share based payment transaction.
b) Equity settled share based payment transaction.
c) Share based payment arrangement.
d) Share option.

117. When the goods or services received or acquired in a share-based payment transaction do not qualify for recognition as ______, they shall be recognised as expenses.

a) Liability
b) Equity
c) Assets
d) Part of other comprehensive income.

118. _______________________ are the individuals who render personal services to the entity and either the individual are regarded as employees for legal or tax purpose or individual work for the entity under its direction in the same way as individual who are regarded as employees for legal or tax purpose or services rendered are similar to those rendered by employees.

a) Employees and others providing similar services
b) Employees
c) Employees or others providing similar services
d) Agency providing employment service.

119. No amount is recognised for goods or services received if the equity instruments granted do not vest because of failure to satisfy a _________.

a) Market condition
b) Vesting condition
c) Service condition
d) Vesting period

120. At the date of settlement or cancellation, if the share based payment arrangement includes liability component, the entity shall re-measure the _______________.

a) Equity interest
b) Share based payment arrangement
c) Fair value of expense
d) Fair value of liability

121. Difference between the fair value of the replacement equity instruments and the net fair value of the cancelled equity instruments, at the date the replacement equity instruments are granted is __________________.

a) Fair value
b) Incremental fair value
c) Vesting condition
d) Book value

122. For share based payment transactions in which the terms of the arrangement provide either the entity or the counterparty with the choice of settlement in cash or by issuing equity instruments, the entity shall account for transaction as _______________, if and to the extent, entity has incurred a liability to settle in cash or other assets.

a) Cash settled share based payment transaction.
b) Equity settled share based payment transaction.
c) Share based payment arrangement.
d) Share option.

123. Share based payment transactions with cash alternatives shall be accounted for as an ____________ if, and to the extent, entity has not incurred a liability to settle in cash or other assets.

a) Cash settled share based payment transaction.
b) Equity settled share based payment transaction.
c) Share based payment arrangement.
d) Share option.

124. A contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities is __________________.

a) Income
b) Other comprehensive income
c) Expense
d) Equity instrument

125. ________________ is a share based payment transaction in which the entity receives goods or services as consideration for its own equity instruments or receives goods or services but has no obligation to settle the transaction with the supplier.

a) Cash settled share based payment transaction.

b) Equity settled share based payment transaction.

c) Share based payment arrangement.

d) Share option.

126. At ___________ the entity confers on the counterparty the right to cash, other assets, or equity instruments of the entity, provided the specific vesting conditions, if any are met.

a) Measurement date b) Performance date

c) Grant date d) Vesting period

127. ________________ is the difference between the fair value of the shares to which the counterparty has the right to subscribe or which it has the right to receive, and the price the counterparty is required to pay for those shares.

a) Intrinsic value b) Fair value

c) Book value d) Market value

128. Reload feature provides for automatic grant of additional ____________ whenever the option holder excise previously granted options using the entity's share, rather than cash, to satisfy the excise price.

a) Reload option b) Service condition

c) Share option d) Vesting condition

129. An agreement between the entity and another party that entitles other party to receive cash or other assets based on the price of equity instrument of the entity or equity instrument of the entity is known as ____________________.

a) Cash settled share based payment transaction.

b) Equity settled share based payment transaction.

c) Share based payment arrangement.

d) Share option

130. ____________ is contract that gives the holder the right, but not obligation, to subscribe to the entity's shares at a fixed price or determinable price for a specified period of time.

a) Reload option b) Service condition

c) Share option d) Vesting condition

131. ____________ is a condition that determines whether the entity receives the services that entitles the counterparty to receive cash, other assets or equity instruments of the entity, under a share based payment arrangement.

a) Service condition　　b) Vesting condition

c) Market condition　　d) Performance condition

132. __________ is the period during which all the specified vesting conditions of a share based payment arrangement are to be satisfied.

a) Vesting period　　b) Service period

c) Post combination period　　d) Reporting period.

Solution to MCQs

1. b) Before deducting tax expenses.
2. c) Current tax and deferred tax.
3. a) Deferred tax assets are recognized on initial recognition of an asset.
4. d) At the end of each reporting period.
5. b) That are expected to apply when the asset is realized or liability is settled.
6. a) Profit or loss in the statement of profit or loss and other comprehensive income.
7. c) Directly to equity.
8. d) Resulting from employee service without deducting the fair value of plan assets.
9. c) Be recognized at undiscounted amount during the accounting period in which the employee renders the services.
10. a) When the absence occurs.
11. b) Expenses
12. c) Classified as defined contribution plan or defined benefit plan considering the terms of the plan.
13. b) Are not multi-employer plans.
14. a) Defined contribution plan.
15. d) Both legal and constructive obligation.
16. b) The lower of surplus in the defined benefit plan and asset ceiling determined using the discount rate.
17. a) Affect the amount required to settle the obligation that exists for service before the end of the reporting period.

18. d) Both during and after employment.

19. c) Earlier of when the plan amendment or curtailment occurs or when the entity recognises related restructuring costs or termination benefits.

20. b) The present value of the defined benefit obligation being settled and the settlement price including any plan assets transferred and payment in connection with settlement.

21. a) All further legal or constructive obligation for part or all the benefits provided under a defined benefit plan.

22. c) Recognise its right to reimbursement as a separate asset and measure the asset at fair value.

23. d) The entity has a legally enforceable right to use a surplus in one plan to settle obligation under the other plan and entity intend to settle the obligation on net basis.

24. d) All of the above

25. d) All of the above.

26. b) At the earlier when the entity can no longer withdraw the offer of those benefits or when the entity recognised the cost of restructuring.

27. a) To finance any shortfall in the plan, if other undertakings cease to participate.

28. a) An event that creates a legal or constructive obligation that results in an entity having no realistic alternative to settling that obligation.

29. c) It is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

30. b) Not recognise contingent liability.

31. c) Required to be disclosed in the financial statement, where an inflow of economic benefits is probable.

32. a) Shall be the present value of the expenditures expected to be required to settle the obligation.

33. d) Shall not be considered while measuring the amount of provision.

34. c) The reimbursement receivable shall be reduce from the amount of provision liability.

35. b) The provision shall be reversed.

36. a) Only for expenditures for which the provision was originally recognised.

37. b) Not required to be recognised for future operating losses.

38. b) Is not a share based payment transaction.

39. a) Shall recognise a corresponding increase in equity if the goods are received in an equity settled share based payment transaction.

40. d) Directly, at the fair value of the goods or services received, unless that fair value cannot be estimated reliably.

41. c) The entity shall account for those services as they are rendered by the counterparty during the vesting period, with corresponding increase in equity.

42. b) The reload feature shall not be taken into account when estimating the fair value of options granted at the measurement date.

43. a) Shall not subsequently reversed if the vested equity instruments are later forfeited or, in the case of share options, the options are not exercised.

44. c) Entity shall measure the equity instruments at their intrinsic value at the date entity obtains the goods or counterparty renders service.

45. b) Recognised immediately the amount that otherwise would have been recognised for services received over the reminder of vesting period.

46. d) The repurchase of an equity interest, i.e., as a deduction from equity.

47. a) Be recognised as an expenses.

48. a) Account for new equity instruments as a grant of new equity instrument.

49. d) Re measure the fair value of the liability at the end of each reporting period and at the date of settlement.

50. b) As difference between the fair value of goods or services received and fair value of debt component, at the date when goods or services are received.

51. d) The liability shall be transferred directly to equity.

52. c) Cash payment shall be accounted for as the repurchase of an equity interest.

53. a) Only if it is settled in the entity's own equity instruments.

54. a) The measurement date and grant date is different.

55. b) To complete a specified period of service during which services are provided to the entity.

56. c) Measure the services received from its employees in accordance with equity settled share payment transactions and recognise the corresponding increase in equity as contribution from the parent.

57. d) It shall account for the transaction as cash settled transaction.

58. c) Current; future

59. a) Goodwill
60. b) Payable
61. b) Tax purpose
62. a) Consolidated tax return
63. d) Deferred tax assets
64. a) Discounting
65. b) Legally enforceable
66. a) Tax loss occurs
67. c) Carrying amount
68. d) Employee benefits
69. a) Short term employee benefits
70. d) Post employment benefits
71. c) Termination benefits
72. a) Defined contribution plans
73. b) Multi employer plan
74. c) Deficit or surplus
75. a) Plan assets
76. b) Current service cost
77. c) Actuarial gain or loss
78. d) The return on plan assets
79. a) Short term employee benefits
80. b) Employee render service
81. a) Profit sharing and bonus payments
82. b) Long term employee benefits
83. c) Defined contribution plan
84. a) Defined benefit plan
85. d) Proportionate share
86. c) Defined contribution plan

87. a) Group administration plan
88. d) State plans
89. b) Defined benefit plan
90. a) Defined contribution plan
91. c) Expense
92. d) Current service cost
93. a) Actuarial gain have arisen
94. b) projected unit credit
95. c) Projected unit credit method
96. a) Straight line basis
97. b) Market expectation
98. c) Government bonds
99. b) Service cost
100. d) Net defined benefit liability (asset)
101. c) Past Service cost
102. b) Defined benefit plan
103. a) Employee benefits
104. c) Market yield on Govt. bond
105. d) Termination benefits
106. a) Constructive obligation
107. b) Equity compensation benefits
108. b) Executory
109. c) Liability
110. a) Present obligation
111. d) Contingent liability
112. a) Onerous contract
113. c) Provision
114. c) Provision

115. d) Ongoing activities
116. Cash settled share based payment transaction
117. c) Assets
118. a) Employees and other providing similar services
119. b) Vesting condition
120. d) Fair value of liability
121. b) Incremental fair value
122. a) Cash settled share based payment transaction
123. b) Equity settled share based payment transaction
124. d) Equity instrument
125. b) Equity settled share based payment transaction
126. c) Grant date
127. a) Intrinsic value
128. c) Share options
129. c) Share based payment arrangement
130. c) Share option
131. b) Vesting condition
132. a) Vesting period

Chapter 10
Standards on Financial Instruments & Fair Value Measurements

The definition of financial instruments is very extensive. Any contract that gives rise to a financial asset of one entity and financial liability or equity instrument of another entity, fall into the ambit of financial instruments. Cash, bank balances, trade receivables and payables, bank loans and overdrafts, issued debts, ordinary and preference shares, investments in securities like shares and debentures, derivatives are some of the example of financial instruments. Every entity has financial instruments, even if it is only cash, debtors or creditors

The following standards deal with the accounting for financial instruments:

- Ind AS 32 Financial Instruments: Presentation
- Ind AS 107 Financial Instruments: Disclosure
- Ind AS 109 Financial Instruments
- Ind AS 113 Fair Value Measurement

I. Ind AS 32: FINANCIAL INSTRUMENTS: PRESENTATION

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.

The key questions that must be addressed when determining classification as a financial liability or equity instrument are therefore:

- Is settlement in cash or another financial asset neither mandatory nor at the option of the holder?
- Does the issuer have the unconditional right (i.e. full discretion) to avoid payments in cash or other financial assets or to defer payment indefinitely?
- if settlement in cash, another financial asset or a variable number of shares is dependent on the outcome of uncertain future events beyond the issuer's and the holder's control, is the event that would cause such settlement extremely rare, highly abnormal and very unlikely to occur?
- If the instrument is, or may be, settled in own shares, is the number of shares that will or may be delivered fixed, so that the holder is fully exposed to fluctuations in the issuer's share price?
- If the instrument is, or may be, settled in fixed number of entity’s own shares, is the exercise price fixed in any currency?

Now let us study each of these issues in some details.

Obligation to deliver cash or another financial asset

The obligation to deliver cash or another financial asset may arise explicitly or it may arise indirectly through the terms and conditions of the financial instrument. All the terms and conditions of the contract should be carefully assessed to determine the nature of obligation.

A case study

Entity X has issued some preference shares. The shares provide the holders with a mandatory fixed cumulative annual dividend of 10% that is payable provided Entity B has sufficient distributable profits. The dividend is payable regardless of whether a dividend is paid on the entity's ordinary shares. The shares are redeemable at the issuer's option.

Solution

Although, the preference shares are redeemable only at the issuer's option, in substance, they are debt instruments. To classify an instrument as equity, the issuer must assess the various rights attached to the share to determine whether it exhibits the fundamental characteristic of a liability. In this case, the dividend rights attached to the shares are such that the issuer cannot use its discretion to avoid payment of the dividend. Such a mandatory fixed cumulative dividend is similar to an interest payment that provides the shareholder with a lender's rate of return. Hence, the entity X should classify the entire preference shares as financial liabilities.

Unconditional right to avoid payment

An instrument qualifies to be classified as equity only if the entity has absolute discretion to avoid delivering cash or another financial asset. Otherwise, the instrument meets the definition of a financial liability. The management should have discretion to unilaterally set the timing and amount (including zero) of the payment. Such discretion should exist indefinitely for an instrument to be classified as equity. For example, an ability of the management of the issuer to unilaterally set the amount of any dividends, combined with no stated redemption date, might result in equity classification.

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.

For similar reasons the following factors do not affect classification of a preference share as either a financial liability or an equity instrument:

- A history of making distributions
- An intention to make distributions in the future

- A possible negative impact on the price of ordinary shares of the issuer if distributions are not made
- The amount of an issuer's reserves
- An issuer's expectation of profit or loss for a period
- An ability or inability of the issuer to influence the amounts of its profit or loss for the period

Settlement based on uncertain future events

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.

Some examples:

ITEMS	CLASSIFICATION
Ordinary shares	equity, since right to receive cash if form of cash or otherwise at issuers discretion
Advance received	not financial liability, since obligation to deliver goods or services

ITEMS	CLASSIFICATION
Warranty obligations	-do-
Tax provisions	Non financial liability, since it is statutory obligation and not contractual obligation
Company's registration fees, etc.	-do-
Mandatorily redeemable shares	Financial liability
Bill payables	Financial liability
Trade creditors	Financial liability
Perpetual instruments with mandatory coupon payments	Financial liability
Puttable instruments	Financial liability
Instrument requiring mandatory payment of % of profit	Financial liability
Instrument redeemable at option of issuer	Equity, since outflow of cash avoidable
Instrument redeemable mandatorily on fulfilment of certain condition	Financial liability
Deposits	Financial liability
Contingent settlement	Financial liability, if provisions genuine and not limited to liquidation
Dividends	Not a financial liability if declaration at discretion of issuer
Declared dividend	Financial liability
Dividend pusher/stopper	Not financial liability
Bank overdraft	Financial liability

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.

Offsetting vs Derecognition

Offsetting of a financial asset with a financial liability is different from derecognising financial assets or liabilities. Unlike de-recognition, offsetting does not remove an asset or liability from Balance Sheet. Rather it amounts to net presentation of the asset or liability as either a net asset or a net liability. Moreover, derecognition of a financial instrument can give rise to gain or loss on Derecognition whereas there is no such gain or loss in case of offsetting.

Legal right to offset

Legal right to offset is debtor's legal right, by contract or otherwise to settle or otherwise eliminate all or portion of an amount due to creditor by applying against that amount due an amount due from the creditor. As the right here are legal right, the circumstance that gives rise to such a right will vary from one legal jurisdiction to another. Thus for each relationship between two parties it is necessary to consider the particular laws applicable to it. Sometimes a debtor may have legal right to offset an amount due from third party against amount due from creditor, provided there is a legal agreement to do so between three parties.

Intention to offset

The existence of an enforceable right to set off financial asset and financial liability is by itself not sufficient basis for offsetting; there should also be an intention to do so. The intention of offset is presumed to be there either when entity intents to exercise the right to offset or to settle simultaneously an offsetting financial asset and financial liability. The intention of one or both parties to settle on net basis is not sufficient if there is no legally enforceable right to do so.

II. 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

i. 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 repledge 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 repledge, 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 shall 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 extend 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 out of a category to other category, it shall disclose:

a) The date of reclassification

b) A detailed explanation of change in business model and a qualitative description of its effect on entity's financial statements

c) 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 below (that reflect how fair value has been determined):

- **Level 1:** Quoted prices, in active markets

- **Level 2**: Level 1 quoted prices are not available but 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.

III. 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.

Ind AS 109 removes the requirement to separate embedded derivatives from financial asset host contracts. It instead requires a hybrid contract to be classified in its entirety at either amortised cost or fair value. Separation of embedded derivatives has been retained for financial liabilities subject to criteria being met.

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.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date

Directly attributable transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability.

Principal is the fair value of the financial asset at initial recognition.

Interest is typically the compensation for the time value of money and credit risk.

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:

a) Amortised cost,

b) Fair value through profit or loss, or

c) 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.

Business model assessment is determined by the entity's key management personnel in the way that assets are managed and their performance is reported. The business model is determined at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. It is not an instrument-by-instrument analysis. Rather it can be performed at a higher level of aggregation.

An entity's business model for managing financial assets is a matter of fact and not merely an assertion. It is typically observable through the activities that the entity undertakes to achieve the objective of the business model. The business model for managing financial assets is not determined by a single factor or activity. Instead, management has to consider all relevant evidence available at the date of the assessment. Such relevant evidence includes, but is not limited to the following:

- How the performance of the business model (and the financial assets held within) is evaluated and reported to the entity's key management personnel
- The risks that affect the performance of the business model (and the financial assets held within) and, in particular, the way those risks are managed
- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or the contractual cash flows collected)

Contractual cash flow assessment is based on an **instrument-by-instrument** assessment. Financial assets with cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding can be classified as subsequently measured at amortised cost. Here, interest is consideration for **only** the time-value of money and credit risk. In case of FOREX financial assets assessment is made in the denomination currency (i.e. FX movements are not taken into account).

Subsequent Measurement: 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 shall be measured at fair value through other comprehensive income if both of the following conditions are met:

(a) The financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and

(b) 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 shall 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.

Financial liabilities and equity

The classification of a financial instrument by the issuer as either a liability (debt) or equity can have a significant impact on an entity's gearing (debt-to-equity ratio) and reported earnings. It can also affect the entity's debt covenants.

The critical feature of a liability is that under the terms of the instrument, the issuer is or can be required to deliver either cash or another financial asset to the holder; it cannot avoid this obligation. For example, a debenture under which the issuer is required to make interest payments and redeem the debenture for cash is a financial liability.

An instrument is classified as equity when it represents a residual interest in the issuer's assets after deducting all its liabilities; or, put another way, when the issuer has no obligation under the terms of the instrument to deliver cash or other financial assets to another entity. Ordinary shares or common stock where all the payments are at the discretion of the issuer are examples of equity of the issuer.

In addition, the following types of financial instrument are accounted for as equity, provided they have particular features and meet specific conditions:

- Puttable financial instruments (for example, some shares issued by co-operative entities and some partnership interests)
- Instruments or components of instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation (for example, some shares issued by limited life entities)

The classification of the financial instrument as either debt or equity is based on the substance of the contractual arrangement of the instrument rather than its legal form. This means, for example, that a redeemable preference share, which is economically the same as a bond, is accounted for in the same way as a bond. The redeemable preference share is therefore treated as a liability rather than equity, even though legally it is a share of the issuer.

Other instruments may not be as straightforward. An analysis of the terms of each instrument in light of the detailed classification requirements is necessary, particularly as some financial instruments contain both liability and equity features. Such instruments, for example, bonds that are convertible into a fixed number of equity shares, are accounted for as separate liability and equity (being the option to convert if all the criteria for equity are met) components.

The treatment of interest, dividends, losses and gains in the statement of profit & loss follows the classification of the related instrument. If a preference share is classified as a liability, its coupon (preference dividend) is shown as interest cost. However, the discretionary coupon on an instrument that is treated as equity is shown as a distribution within equity.

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.

A retrospective effectiveness testing is not required under Ind AS 109. Ind AS 109 requires ensuring that the hedge ratio is appropriate. Companies need to verify that the hedge ratio is aligned with the requirement of their economic hedging strategy (risk management strategy). Deliberate imbalances must be avoided. A mismatch of weightings between the hedged item and the hedging instrument should not be used to achieve an accounting outcome that is inconsistent with the purpose of hedge accounting. This doesn't imply that the hedge relationship must be perfect, but the weightings of the hedging instruments and hedged item actually used cannot be selected in order to introduce ineffectiveness. Companies need to carefully document their hedging strategy and financial instrument classification at inception. Ind AS 109 prohibits voluntary de-designation of hedges if risk management strategy of the company has not changed.

APPENDIX C OF IND AS 109: HEDGES OF A NET INVESTMENT IN A FOREIGN OPERATION

This Appendix applies to an entity that hedges the foreign currency risk arising from its net investments in foreign operations and wishes to apply for hedge accounting in accordance with Ind AS 109 *Financial Instruments.* It applies only to hedges of net investments in foreign operations and it should not be applied by analogy to other types of hedge accounting.

ISSUES

The issues addressed in this Appendix are:

1. The nature of the hedged risk and the amount of the hedged item for which a hedging relationship may be designated:

    - Whether the parent entity may designate as a hedged risk only the foreign exchange differences arising from a difference between the functional currencies of the parent entity and its foreign operation, or whether it may also designate as the hedged risk the foreign exchange differences arising from the difference between the presentation currency of the parent entity's consolidated financial statements and the functional currency of the foreign operation

    - If the parent entity holds the foreign operation indirectly, whether the hedged risk may include only the foreign exchange differences arising from differences in functional currencies between the foreign operation and its immediate parent entity, or whether the hedged risk may also include any foreign exchange differences between the functional currency of the foreign operation and any intermediate or ultimate parent entity.

2. Where in a group the hedging instrument can be held:
   - Whether a qualifying hedge accounting relationship can be established only if the entity hedging its net investment is a party to the hedging instrument or whether any entity in the group, regardless of its functional currency, can hold the hedging instrument
   - Whether the nature of the hedging instrument (derivative or non-derivative) or the method of consolidation affects the assessment of hedge effectiveness.
3. What amounts should be reclassified from equity to profit or loss as reclassification adjustments on disposal of the foreign operation:
   - When a foreign operation that was hedged is disposed of, what amounts from the parent entity's foreign currency translation reserve in respect of the hedging instrument and in respect of that foreign operation should be reclassified from equity to profit or loss in the parent entity's consolidated financial statements
   - Whether the method of consolidation affects the determination of the amounts to be reclassified from equity to profit or loss.

Accounting Policies

Nature of the hedged risk and amount of the hedged item for which a hedging relationship may be demonstrated

Hedge accounting may be applied only to the foreign exchange differences arising between the functional currency of the foreign operation and the parent entity's functional currency in a hedge of the foreign currency risks arising from a net investment in a foreign operation, the hedged item can be an amount of net assets equal to or less than the carrying amount of the net assets of the foreign operation in the consolidated financial statements of the parent entity.

The hedged risk may be designated as the foreign currency exposure arising between the functional currency of the foreign operation and the functional currency of any parent entity (the immediate, intermediate or ultimate parent entity) of that foreign operation.

An exposure to foreign currency risk arising from a net investment in a foreign operation may qualify for hedge accounting only once in the consolidated financial statements. Therefore, if the same net assets of a foreign operation are hedged by more than one parent entity within the group for the same risk, only one hedging relationship will qualify for hedge accounting in the consolidated financial statements of the ultimate parent.

Where the hedging instrument can be held

A derivative or a non-derivative instrument may be designated as a hedging instrument in a hedge of a net investment in a foreign operation. The hedging instrument(s) may be held by any entity or entities within the group as long as the designation, documentation and effectiveness requirements that relate to a net investment hedge are satisfied. In particular, the hedging strategy of the group should be clearly documented because of the possibility of different designations at different levels of the group.

Disposal of a hedged foreign operation

When a foreign operation that was hedged is disposed of, the amount reclassified to profit or loss as a reclassification adjustment from the foreign currency translation reserve in the consolidated financial statements of the parent in respect of the hedging instrument is the amount that Ind AS 109 requires to be identified. The amount reclassified to profit or loss from the foreign currency translation reserve in the consolidated financial statements of a parent in respect of the net investment in that foreign operation in accordance with Ind AS 21. The Effects of Changes in Foreign Exchange Rates is the amount included in that parent's foreign currency translation reserve in respect of that foreign operation.

APPENDIX D TO IND AS 109: EXTINGUISHING FINANCIAL LIABILITIES WITH EQUITY INSTRUMENTS

This Appendix addresses the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor to extinguish all (or part) of the financial liability which is commonly referred to as 'debt for equity swaps'.

However, it does not cover the following:

- If the creditor is a direct/indirect shareholder and is acting in its capacity as a direct/ indirect existing shareholder
- The creditor and the issuing entity are controlled by the same party or parties before and after the transaction, and the substance of the transaction includes an equity distribution by or consideration to the entity
- The issuing of equity shares to extinguish debt is in accordance with the original terms upon entering into the financial liability (such as convertible debt).

Issues

This Appendix addresses the following issues:

- Are equity instruments issued to extinguish debt considered 'consideration paid' per Ind AS 109?
- How should the issuing entity initially measure these equity instruments?
- How should the issuing entity account for any difference between the carrying amount of the financial liability and the equity instruments issued

Accounting Principles

Can equity instruments issued to extinguish financial liabilities be treated as consideration paid?

Yes, the issue of instruments is to be treated as consideration to extinguish financial liabilities. The financial liability is removed from the balance sheet only when it is extinguished in accordance with Ind AS 109 i.e. when the obligation (in part or in full) specified in the contract is discharged or cancelled or expires.

Initial measurement of consideration paid

The equity instruments issued are initially recognised and measured at the date the financial liability (or part) is extinguished. The equity instruments issued are measured and recognised at fair value of the issued equity instruments. If fair value cannot be measured reliably, the equity instruments are required to be measured to reflect the fair value of the financial liability extinguished. However, demand features of the financial liability are not taken into account.

The difference between the carrying amount of the financial liability (or part of a financial liability) extinguished, and the consideration paid, is recognised in profit or loss in accordance with Ind AS 109.

Part extinguishment

If only part of the financial liability is extinguished, the entity is required to assess whether some of the consideration paid relates to a modification of the terms of the liability that remains outstanding. If part of the consideration paid does relate to a modification of the terms of the remaining part of the liability, the entity allocates the consideration paid between the part of the liability extinguished and the part of the liability that remains outstanding. The entity considers all relevant facts and circumstances relating to the transaction in making this allocation.

If the remaining liability has been substantially modified, the entity is required to extinguish the original liability and recognise a new liability, as required by Ind AS 109. Changes are recognised and disclosed as a separate line item in profit or loss.

IV. Ind AS 113-FAIR VALUE MEASUREMENT

The standard deals with “how to measure fair value?”

Salient Features of Ind AS 113

- The Ind AS 113 explains how to measure fair value for financial reporting.
- Some Ind ASs require or permit entities to measure or disclose the fair value of assets, liabilities or their own equity instruments.
- Fair value is a market-based measurement, not an entity-specific measurement.
- The timing of fair value measurement is not covered.

The Standard does not apply to

The standard does not apply to transactions that are covered under the following standards

- o Ind AS 102 – Share - based Payment
- o Ind AS 17 – Leases
- o Ind AS 36 – Impairment of Assets

Requirements of the Standard

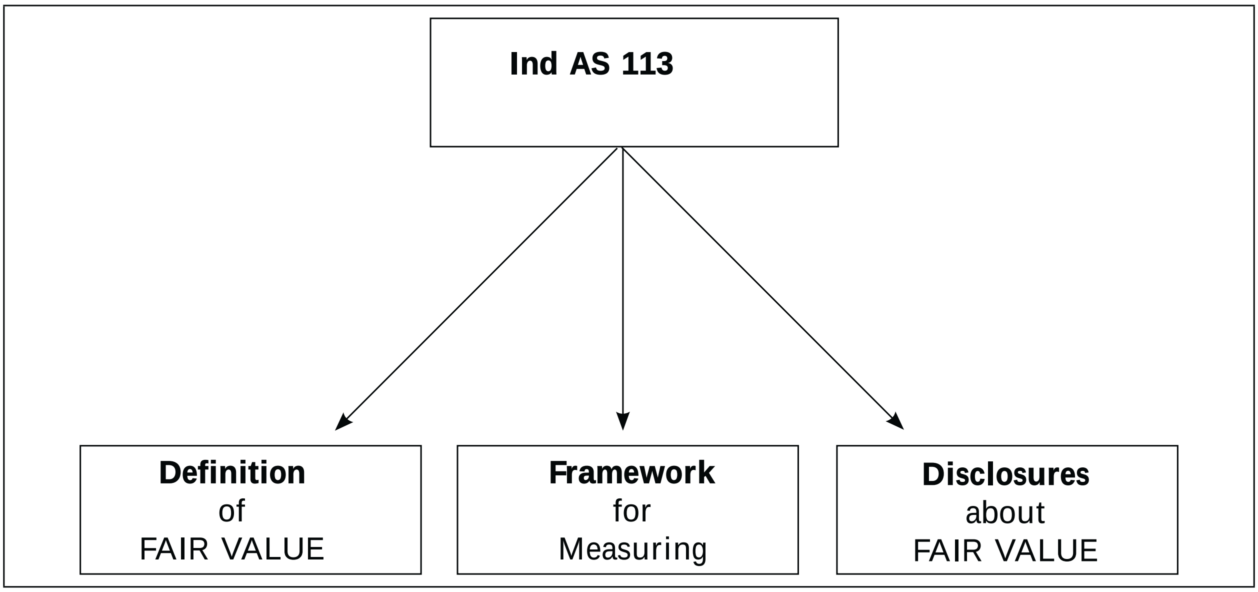
This Ind AS explains that a fair value measurement requires an entity to determine the following:

(a) The particular asset or liability being measured;

(b) For a non-financial asset, the highest and best use of the asset and whether the asset is used in combination with other assets or on a stand-alone basis;

(c) The market in which an orderly transaction would take place for the asset or liability; and

(d) The appropriate valuation technique(s) to use when measuring fair value. The valuation technique(s) used should maximise the use of relevant observable inputs and minimise unobservable inputs. Those inputs should be consistent with the inputs a market participant would use when pricing the asset or liability.



Definitions

Active market – A market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Cost approach – A valuation technique that reflects the amount that would be required currently to replace the service capacity of an asset (often referred to as current replacement cost).

Entry Price – The price paid to acquire an asset or received to assume a liability in an exchange transaction.

Exit Price – The price that would be received to sell an asset or paid to transfer a liability.

Expected Cash Flow – The probability-weighted average (i.e. mean of the distribution) of possible future cash flows.

Fair Value – The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Highest and best use – The use of a non-financial asset by market participants that would maximise the value of the asset or the group of assets and liabilities (e.g. a business) within which the asset would be used.

Income Approach – Valuation techniques that convert future amounts (e.g. cash flows or income and expenses) to a single current (i.e. discounted) amount. The fair value measurement is determined on the basis of the value indicated by current market expectations about those future amounts.

Inputs – The assumptions that market participants would use when pricing the asset or liability, including assumptions about risk, such as the following:

(a) The risk inherent in a particular valuation technique used to measure fair value (such as a pricing model); and

(b) The risk inherent in the inputs to the valuation technique.

Inputs may be observable or unobservable.

Level 1 inputs – Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.

Level 2 inputs – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 inputs – Unobservable inputs for the asset or liability.

Market approach – A valuation technique that uses prices and other relevant information generated by market transactions involving identical or comparable (i.e. similar) assets, liabilities or a group of assets and liabilities, such as a business.

Market Corroborated Inputs – Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Market Participants – Buyers and sellers in the principal (or most advantageous) market for the asset or liability that have all of the following characteristics:

(a) They are independent of each other, i.e. they are not related parties as defined in Ind AS 24, although the price in a related party transaction may be used as an input to a fair value measurement if the entity has evidence that the transaction was entered into at market terms.

(b) They are knowledgeable, having a reasonable understanding about the asset or liability and the transaction using all available information, including information that might be obtained through due diligence efforts that are usual and customary.

(c) They are able to enter into a transaction for the asset or liability.

(d) They are willing to enter into a transaction for the asset or liability, i.e. they are motivated but not forced or otherwise compelled to do so.

Most Advantageous Market – The market that maximises the amount that would be received to sell the asset or minimises the amount that would be paid to transfer the liability, after taking into account transaction costs and transport costs.

Non-Performance Risk – The risk that an entity will not fulfil an obligation. Non-performance risk includes, but may not be limited to, the entity's own credit risk.

Observable Inputs – Inputs that are developed using market data, such as publicly available information about actual events or transactions, and that reflect the assumptions that market participants would use when pricing the asset or liability.

Orderly Transaction – A transaction that assumes exposure to the market for a period before the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets or liabilities; it is not a forced transaction (e.g. a forced liquidation or distress sale).

Principal Market – The market with the greatest volume and level of activity for the asset or liability.

Risk Premium – Compensation sought by risk-averse market participants for bearing the uncertainty inherent in the cash flows of an asset or a liability. Also referred to as a 'risk adjustment'.

Transaction Costs – The costs to sell an asset or transfer a liability in the principal (or most advantageous) market for the asset or liability that are directly attributable to the disposal of the asset or the transfer of the liability and meet both of the following criteria:

(a) They result directly from and are essential to that transaction.

(b) They would not have been incurred by the entity had the decision to sell the asset or transfer the liability not been made (similar to costs to sell, as defined in Ind AS 105).

Transport Costs – The costs that would be incurred to transport an asset from its current location to its principal (or most advantageous) market.

Unit of Account – The level at which an asset or a liability is aggregated or disaggregated in an Ind AS for recognition purposes.

Unobservable Inputs – Inputs for which market data are not available and that are developed using the best information available about the assumptions that market participants would use when pricing the asset or liability.

Definition of Fair Value

Fair Value –

- It 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.

A fair value measurement requires an entity to determine all the following:

- The particular asset or liability that is the subject of the measurement (consistently with its unit of account).
- For a non-financial asset, the valuation premise that is appropriate for the measurement (consistently with its highest and best use).
- The principal (or most advantageous) market for the asset or liability.
- The valuation technique(s) appropriate for the measurement, considering the availability of data with which to develop inputs that represent the assumptions that market participants would use when pricing the asset or liability and the level of the fair value hierarchy within which the inputs are categorised.

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 FV
- Step six: Appropriate disclosures

Unit of Account

- A fair value measurement is for a particular asset or liability.
- Therefore, when measuring fair value an entity shall 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 asset or liability measured at fair value might be either of the following:

The fair value measurement may be applied to a standalone asset or liability (e.g., a financial instrument or a non-financial asset) or a group of related assets and/or liabilities, such as a business or a cash-generating unit (CGU). How the fair value measurement applies to an asset or a liability depends on the unit of account. 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.

The unit of account is determined based on the level at which the asset or liability is aggregated or disaggregated in accordance with Ind AS applicable to the particular asset or liability being measured.

In some cases, the unit of account may not be clear. There are few instances in which the unit of account is explicitly defined. 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.

A prominent example of when the application of unit of account has been problematic relates to the fair value of investments in listed subsidiaries and associates. The problem specifically is whether the unit of account is the investment as a whole or each share.

Ind AS 113 does specifically address one area relating to the unit of account in the form of guidance for financial assets and financial liabilities with offsetting positions. Ind AS 113 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.

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 (such as when assets are sold on multiple commodity and/or equity exchanges), 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 shall not be adjusted for transaction costs.
- Transaction costs shall be accounted for in accordance with other Ind ASs.
- Transaction costs do not include transport costs.

What is Fair Value Measurement?

The definition of fair value emphasises that fair value is a market-based measurement, not an entity-specific measurement.

Need for Fair Value Measurement

Ind AS 113 remedies the inconsistencies in the requirements for measuring fair value and for disclosing information about fair value measurements that have led to the diversity in practice and have reduced the comparability of information reported in financial statements.

Not relevant in Fair Value Measurement

An entity's intention to hold an asset or to settle or otherwise fulfil a liability is not relevant when measuring fair value.

Measurement of Non-Financial Asset

A 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.

Valuation for Non-Financial Asset

Non-financial assets such as Intangible Assets, Disposal Groups etc. are subject to a valuation premise referred to as the "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. The concept refers to both the different ways of utilizing the individual asset, and the valuation premise, whether the maximum value is on a standalone basis or in combination with other assets. Entity considers the current use and any other use that is financially feasible, legally permissible and physically possible. Highest and best use must meet certain criterion and barriers limiting the assets ability should be examined to ensure that the asset's use is:

- Physically possible - Are there any issues with the location or size of the property?
- Legally permissible – Are there any zoning implications restricting use?
- Financially feasible – Will the use generate adequate cash flows to produce a return acceptable by market participants?

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 statement of financial position 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.

Portfolio Exception: Exposure to Market Risk

When using the offsetting exception the entity must apply the price within the bid-ask spread that is most representative of fair value in the circumstances to the entity's net exposure to those market risks and ensure that the market risk (or risks) within the offset group are substantially the same. Any basic risk resulting from the market risk parameters not being identical are taken into account in the fair value measurement of the financial assets / liabilities within the offset group. Similarly, the duration of the entity's exposure to a particular market risk (or risks) arising from the financial assets and financial liabilities of the offset group must be substantially the same.

Portfolio Exception: Exposure to Credit Risk

When using the offsetting exception entity must include the effect of the entity's net exposure to the credit risk of that counterparty's net exposure to the credit risk of the entity in the fair value measurement if market participants would take into account any existing arrangements that mitigate credit risk exposure in the event of default. Fair Value must to reflect market participants' expectations about the likelihood that such an arrangement would be legally enforceable in the event of default.

Financial or Non-Financial Liability

- A fair value measurement assumes that a financial or non-financial liability or an entity's own equity instrument (e.g. 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:
  - o A liability would remain outstanding and the market participant transferee would be required to fulfil the obligation.
  - o An entity's own equity instrument would remain outstanding and the 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 shall 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 shall 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 shall 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.

Objective of Valuation Technique

The objective of using a valuation technique 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.

Types of Valuation Techniques

Three widely used valuation techniques are

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

An entity shall use valuation techniques consistent with one or more of those approaches to measure fair value.

Valuation techniques used to measure fair value shall maximise the use of relevant observable inputs and minimise the use of unobservable inputs. Examples of markets in which inputs might be observable for some assets and liabilities (e.g. financial instruments) include exchange markets, dealer markets, brokered markets and principal-to-principal markets.

Fair Value Hierarchy

- To increase consistency and comparability in fair value measurements and related disclosures, this Ind AS 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*).
- The fair value hierarchy prioritises the inputs to valuation techniques, not the valuation techniques used to measure fair value.

Level 1 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.

Quoted Price

A quoted price in an active market provides the most reliable evidence of fair value and shall be used without adjustment to measure fair value whenever available

No Adjustments to Level 1 Inputs except in the following circumstance

(a) When an entity holds a large number of similar (but not identical) assets or liabilities (e.g. 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 (i.e. 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).

(b) When a quoted price in an active market does not represent fair value at the measurement date.

(c) 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 markets that are not active.

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

  (i) Interest rates and yield curves observable at commonly quoted intervals;

  (ii) Implied volatilities; and

  (iii) Credit spreads.

(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 shall be used to measure fair value to the extent that relevant 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 shall 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 shall 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.

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 unrealised 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

MCQs on Standards dealing with Financial Instruments

1. In case of reclassification of puttable instrument from equity to financial liability, entity shall measure the financial liability

   a) at fair value at the date of reclassification and difference between the carrying amount of equity and fair value of financial liability shall be recognised in profit or loss.

   b) at carrying value of equity at the date of reclassification.

   c) at fair value at the date of reclassification and difference between the carrying amount of equity and fair value of financial liability shall be recognised in equity.

   d) at fair value at the date of reclassification and difference between the carrying amount of equity and fair value of financial liability shall not be recognised.

2. If a non-derivative financial instrument contains both a liability and an equity component,

   a) such component shall be classified together.

   b) such components shall be classified separately.

   c) such financial instrument shall not be accounted.

   d) such financial instrument shall be recognised as expense.

3. A bond or similar instrument convertible by the holder into fixed number of ordinary shares of the entity is

   a) a financial liability

   b) an equity component

   c) a compound financial Instrument.

   d) a financial assets

4. In case of compound financial instrument, the carrying value of equity instruments is

   a) determined by deducting the fair value of the financial liability from the fair value of the compound financial instrument as a whole.

   b) equal to the amount of entire financial instrument.

   c) determined by deducting the carrying amount of financial liability from the carrying amount of compound financial instrument as a whole.

   d) determined by deducting the fair value of the compound financial instrument from the fair value of the financial liability.

5. Operating lease is
   a) also regarded as financial instrument.
   b) not regarded as financial instruments.
   c) a financial liability
   d) a financial assets

6. Physical assets, intangible assets and leased assets are
   a) financial assets.
   b) financial liability
   c) compound financial instrument
   d) are not financial assets

7. An entity's obligation to purchase its own shares for cash wherein the number of shares is not fixed and redemption is conditional on the counterparty exercising right to redeem
   a) gives rise to a financial liability.
   b) gives rise to compound financial instrument
   c) gives rise to financial asset.
   d) are not financial instrument.

8. An entity that reacquires its own equity instrument shall
   a) recognise the same as financial asset regardless of the reason for which they have been reacquired.
   b) reduce those equity instruments from equity.
   c) recognise the same as financial liability.
   d) shall not account for those instruments.

9. Transaction costs are
   a) cost incurred in relation to acquisition, issue or disposal of a financial asset or financial liability.
   b) incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability.
   c) are not accounted
   d) cost recorded as addition to equity.

10. A single hedging instrument

    a) cannot be designated as hedge of more than one type of risk.

    b) may be designated as hedge of more than one type of risk provided that the risks hedged can be identified clearly, the effectiveness of the hedge can be demonstrated

    c) can be designated as hedge of more than one type of risk even if it is not possible to ensure that there is specific designation of the hedging instrument and different risk positions.

    d) cannot be designated as hedge of more than one type of risk even if it is possible to ensure that there is specific designation of the hedging instrument and different risk positions.

11. Foreign currency risk of an intra-group monetary item

    a) may qualify as a hedged item in the consolidated financial statement if it results in an exposure to foreign currency rate gain or loss not fully eliminated on consolidation.

    b) cannot be designated as hedged item in the consolidated financial statement.

    c) cannot be designated as hedged item in the separate financial statement.

    d) cannot be designated as hedged item in the consolidated financial statement even if the transaction is between two group entities that have different functional currency and foreign currency risk will affect consolidated profit or loss.

12. Hedge accounting recognises the offsetting effects on profit or loss of changes in

    a) the carrying value of the hedging instrument and the hedged item.

    b) fair value of the hedging instrument and the carrying amount of hedged item

    c) carrying amount of hedging instrument and fair value of the hedged item.

    d) the fair values of the hedging instrument and the hedged item.

13. Cash flow hedge, hedge the exposure to

    a) changes in the fair value of a recognised assets or liabilities of an unrecognised firm commitment, or a component of any such item, that is attributable to a particular risk and could affect profit or loss.

    b) changes in the value of monetary items that is accounted for as part of net investment.

    c) variability in the cash flow that is attributable to particular risks associated with the recognised assets or liability or a highly probable forecast transaction and could affect profit or loss.

    d) fair value of hedging instrument and hedged item.

14. the hedging instrument expires or is sold, terminated or exercised, then
    a) the entity shall discontinue the hedge accounting prospectively.
    b) the entity shall discontinue the hedge accounting retrospectively.
    c) entity shall continue the hedge accounting with changes shall be recognised in profit or loss
    d) entity shall discontinue accounting of hedged item as well.
15. the portion of gain or loss on hedging instrument in case of cash flow hedge determined
    a) to be effective shall be recognised in profit or loss
    b) to be effective shall be recognised in other comprehensive income.
    c) to be ineffective shall be recognised in other comprehensive income.
    d) to be effective shall not be recognised
16. The gain or loss on the hedging instrument relating to the effective portion of the hedge
    a) that has been recognised in profit or loss shall be reclassified from profit or loss to equity
    b) that has been recognised in other comprehensive income shall not reclassified
    c) that has been recognised in other comprehensive income shall be reclassified from equity to profit or loss on disposal or partial disposal of the foreign operation.
    d) that has been recognised in profit or loss shall not be reclassified.
17. Transaction cost
    a) does not include fees and commission paid to agent.
    b) does not include debts premium or discount.
    c) includes debt premium or discount.
    d) does not include levies by regulatory agencies and securities exchange.
18. Impairment of financial asset measured at amortised cost is measured using
    a) the financial instruments original effective interest rate.
    b) the current interest rate
    c) the financial instrument original coupon rate
    d) the current bank rate

19. An entity shall recognise financial asset or financial liabilities

    a) even if the entity is not party to the contractual provisions of the financial instrument.

    b) even if entity is not affected by the contractual provisions of the financial instrument.

    c) only when the entity becomes party to the contractual provisions of the financial instruments.

    d) even if no contractual inflow or outflow is expected.

20. Entity shall derecognise a financial asset,

    a) when the entity transfer the financial assets

    b) even if the contractual rights to the cash flow from the financial asset expire

    c) only when required by the MCA.

    d) when the contractual rights to the cash flow from the financial asset expire.

21. If the transfer of financial assets does not qualify for derecognition,

    a) entity shall continue to recognise the amount of financial assets and recognise the amount of financial liability to the amount of consideration received.

    b) entity shall reduce the amount of financial assets to the amount of consideration received.

    c) entity shall still derecognise the financial assets and recognise the profit or loss.

    d) entity shall not recognise the consideration received until the assets qualify for derecognition.

22. If the transferor of financial instruments default under the terms of contract and is no longer entitled to redeem the collateral, already sold by the transferee,

    a) the transferee shall recognise the amount of financial liability equal to the amount due to transferor.

    b) the transferee shall derecognise the obligation to return the collateral.

    c) the transferee shall not derecognise the obligation to return the collateral.

    d) the transferee shall create the amount of financial assets equal to the obligation to return the collateral.

23. An exchange between an existing borrower and lender of debt instruments with substantially different terms shall

    a) be accounted for change in the terms of financial liability

b) be accounted as recognition of new financial liability without affecting the original financial liability.

c) be accounted as recognition of new financial asset without affecting the original financial liability.

d) be accounted for as extinguishment of the original financial liability and the recognition of a new financial liability.

24. An entity may at initial recognition, irrevocably designate a financial asset

a) as measured at amortised cost, if doing so eliminates or reduces the measurement or recognition inconsistency.

b) as measured at fair value through profit or loss if doing so eliminates or reduces the measurement or recognition inconsistency.

c) as measured at fair value through other comprehensive income, if doing so eliminates or reduces the measurement or recognition inconsistency.

d) carrying amount if doing so eliminates or reduces the measurement or recognition inconsistency.

25. If a hybrid contract contains a host that is not an asset,

a) an embedded derivative shall be separated from the host and accounted for as derivative.

b) an embedded derivate and host shall be accounted together.

c) the hybrid contract is measured at fair value with changes in fair value recognised in profit or loss.

d) is accounted as financial liability

26. If an entity changes its business model for managing financial assets

a) it shall reclassify all affected financial assets and financial liabilities.

b) it shall reclassify all affected financial assets. Financial liabilities shall not be reclassified.

c) it shall reclassify all financial liabilities. Financial assets shall not be reclassified.

d) it shall not reclassify any financial assets and financial liabilities.

27. If an entity reclassifies financial assets, it shall

a) apply the reclassification retrospectively and shall restate any previously recognised gains, losses or interest.

b) apply the reclassification retrospectively but shall not restate any previously recognised gains, losses or interest.

c) apply the reclassification prospectively from the reclassification date and shall not restate any previously recognised gains, losses or interest.

d) apply the reclassification prospective from the reclassification date but shall restate any previously recognise gains, losses or interest.

28. If an entity reclassifies a financial assets so that it is measured at amortised cost,

a) its fair value at the reclassification date becomes its new carrying amount.

b) its carrying value at the date of reclassification becomes its new carrying amount.

c) its original cost shall become its new carrying amount.

d) its replacement value at the date of reclassification shall become its new carrying amount.

29. The contract with the party external to the reporting entity

a) can only be designated as hedging instrument.

b) cannot be designated as hedging instrument.

c) cannot be designated as hedged item.

d) are not financial instrument.

30. If an entity designate an item as hedge item in a hedging relationship, it shall

a) designate the item in its entirety comprises all changes in the cash flow or fair value of an item.

b) designate only change in the cash flow or fair value of an item attributable to a specific risk or risks as hedge item.

c) designate the item in its entirety comprises all changes in the cash flow and fair value of an item.

d) designate only changes in cash flow of an item attributable to a specific risk or risks as hedged item.

31. When an entity discontinues measuring the financial instrument that give rise to the credit risk, or a proportion of that financial instrument, at fair value through profit or loss, that financial instrument's

a) fair value at the date of discontinuation becomes its new carrying amount.

b) carrying value at the date of discontinuation becomes its new carrying amount.

c) original cost of the financial instrument shall become its new carrying amount.

d) replacement value at the date of discontinuation becomes its new carrying amount.

32. A sale of a financial asset together with an option to repurchase the financial asset at its fair value at the time of repurchase indicates that

    a) the entity retain substantially all risk and rewards of ownership.

    b) the entity shall not recognise the revenue as entity retain control over the assets.

    c) the entity transfer substantially all risk but retains the rewards of ownership.

    d) the entity has transferred substantially all the risk and rewards of ownership.

33. If a hybrid contract has more than one embedded derivative and those derivatives relates to different risk exposures and are readily separable and independent of each other,

    a) all embedded derivatives are accounted as one instrument.

    b) entire hybrid contract is recorded as one instrument.

    c) they are accounted for separately from each other.

    d) the hybrid contract are not recorded.

34. If the fair value is evidenced by the quoted price in an active market for identical asset or liability. An entity recognises an asset at fair value, it shall measure the difference between the fair value at initial recognition

    a) and transaction price as reserve.

    b) and transaction price as gain or loss

    c) and transaction price shall not be recorded

    d) shall be included in other comprehensive income.

35. If the Hedge ratio is readjusted on rebalancing, resulting that some volume of the hedge item is no longer meet hedging relationship,

    a) Hedge accounting is discontinued for the volume that no longer meets the hedging relationship.

    b) hedge accounting is discontinued for entire hedge item.

    c) entity shall continue accounting the hedge accounting

    d) entity shall de-recognise the hedge item

36. if the forward contract hedges the exposures to variability in three month interest rates for a three month period that starts in six months time, the forward element is amortised

    a) over the period of nine months.

    b) over the period of six months.

c) during the period that spans months seven to nine.

d) over the period of first three months.

37. The fair value of the demand deposits

a) is not less than the amount payable on demand, discounted to the date the amount could be paid.

b) is not less than the amount payable on demand, discounted from the first date the amount could be required to be paid.

c) shall not be discounted.

d) is not required to be calculated.

38. Entry price is

a) the price that would be received to sell an asset or paid to transfer a liability.

b) compensation sought by risk averse market participant for bearing the uncertainty inherent in the cash flow of an asset or a liability.

c) the price paid to acquire an asset or received to assume a liability in exchange.

d) the level at which an asset or a liability is aggregated or disaggregated in an Ind AS for recognition purpose.

39. A Valuation technique that uses prices and other relevant information generated by market transactions involving identical or comparable assets, liabilities or group of assets and liabilities is

a) market approach.

b) income approach.

c) cost approach

d) principal market.

40. Transaction cost is the cost to sell an asset or transfer a liability in

a) the principal market for the asset or liability that is directly attributable to the disposal of the asset or the transfer of the liability.

b) the most advantageous market for the asset or liability that is directly attributable to the disposal of the asset or the transfer of the liability.

c) the active market for the asset or liability that is directly attributable to the disposal of the asset or the transfer of the liability.

d) the principal market for the asset or liability that is directly attributable to the acquisition of the asset or the transfer of the liability.

41. The level at which an asset or a liability is aggregated or disaggregated for recognition purpose is

    a) unit of account.

    b) orderly transaction

    c) Level 1

    d) Level 3

42. A Contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity is known as ________________.

    a) equity instrument
    b) puttable instrument
    c) financial instrument
    d) firm commitment.

43. A contractual right to exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity results in creation of _______________.

    a) financial liability
    b) financial asset
    c) equity
    d) Income

44. ________________ is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

    a) Financial assets
    b) Financial liabilities
    c) Income
    d) Equity instrument

45. _______________ is a financial instrument that gives the holder the rights to put the instrument back to the issuer for cash or another financial asset.

    a) Puttable instrument
    b) Equity instrument
    c) Firm commitment
    d) Financial guarantee

46. In case of reclassification of financial instrument into equity of puttable financial instrument, the equity instrument shall be measured at the ________________ of financial liability at the date of reclassification.

    a) fair value
    b) realizable value
    c) replacement value
    d) carrying amount

47. A preference share that provides for compulsory redemption by the issuer for a fixed or determinable amount at a fixed or determinable future date is a _______________.

    a) Financial assets
    b) financial liability
    c) equity
    d) Income

48. Gains or loss associated with redemptions and refinancing of equity instruments are recognized as _____________.

    a) Profit or loss b) other comprehensive income

    c) change in equity d) liability

49. Instrument that provides the holder with the contractual rights to receive payments on account of interest at fixed dates extending into indefinite future is __________________.

    a) Perpetual debt instrument b) Compound financial instrument

    c) puttable instrument d) equity instrument

50. On conversion of a convertible instrument at maturity, the entity derecognizes the liability component and recognizes it as _________.

    a) financial asset b) financial liabilities

    c) equity d) income

51. ________________ are group of separate financial instruments acquired and held to emulate the characterized of another instrument.

    a) perpetual debt instrument b) compound financial instrument

    c) puttable instrument d) synthetic instrument

52. _______________ is the method of calculating the amortised cost of a financial assets or financial liability and of allocating the interest income or interest expenses over the relevant period.

    a) credit adjusted effective interest b) effective interest method

    c) firm commitment d) equity method

53. Binding agreement for the exchange of a specified quantity of resources at a specified price at a specific future date or dates is _____________.

    a) firm commitment b) credit loss

    c) loss allowance d) expected credit loss

54. _________________ is the degree to which changes in the fair value or cash flow of the hedged item that are attributable to a hedged risk are offset by changes in the fair value or cash flow of the hedging instrument.

    a) financial guarantee contract b) hedge effectiveness

    c) hedge ratio d) loss allowance

55. _______________ is an assets, liability, firm commitment, highly probable forecast transaction or net investment in a foreign operation that exposes the entity to risk of change in fair value or future cash flow and is designated as being hedged.

a) Cash flow hedge b) hedged item

c) fair flow hedge d) credit loss

56. Hedging relationship are of three types i.e., fair value hedge, cash flow hedge and __________________.

a) hedge of net investment in a foreign operation

b) equity hedge

c) carrying value hedge

d) realizable value hedge

57. _____________ is a hedge of the exposure to changes in fair value of a recognised asset or liability or an unrecognised firm commitment, or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect profit or loss.

a) Cash flow hedge

b) Hedge of net investment in a foreign operation

c) equity hedge

d) fair value hedge

58. Changes in the fair value of the hedging instrument are recognised in __________.

a) profit or loss b) other comprehensive income

c) financial assets d) financial liability

59. The ineffective portion of the gain or loss on the hedging instrument in case of cash flow hedge shall be recognised in ____________.

a) profit or loss b) other comprehensive income

c) financial assets d) financial liability

60. On derecognition of a financial assets in its entirety, entity shall recognize the difference between the carrying amount and the consideration received in _________________.

a) profit or loss b) other comprehensive income

c) financial assets d) financial liability

61. If the transferee sells collateral pledged to it, it shall recognize the liability measured at fair value of ___________________.

    a) the collateral
    b) obligation to return the collateral
    c) consideration received
    d) debt

62. _______________ is the removal of previously recognized financial asset or financial liability from an entity's Balance Sheet.

    a) impairment
    b) loss allowance
    c) derecognition
    d) financial guarantee contract

63. A contract that require the issuer to make specified payments to reimburse the holder for loss it incur because a specified debtor fail to make payment when due in accordance with the original or modified terms is a ______________________.

    a) financial liability at fair value through profit or loss
    b) expected credit loss
    c) loss allowance
    d) financial guarantee contract

64. ______________ is a binding agreement for the exchange of a specified quantity of resources at a specified price on a specified future date or dates.

    a) firm commitment
    b) credit loss
    c) loss allowance
    d) expected credit loss

65. The relationship between the quantity of the hedging instrument and the quantity of the hedged item in terms of their relative weighting is __________.

    a) hedging relationship
    b) hedge ratio
    c) exposure
    d) loss allowance

66. A gain or loss on a financial assets or financial liability that is measured at fair value shall be recognized in ______________.

    a) retained earnings
    b) other comprehensive income
    c) profit or loss
    d) financial instrument.

67. The ineffective portion of hedge of a net investment in a foreign operation shall be recognized in _______________.

    a) retained earnings
    b) other comprehensive income
    c) profit or loss
    d) financial instrument

68. If hedge account has been discontinued for the hedging relationship that includes the change in intrinsic value of the option as the hedging instrument, the net amount that has been accumulated in equity shall be reclassified into ________________.

    a) retained earnings
    b) other comprehensive income
    c) profit or loss
    d) financial instrument

69. _____________ is the date that an entity commits itself to purchase or sell assets.

    a) settlement date
    b) reclassification date
    c) derecognition date
    d) Trade date

70. ___________is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

    a) Credit risk
    b) financial risk
    c) market risk
    d) liquidity risk

71. Adjustment made to the designated quantities of the hedged item or the hedging instrument of an already existing hedging relationship for the purpose of maintaining a hedge ratio that complies with hedge effectiveness requirement is _______________.

    a) Hedge ineffectiveness
    b) rebalancing
    c) discontinuation
    d) qualifying instrument

72. The risk that the fair value or future cash flow of financial instruments will fluctuate because of changes in foreign exchange rate is ___________.

    a) liquidity risk
    b) credit risk
    c) currency risk
    d) financial risk

73. ______________ is the risk that an entity will encounter difficulty in meeting obligation associated with financial liabilities that are settled by delivering cash or another financial asset.

    a) Liquidity risk
    b) credit risk
    c) currency risk
    d) financial risk

74. A financial asset is __________ when a counterparty has failed to make a payment when contractually due.

    a) impaired
    b) held for trading
    c) credit loss
    d) pass due

75. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an order transaction between market participants at the ______________.

    a) Trade date   b) Measurement date

    c) settlement date   d) reclassification date

76. A market in which transaction for the assets and liabilities take place with sufficient frequency and volume to provide pricing information on an ongoing basis is __________.

    a) Active market   b) off-market

    c) liquid market   d) passive market

77. _______________ is a valuation technique that reflects the amount that would be required currently to replace the service capacity of an asset.

    a) Cost Approach   b) Income approach

    c) effective interest method   d) market approach

78. Valuation techniques that converts future cash flow of income and expenses to a discounted amount is ______________

    a) cost approach   b) income approach

    c) effective interest method   d) market approach

79. The market that maximizes the amount that would be received to sell the asset or minimize the amount that would be paid to transfer the liability, after taking into account transaction cost and transport cost is _______________.

    a) Principal market   b) active market

    c) most advantageous market   d) passive market

80. ______________ is a market with greatest volume and level of activity for the asset or liability.

    a) Principal market   b) active market

    c) most advantageous market   d) passive market

81. Risk premium is the compensation sought by risk averse market participants for bearing the ________ inherent in the cash flow of an asset or a liability.

    a) certainty   b) uncertainty

    c) market approach   d) income approach

82. _______________ are inputs for which market data are not available and that are developed using the best information available about the assumption that market participants would use when pricing the asset or liability.

a) Level 1 inputs b) Observable inputs

c) Level 2 inputs d) Unobservable inputs

83. Inputs that are developed using market data, such as publicly available information about actual events or transactions, and that reflect the assumptions that market participants would use when pricing the asset or liability is _____________.

a) Level 1 inputs b) Observable inputs

c) Level 2 inputs d) Unobservable inputs

Solutions to MCQs

1. c) at fair value at the date of reclassification and difference between the carrying amount of equity and fair value of financial liability shall be recognised in equity.

2. b) such components shall be classified separately.

3. c) a compound financial Instrument.

4. a) determined by deducting the fair value of the financial liability from the fair value of the compound financial instrument as a whole.

5. b) not regarded as financial instruments.

6. d) are not financial assets

7. a) gives rise to a financial liability.

8. b) reduce those equity instruments from equity.

9. b) incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability.

10. b) may be designated as hedge of more than one type of risk provided that the risks hedged can be identified clearly, the effectiveness of the hedge can be demonstrated.

11. a) may qualify as a hedged item in the consolidated financial statement if it results in an exposure to foreign currency rate gain or loss not fully eliminated on consolidation.

12. d) the fair values of the hedging instrument and the hedged item.

13. c) variability in the cash flow that is attributable to particular risks associated with the recognised assets or liability or a highly probable forecast transaction and could affect profit or loss.

14. a) the entity shall discontinue the hedge accounting prospectively.
15. b) to be effective shall be recognised in other comprehensive income.
16. c) that has been recognised in other comprehensive income shall be reclassified from equity to profit or loss on disposal or partial disposal of the foreign operation.
17. b) does not include debts premium or discount.
18. a) the financial instruments original effective interest rate.
19. c) only when the entity becomes party to the contractual provisions of the financial instruments.
20. d) when the contractual rights to the cash flow from the financial asset expire.
21. a) entity shall continue to recognise the amount of financial assets and recognise the amount of financial liability to the amount of consideration received.
22. b) the transferee shall derecognise the obligation to return the collateral.
23. d) be accounted for as extinguishment of the original financial liability and the recognition of a new financial liability.
24. b) as measured at fair value through profit or loss if doing so eliminates or reduces the measurement or recognition inconsistency.
25. a) an embedded derivative shall be separated from the host and accounted for as derivative.
26. b) it shall reclassify all affected financial assets. Financial liabilities shall not be reclassified.
27. c) apply the reclassification prospectively from the reclassification date and shall not restate any previously recognised gains, losses or interest.
28. a) its fair value at the reclassification date becomes its new carrying amount.
29. b) cannot be designated as hedging instrument.
30. b) designate only change in the cash flow or fair value of an item attributable to a specific risk or risks as hedge item.
31. a) fair value at the date of discontinuation becomes its new carrying amount.
32. d) the entity has transferred substantially all the risk and rewards of ownership.
33. c) they are accounted for separately from each other.
34. b) and transaction price as gain or loss
35. a) Hedge accounting is discontinued for the volume that no longer meets the hedging relationship.

36. c) during the period that spans months seven to nine.
37. b) is not less than the amount payable on demand, discounted from the first date the amount could be required to be paid.
38. c) the price paid to acquire an asset or received to assume a liability in exchange.
39. a) market approach.
40. a) the principal market for the asset or liability that is directly attributable to the disposal of the asset or the transfer of the liability.
41. a) unit of account.
42. c) Financial Instruments
43. b) Financial assets
44. d) Equity instrument
45. a) Puttable instrument
46. d) Carrying amount
47. b) Financial liability
48. c) Change in equity
49. a) Perpetual debt instruments
50. c) Equity
51. d) Synthetic instruments
52. b) Effective interest method
53. a) Firm commitment
54. b) Hedge effectiveness
55. b) Hedged item
56. a) Hedge of net investment in a foreign operation
57. d) Fair value hedge
58. a) Profit or loss
59. a) Profit or loss
60. a) Profit or loss
61. b) Obligation to return the collateral
62. c) Derecognition

63. d) Financial guarantee contract

64. a) Firm commitment

65. b) Hedge ratio

66. c) Profit or loss

67. c) Profit or loss

68. c) Profit or loss

69. d) Trade date

70. a) Credit risk

71. b) Rebalancing

72. c) Currency risk

73. a) Liquidity risk

74. d) Past due

75. b) Measurement date

76. a) Active market

77. a) Cost approach

78. b) Income approach

79. c) Most advantageous market

80. a) Principal market

81. b) Uncertainty

82. d) Unobservable inputs

83. b) Observable input.

Chapter 11
Industry Based Standards

I. 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."

Objective of Ind AS 104

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

Scope of Ind AS 104

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.

The following are examples of contracts that **are** insurance contracts, if the transfer of insurance risk is significant:

- Insurance against theft or damage to property
- Insurance against product liability, professional liability, civil liability or legal expenses
- Life insurance and prepaid funeral expenses
- Life-contingent annuities and pensions
- Disability and medical cover

- Surety bonds, fidelity bonds, performance bonds and bid bonds
- Credit insurance that provides for specified payments to be made to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due
- Product warranties (other than those issued directly by a manufacturer, dealer or retailer)
- Title insurance
- Travel assistance
- Catastrophe bonds that provide for reduced payments of principal, interest or both if a specified event adversely affects the issuer of the bond
- Insurance swaps and other contracts that require a payment based on changes in climatic, geological or other physical variables that are specific to a party to the contract
- Reinsurance contracts.

The following are examples of items that **are not** insurance contracts:

- Investment contracts that have the legal form of an insurance contract but do not expose the insurer to significant risk
- Contracts that pass all significant insurance risk back to the policyholder
- Self-insurance i.e. retaining a risk that could have been covered by insurance
- Gambling contracts
- Derivatives that expose one party to financial risk but not insurance risk
- A credit-related guarantee
- Product warranties issued directly by a manufacturer, dealer or retailer
- Financial guarantee contracts accounted for under Ind AS 109 *Financial Instruments: Recognition and Measurement*

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 shall:

(a) Apply this Ind AS to the insurance component.

(b) Apply Ind AS 109 to the deposit component.

Liability Adequacy Test

An insurer shall 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, such as those discussed in paragraphs 31 and 32) is inadequate, the entire deficiency shall 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 shall 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 shall classify the whole contract as a liability.
- If the issuer classifies them separately, it shall 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 shall be recognised in profit or loss.
- If part or all of the discretionary participation feature is classified in equity, the issuer shall 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 shall 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:

- Its accounting policies for insurance contracts and related assets, liabilities, income and expense
- Recognised assets, liabilities, income and expense
- The process used to determine the assumptions that have the greatest effect on measurement
- The effect of any changes in assumptions
- Reconciliations of changes in liabilities and assets.

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:

- Its objectives, policies and processes for managing risks
- Information about insurance risk
- Information about credit risk, liquidity risk and market risk
- Information about exposures to market risk arising from embedded derivatives.

II. Ind AS 106: EXPLORATION FOR AND EVALUATION OF MINERAL RESOURCES

Objective of Ind AS 106

Ind AS 106 provides guidance on accounting for exploration and evaluation expenditures, including:

- The recognition of exploration and evaluation assets,
- Assessing impairment of exploration and evaluation assets; and
- Prescribing disclosures that identify and explain the amounts in the entity's financial statements arising from the exploration for and evaluation of mineral resources and help users of those financial statements understand the amount, timing and certainty of future cash flows from any exploration and evaluation assets recognised.

Scope of Ind AS 106

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 at recognition

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.

Measurement after recognition

After recognition, an entity shall 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.

MCQs on Industry Based Standards

1. Cedent is the ____________ under a reinsurance contract.

 a) insurer b) policyholder

 c) reinsurer d) non related person

2. Direct insurance contract is an insurance contract that is not a _____________ contract.

 a) reinsurance b) insurance assets

 c) unbundle d) reinsurance assets

3. _________________ is a contractual right, supplement to guaranteed benefits, that are likely to be significant portion and whose amount and timing is at discretion of the issuer and are based on specific pool of contracts.

 a) unbundle

 b) deposit component

 c) discretionary participation feature

 d) guaranteed benefits

4. ______________ is an insurer's net contractual rights under an insurance contract.

 a) Insurance liability b) liability adequacy test

 c) Insurance risk d) Insurance asset

5. A contract in which one party accepts significant risk from another party by agreeing to compensate the policyholder if a specified uncertain future event adversely affects the policyholder is known as ________________.

 a) Reinsurance b) insurance contract

 c) third party insurance d) guaranteed benefits

6. An ___________ is an uncertain future event that is covered by an insurance contract and creates insurance risk.

 a) financial risk b) guaranteed benefit

 c) Insured event d) liability adequacy test

7. A party that has the right to compensation under an insurance contract if an insurance event occurs is known as ___________.

 a) Policyholder b) direct insurance contract

 c) insurance asset d) insurer

8. ________________ is an insurance contract issued by one insurer to compensate another insurer for losses on one or more contracts issued by the cedent.

   a) Insurance contract b) reinsurance contract
   c) policyholder d) cedent

9. ________________ is an assessment of whether the carrying amount of an insurance liability needs to be increased based on a review of future cash flow.

   a) Cedent b) deposit component
   c) guaranteed element d) liability adequacy test

10. _________ is the party has an obligation under a reinsurance contract to compensate a cedent if an insured event occurs.

    a) Re-insurer b) insurer
    c) policyholder d) Cedent

11. ________ account for the components of a contract as if they were separate contracts.

    a) financial risk b) unbundle
    c) insurance risk d) guaranteed benefits

12. Exploration and evaluation assets shall be measured at ___________.

    a) Cost b) Fair value
    c) fair value less cost to sell d) replacement value

13. After recognition, an entity shall apply either the cost model or _________ to the exploration and evaluation assets.

    a) replacement model b) revaluation model
    c) realization model d) carrying value model

14. Expenditure on exploration and extraction are incurred in connection with mineral resources by the entity before ______________ and commercial viability of extracting a mineral resource are determinable.

    a) commercial feasibility b) finance
    c) technical feasibility d) monetary feasibility

15. Extraction for and evaluation of minerals is search for mineral resources, including minerals, oil, natural gas and similar non-generative resources after the entity has obtained __________ to explore in a specific area.

    a) Commercial rights b) technical rights
    c) contractual rights d) legal rights

16. If an insurance contract contains both the element of insurance component and deposit component,

    a) insurer is required to unbundle the contract even if the amount of deposits cannot be measured separately.

    b) insurer is required to unbundle the contract even if the accounting policies require it to recognise all obligations and rights arising from deposit component.

    c) unbundling is permitted but not required if the insurer cannot measure the deposit component separately.

    d) unbundling is prohibited if an insurer cannot measure the deposit component separately.

17. A contract requires the issuer to make specified payments to reimburse the holder for loss it incurs because a specified debtor fail to make the payment when due in accordance with the original or modified terms of debt instrument is

    a) Financial guarantee contract

    b) direct insurance contract

    c) discretionary participation feature

    d) reinsurance contract.

18. Guaranteed benefits are benefits to which policyholder has

    a) conditional right that is not subject to the contractual discretion of the issuer.

    b) an unconditional right that is not subject to the contractual discretion of the issuer.

    c) conditional right that is subject to the contractual discretion of the issuer.

    d) an unconditional right that is subject to the contractual discretion of the issuer.

19. Insurance liability is

    a) an insurer's net contractual rights under an insurance contract.

    b) is a risk transferred from the holder of a contract to the issuer.

    c) an insurer's net contractual obligation under an insurance contract.

    d) an uncertain event that is covered by an insurance contract and creates insurance risk.

20. Reinsurance asset is

    a) an insurance contract issued by one insurer to compensate another insurer for losses on one or more contracts issued by the cedent.

b) an insurer's net contractual rights under an insurance contract.

c) account for the components of a contract as if they were separate contracts.

d) a cedent's net contractual rights under re-insurance contract.

21. An insurer shall remove an insurance liability from its Balance Sheet

a) when and only when the obligation specified in the contract is discharged or cancelled or expires.

b) on entering a reinsurance contract.

c) at the end of the reporting period

d) if there is no possibility of claim.

22. If the liability adequacy test indicates the insurance liability is inadequate in the light of estimated future cash flow,

a) the deficiency shall be recognised in other comprehensive income.

b) the deficiency shall be recognised in profit or loss.

c) the deficiency shall not be adjusted in the financials.

d) equivalent amount of assets is being created.

23. If a cedent's reinsurance asset is impaired, the cedent shall

a) not reduce the carrying amount

b) reduce its carrying amount and recognise the impairment loss in other comprehensive income

c) reduce its carrying amount accordingly and recognise that impairment loss in profit or loss.

d) not record the impairment loss.

24. If an insurance contract contains a discretionary participation feature as well as a guaranteed element and

a) the issuer classifies them separately, it shall classify the guaranteed element as a liability.

b) the issuer does not classifies them separately, it shall classify the entire contract as assets.

c) the issuer classifies them separately, it shall classify the guaranteed element as an assets

d) the issuer does not classifies them separately, it shall classify the entire contract in other comprehensive income.

25. the issuer shall recognise the portion of profit or loss attributable to any equity component of discretionary participation feature

    a) as an expenses during the period.

    b) in equity

    c) as income or expense during the period.

    d) as an allocation of profit or loss.

26. An insurer is required to disclose

    a) the information that identifies and explains the amount in its financial statements arising from insurance contract.

    b) its accounting policies for insurance contracts and only related assets and liabilities.

    c) is not required to disclose any information

    d) information it deems fit.

27. Exploration and evaluation assets are

    a) expenditure on exploration and evaluation recognised as assets.

    b) expenditure on exploration and evaluation recognised as expenses.

    c) expenditure in search for mineral resources.

    d) not recognised in the financials.

Solutions to MCQs

1. b) Policyholder
2. a) Reinsurance
3. c) Discretionary participation feature
4. d) Insurance asset
5. b) Insurance contract
6. c) Insured event
7. a) Policyholder
8. b) Reinsurance contract
9. d) Liability adequacy test
10. a) Re-insurer
11. b) Unbundle

12. a) Cost
13. b) Revaluation model
14. c) Technical feasibility
15. d) Legal rights
16. d) unbundling is prohibited if an insurer cannot measure the deposit component separately.
17. a) Financial guarantee contract
18. b) an unconditional right that is not subject to the contractual discretion of the issuer.
19. c) an insurer's net contractual obligation under an insurance contract.
20. d) a cedent's net contractual rights under re-insurance contract.
21. a) when and only when the obligation specified in the contract is discharged or cancelled or expires.
22. b) the deficiency shall be recognised in profit or loss.
23. c) reduce its carrying amount accordingly and recognise that impairment loss in profit or loss.
24. a) the issuer classifies them separately, it shall classify the guaranteed element as a liability.
25. d) as an allocation of profit or loss.
26. a) the information that identifies and explains the amount in its financial statements arising from insurance contract
27. a) expenditure on exploration and evaluation recognised as assets.

Chapter 12
Disclosure Standards

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 107 Financial Instruments: Disclosures
- Ind AS 108 Operating Segments
- Ind AS 112 Disclosure of Interest in Other Entities

I. Ind AS 24: RELATED PARTY TRANSACTIONS

Objective 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.

Scope of Ind AS 24

1. This Standard shall 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.
2. This Standard requires disclosure both in the consolidated and separate financial statements of a parent, venturer or investor presented in accordance with Indian Accounting Standard (Ind AS) 27 *Consolidated and Separate Financial Statements*.
3. It also applies to individual financial statements.
4. 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.

5. 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. For example, banks are obliged by law to maintain confidentiality in respect of their customers' transactions and this Standard would not override the obligation to preserve the confidentiality of customers' dealings.

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 shall be disclosed irrespective of whether there have been transactions between those related parties. An entity shall 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 shall also be disclosed.

An entity shall 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 shall 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 shall 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 shall 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.

II. Ind AS 108: OPERATING SEGMENTS

Objective of Ind AS 108

The main objective of Ind AS 24 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.

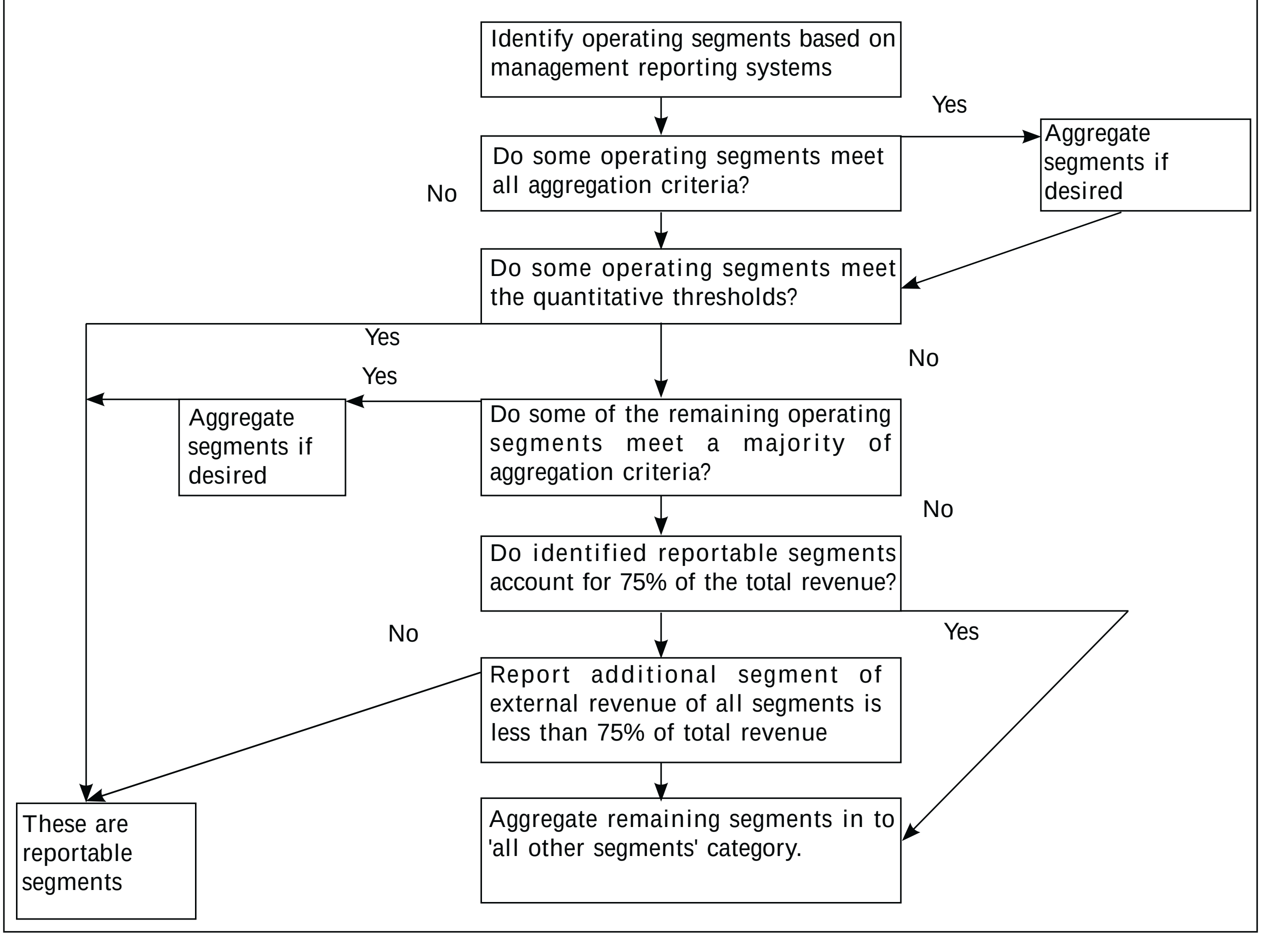
Reportable segments

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.

Diagram for identifying reportable segments



Disclosure Requirements

Required disclosures include:

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.

III. Ind AS 112 – DISCLOSURE OF INTEREST IN OTHER ENTITIES

Application of Standard

Ind AS 112 applies to entities that have an interest in

- A subsidiary,
- A joint arrangement,
- An associate or
- An unconsolidated structured entity.

Requirements of the Standard

The standard requires an entity to disclose information that enables users of 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.

The standard talks about the minimum disclosures an entity must provide. It also requires an entity to consider the level of detail necessary to satisfy the disclosure objective.

Definitions

Income from a structured entity - For the purpose of this Ind AS, income from a **structured entity** includes, but is not limited to, recurring and non-recurring fees, interest, dividends, gains or losses on the remeasurement or derecognition of interests in structured entities and gains or losses from the transfer of assets and liabilities to the structured entity.

Interest in another entity - For the purpose of this Ind AS, an interest in another entity refers to contractual and non-contractual involvement that exposes an entity to variability of returns from the performance of the other entity.

An interest in another entity can be evidenced by, but is not limited to, the holding of equity or debt instruments as well as other forms of involvement such as the provision of funding, liquidity support, credit enhancement and guarantees. It includes the means by which an entity has control or joint control of, or significant influence over, another entity.

An entity does not necessarily have an interest in another entity solely because of a typical customer supplier relationship.

Structured Entity - An entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements.

Disclosures Required

An entity shall disclose

(a) The significant judgments 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

(b) Information about its interests in:

 (i) Subsidiaries

 (ii) Joint arrangements and associates

 (iii) Structured entities that are not controlled by the entity (unconsolidated structured entities)

Disclosure of Significant Judgments and Assumptions

An entity shall disclose information about significant judgments and assumptions it has made (and changes to those judgments and assumptions) in determining:

(a) That it has control of another entity, ie an investee as described in Ind AS 110 *Consolidated Financial Statements;*

(b) That it has joint control of an arrangement or significant influence over another entity; and

(c) The type of joint arrangement (i.e. joint operation or joint venture) when the arrangement has been structured through a separate vehicle.

Interest in Subsidiaries

An entity shall disclose information that enables users of its consolidated financial statements

(a) **To understand**

 (i) The composition of the group; and

 (ii) The interest that non-controlling interests have in the group's activities and cash flows and

(b) **To evaluate**

 (i) The nature and extent of significant restrictions on its ability to access or use assets, and settle liabilities, of the group

 (ii) The nature of, and changes in, the risks associated with its interests in consolidated structured entities

 (iii) The consequences of changes in its ownership interest in a subsidiary that do not result in a loss of control and

 (iv) The consequences of losing control of a subsidiary during the reporting period

Interests in joint arrangements and associates

An entity shall 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

(b) The nature of, and changes in, the risks associated with its interests in joint ventures and associates

Interests in unconsolidated structured entities

An entity shall disclose information that enables users of its financial statements:

(a) To understand the nature and extent of its interests in unconsolidated structured entities

(b) To evaluate the nature of, and changes in, the risks associated with its interests in unconsolidated structured entities

The Standard does not apply to:

(a) Post-employment benefits 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.*

(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.* However, an entity shall apply this Ind AS:

    (i) When that interest is an interest in an associate or a joint venture that, in accordance with Ind AS 28 Investments in Associates and Joint Ventures, is measured at fair value through profit or loss; or

    (ii) When that interest is an interest in an unconsolidated structured entity.

MCQs on Disclosure Standards

1. 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 are.

    a) Related party

    b) Key management personnel

    c) Close member of the family

    d) Government

2. Relationship between the parent and subsidiaries shall

    a) not be required to disclose even if they have transactions between them.

    b) be disclosed only if they have transactions between them.

    c) be disclosed irrespective of whether they have transactions between them.

    d) not be disclosed if they have transaction between them.

3. Close family member of key management personnel is

    a) not a related party of the reporting entity.

    b) a related party of the reporting entity.

    c) a related party only if key management is considered as related party.

    d) not a related party, even if the Key management is considered as related party.

4. _________________ is a person or entity that is related to the reporting entity.

    a) Trade unions   b) provider of finance

    c) Related party   d) two joint venturers

5. _________________is a transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged.

    a) franchisor   b) provider of finance

    c) public utilitie   d) related party transaction

6. Family members of a person who is expected to influence, or be influenced by the person is known as _______________.

    a) Close member of the family   b) joint venturers

    c) father of domestic partner   d) mother of domestic partner

7. Government related entity is an entity that is controlled, jointly controlled or ________________ by the government.

   a) Influenced
   b) significantly influenced
   c) hold 1%
   d) hold less than 10%

8. If an entity becomes an investment entity, the difference between the previous carrying value of subsidiary and its fair value on the date of change shall be recognized as gain or loss in _________.

   a) Profit or loss
   b) other comprehensive income
   c) equity
   d) Balance sheet

Solutions to MCQs

1. b) Key management personnel
2. c) Be disclosed irrespective of whether they have transactions between them.
3. b) A related party of the reporting entity
4. c) Related party
5. d) Related party transaction
6. a) Close member of the family
7. b) Significantly influenced
8. a) Profit or loss

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Chapter 13
Ind AS 101: First Time Adoption of Ind AS

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.

STRUCTURE OF Ind 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

1. **First time Adopter:** An entity that presents its first Ind AS financial statements
2. **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
3. **First Ind AS reporting period:** The latest reporting period covered by an entity's first Ind AS financial statements
4. **Indian Accounting Standards:** Ind ASs are Accounting Standards prescribed under section 133 of the Companies Act, 2013
5. **Opening Ind AS Balance Sheet:** An entity's Balance Sheet at the date of transition to Ind ASs

6. **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

7. **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.

8. **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, shall consider those financial statements as previous GAAP financial statements.

OBJECTIVE OF Ind AS 101

The objective of Ind AS 101 is to ensure that an entity's first Ind AS financial statements and its Ind AS interim financial statements contain high quality financial information that:

a) Is transparent for users and comparable over all periods presented;

b) Provides a suitable starting point for accounting under Ind AS; and

c) Can be generated at a cost that does not exceed the benefits to users.

SCOPE OF Ind AS 101

An entity shall apply Ind AS 101 in:

(a) Its first Ind AS financial statements; and

(b) 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.

The first Ind AS statements are the first annual financial statement in which the entity adopts Ind AS, in accordance with Ind ASs notified under Companies Act, 2013 and makes an explicit and unreserved statement of compliance with Ind AS.

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 shall 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 shall 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 shall 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 SHALL 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 shall 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 shall 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 shall 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 shall not apply these exemptions by analogy to other items. Some of exception noted above are discussed below:

Share-based payment transactions

Paragraph D2 of Appendix D of Ind AS 101 provides that a first-time adopter is encouraged, but not required, to apply Ind AS 102, Share-based Payment, to equity instruments that vested before date of transition to Ind ASs. However, if a first-time adopter elects to apply Ind AS 102 to such equity instruments, it may do so only if the entity has disclosed publicly the fair value of those equity instruments, determined at the measurement date, as defined in Ind AS 102. A first-time adopter is encouraged, but not required, to apply Ind AS 102 to liabilities arising from share-based payment transactions that were settled before the date of transition to Ind ASs.

Deemed cost

Paragraph D5 to D8B provides detailed guidance with regard to exemption related use of deemed cost. These are summarised below:

- An entity may elect to measure an item of property, plant and equipment at the date of transition to Ind ASs at its fair value and use that fair value as its deemed cost at that date.
- A first-time adopter may elect to use a previous GAAP revaluation of an item of property, plant and equipment at, or before, the date of transition to Ind ASs as deemed cost at the date of the revaluation, if the revaluation was, at the date of the revaluation, broadly comparable to:

(a) fair value; or

(b) cost or depreciated cost in accordance with Ind ASs, adjusted to reflect, for example, changes in a general or specific price index

- The elections in above points is also available for intangible assets that meet:
  - o the recognition criteria in Ind AS 38 (including reliable measurement of original cost); and
  - o the criteria in Ind AS 38 for revaluation (including the existence of an active market).

An entity shall not use these elections for other assets or for liabilities.

- Ind AS 101 also provides an entity option to use carrying values of all such assets as on the date of transition to Ind ASs, in accordance with previous GAAP as an acceptable starting point under Ind AS. If an entity uses this exemption, the fact and the accounting policy shall be disclosed by the entity until time that those items of property, plant and equipment, investment properties or intangible assets, as the case may be, are significantly depreciated, impaired or derecognised from the entity's balance sheet.
- If the carrying amount of property, plant and equipment or intangible assets that are used in rate-regulated activities includes amounts under previous GAAP that do not qualify for capitalisation in accordance with Ind ASs, a first-time adopter may elect to use the previous GAAP carrying amount of such items as deemed cost on the initial adoption of Ind ASs.

Leases

Ind AS 101 provided that a first-time adopter may apply relevant principles of the Appendix C of Ind AS 17, Determining whether an Arrangement contains a Lease, to determine whether an arrangement existing at the date of transition to Ind ASs contains a lease on the basis of facts and circumstances existing at the date of transition to Ind AS, except where the effect is expected to be not material.

Cumulative translation differences

Ind AS 21 requires an entity:

a) to recognise some translation differences in other comprehensive income and accumulate these in a separate component of equity; and

b) on disposal of a foreign operation, to reclassify the cumulative translation difference for that foreign operation (including, if applicable, gains and losses on related hedges) from equity to profit or loss as part of the gain or loss on disposal.

However, a first-time adopter need not comply with these requirements for cumulative translation differences that existed at the date of transition to Ind ASs. If a first-time adopter uses this exemption:

a) the cumulative translation differences for all foreign operations are deemed to be zero at the date of transition to Ind ASs; and

b) the gain or loss on a subsequent disposal of any foreign operation shall exclude translation differences that arose before the date of transition to Ind ASs and shall include later translation differences.

Long Term Foreign Currency Monetary Items

Ind AS 101 includes an optional exemption to continue the existing policy as per the previous GAAP, i.e., existing AS 11 in respect of the long-term foreign currency monetary items recognised in the financial statements for the period ending immediately before the beginning of the first Ind AS financial reporting period.

Investments in subsidiaries, joint ventures and associates

If a first-time adopter measures such investments at cost in accordance with Ind AS 27, it shall measure that investment at one of the following amounts in its separate opening Ind AS Balance Sheet:

a) cost determined in accordance with Ind AS 27; or

b) deemed cost. The deemed cost shall be its:

- fair value at the entity's date of transition to Ind ASs in its separate financial statements; or
- previous GAAP carrying amount at that date.

Compound financial instruments

Paragraph D18 of Appendix D to Ind AS 101 provides the exemption that a first time adopter need not separate compound financial instrument into liability and equity as per requirements of Ind AS 32, Financial Instruments: Presentation, if the liability component is no longer outstanding at the date of transition to Ind ASs.

Designation of previously recognised financial instruments

Designation of financial liability as at fair value through profit or loss

An entity is permitted to designate, at the date of transition to Ind AS, any financial liability as at fair value through profit or loss provided the liability meets the criteria in paragraph 4.2.2 of Ind AS 109 at that date.

For a financial liability that is designated as a financial liability at fair value through profit or loss, an entity should determine whether the treatment in paragraph 5.7.7 of Ind AS 109 would create an accounting mismatch in profit or loss on the basis of the facts and circumstances that exist at the date of transition to Ind AS. If it results into accounting mismatch, financial liability should be designated through profit and loss retrospectively.

Designation of financial asset as at fair value through profit or loss

An entity may designate a financial asset measured at fair value through profit or loss in accordance with paragraph 4.1.5 of Ind AS 109 on the basis of the facts and circumstances that exist at the date of transition to Ind AS.

Designation of investment in equity instruments at fair value through other comprehensive income

An entity may designate an investment in an equity instrument at fair value through other comprehensive income in accordance with paragraph 5.7.5 of Ind AS 109 on the basis of the facts and circumstances that exist at the date of transition to Ind AS.

Decommissioning liabilities included in the cost of property, plant and equipment

Appendix 'A' to Ind AS 16 Changes in Existing Decommissioning, Restoration and Similar Liabilities requires specified changes in a decommissioning, restoration or similar liability to be added to or deducted from the cost of the asset to which it relates; the adjusted depreciable amount of the asset is then depreciated prospectively over its remaining useful life. A first-time adopter need not comply with these requirements for changes in such liabilities that occurred before the date of transition to Ind ASs.

Financial assets or intangible assets accounted for in accordance with Appendix A, Service Concession Arrangements to Ind AS 11

If, for any particular service arrangement, it is impracticable for an operator to apply Appendix A to Ind AS 11 retrospectively at the date of transition to Ind ASs, it shall:

a) recognise financial assets and intangible assets that existed at the date of transition to Ind ASs;

b) use the previous carrying amounts of those financial and intangible assets (however previously classified) as their carrying amounts as at that date; and

c) test financial and intangible assets recognised at that date for impairment, unless this is not practicable, in which case the amounts shall be tested for impairment as at the start of the current period.

Subject to the above requirements, changes in accounting policies are accounted for in accordance with Ind AS 8, i.e., retrospectively, except for the policy adopted for amortisation of intangible assets arising from service concession arrangements related to toll roads recognised in the financial statements for the period ending immediately before the beginning of the first Ind AS financial reporting period as per the previous GAAP.

Extinguishing financial liabilities with equity instruments

A first-time adopter may apply Appendix D of Ind AS 109, Extinguishing Financial Liabilities with Equity Instruments, from the date of transition to Ind AS.

Joint Arrangements

Joint ventures - transition from proportionate consolidation to the equity method

When changing from proportionate consolidation to the equity method, an entity should recognise its investment in the joint venture at transition date to Ind ASs. That initial investment should be measured as the aggregate of the carrying amounts of the assets and liabilities that the entity had previously proportionately consolidated, including any goodwill arising from acquisition.

The balance of the investment in joint venture at the date of transition to Ind ASs, determined in accordance with above is regarded as the deemed cost of the investment at initial recognition.

A first-time adopter should test investment in joint venture for impairment in accordance with Ind AS 36 at the date of transition to Ind ASs, regardless of whether there is any indication that the investment may be impaired.

After initial recognition at the date of transition to Ind ASs, an entity should account for its investment in the joint venture using the equity method in accordance with Ind AS 28.

Detailed requirements in this regard are given in paragraph D31AA to D31AF of Ind AS 101

Joint operations—transition from the equity method to accounting for assets and liabilities

When changing from the equity method to accounting for assets and liabilities in respect of its interest in a joint operation, an entity shall, at the date of transition to Ind ASs, derecognise the investment that was previously accounted for using the equity method and any other items that formed part of the entity's net investment in the arrangement in accordance with paragraph 38 of Ind AS 28 and recognise its share of each of the assets and the liabilities in respect of its interest in the joint operation, including any goodwill that might have formed part of the carrying amount of the investment.

Any difference arising from the investment previously accounted for using the equity method together with any other items that formed part of the entity's net investment in the arrangement, and the net amount of the assets and liabilities, including any goodwill, recognised shall be:

a) offset against any goodwill relating to the investment with any remaining difference adjusted against retained earnings at the date of transition to Ind ASs, if the net amount of the assets and liabilities, including any goodwill, recognised is higher than the investment (and any other items that formed part of the entity's net investment) derecognised.

b) adjusted against retained earnings at the date of transition to Ind ASs, if the net amount of the assets and liabilities, including any goodwill, recognised is lower than the investment (and any other items that formed part of the entity's net investment) derecognised. Detailed requirements in this regard are given in paragraph D31AG to D31AK of Ind AS 101.

A Case Study

A Ltd holds a 25% interest in B Ltd which is a joint operation. Net Assets of B Ltd is valued at ` 2 Crores and is accounted under equity method. On transition to Ind AS entity A, re assesses its assets and liabilities in B Ltd, as per Ind AS 101 as follows:

	Accounting Policies under Previous GAAP	**Amount (`)**	**Accounting Policy under Ind AS**	**Amount (`)**
Net Investment	Equity Method (25%)	50,00,000		
PPE	Cost less Accumulated Depreciation	2,00,00,000	Deemed Cost (carrying Amount)	2,00,00,000
Loans Given	At cost	60,00,000	Amortised Cost	58,00,000
Inventories	At Cost	50,00,000	At Cost	50,00,000
Receivables	At Transaction Price	30,00,000	Amortised Cost	30,00,000
Total Assets (a)		3,40,00,000		3,38,00,000
Term Loan	Redemption Value	82,00,000	Amortised Cost	88,00,000
Payables	At Transaction Price	20,00,000	Amortised Cost	20,00,000
Provisions	Best Estimate	31,00,000	Discounted Best Estimate	29,00,000
Deferred Tax Liability	As per Existing GAAP (AS 22)	7,00,000	As per Ind AS 12	9,00,000
Total Liabilities (b)		1,40,00,000		1,46,00,000
Net Assets(a)- (b)		2,00,00,000		1,92,00,000
Net Asset of joint operations	25%	50,00,000		48,00,000

The difference of `. 2,00,000 in the value of investment in B ltd in books of A ltd, should be adjusted against retained earnings at time of transition.

Stripping costs in the production phase of a surface mine

Paragraph D32 provides that a first-time adopter may apply Ind AS 16 Appendix B on 'Stripping Costs in the Production Phase of a Surface Mine', from the date of transition to Ind AS. In surface mining operations, entities may find it necessary to remove mine waste materials ('overburden') to gain access to mineral ore deposits. This waste removal activity is known as 'stripping'. There can be two benefits accruing to the entity from the stripping activity: usable ore that can be used to produce inventory and improved access to further quantities of material that will be mined in future periods. The benefit of improved access to ore qualifies for recognition as stripping-activity-asset if it results in measurable future economic benefits.

As at transition date to Ind AS, any previously recognised asset balance that resulted from stripping activity undertaken during the production phase ('predecessor stripping asset') should be reclassified as a part of an existing asset to which the stripping activity is related, however, only to the extent that there remains an identifiable component of the ore body with which the predecessor stripping asset can be associated.

The balance of the predecessor stripping asset should be depreciated or amortised over the remaining expected useful life of the identified component of the ore body to which each predecessor stripping asset balance relates. However, in case where there is no identifiable component of the ore body to which that predecessor stripping asset relates, it should be recognised in opening retained earnings at the transition date to Ind AS.

Designation of contracts to buy or sell a non-financial item

Paragraph D33 provides that despite requirements of Ind AS 109, an entity is permitted under Ind AS 101 to designate existing contracts, at the date of transition to Ind AS, as measured at fair value through profit or loss subject to requirements of paragraph 2.5 of Ind AS 109.

Non-current assets held for sale and discontinued operations

A first time adopter can:

a) measure such assets or operations at the lower of carrying value and fair value less cost to sell at the date of transition to Ind ASs; and

b) recognise directly in retained earnings any difference between that amount and the carrying amount of those assets at the date of transition to Ind ASs.

Transfers of Assets from Customers

An entity must apply Appendix C of Ind AS 18 prospectively to transfers of assets from customers received on or after the transition date. Earlier application is permitted provided the valuations and other information needed to apply the Appendix to past transfers were obtained at the time those transfers occurred. An entity must disclose the date from which the Appendix D of Ind AS 18 was applied.

MCQs on First Time Adoption

1. Accounting policies in the opening Ind AS Balance Sheet shall comply with each Ind AS effective
   a) at the beginning of the Ind AS reporting period.
   b) at the end of its first Ind AS reporting period.
   c) at the beginning of the current year presented in first Ind AS reporting period.
   d) at the beginning of the earliest period presented
2. An entity's first Ind AS financial statements shall include at least
   a) two Balance sheet, two statement of profit or loss, two statement of cash flow and two statements of change in equity and related notes.
   b) three Balance sheet, two statement of profit or loss, two statement of cash flow and two statement of change in equity and related notes.
   c) one Balance sheet, one statement of profit or loss, one statement of cash flow and one statement of change in equity and related notes.
   d) two Balance sheet, two statement of profit or loss and two statement of change in equity.
3. An entity's first financial statements shall include reconciliation of its equity reported in accordance with previous GAAP to its equity in accordance with Ind AS
   a) on the date of transition to Ind AS
   b) at the end of the latest period presented in the entity's most recent annual financial statement in accordance with previous GAAP.
   c) neither on the date of transition nor at the end of the latest period presented in the entity's most recent annual financial statement.
   d) both on the date of transition to Ind AS and at the end of the latest period presented in the entity's most recent annual financial statement in accordance with previous GAAP.
4. If the entity recognised or reversed any impairment losses for the first time in preparing its opening Ind AS Balance Sheet,
   a) the disclosure required under Impairment of assets is required to be made.
   b) no disclosures are required to made
   c) entity cannot recognised or reversed any impairment loss in its opening Ind AS Balance Sheet
   d) entity shall disclose the impact as a footnote to the Balance Sheet.

5. If an entity becomes aware of errors made under previous GAAP, the reconciliation required by Ind AS 101 shall

   a) not disclose the correction of those errors.

   b) shall club the correction of those errors with change in accounting policies.

   c) distinguish the correction of those errors from changes in accounting policies.

   d) not be disclose.

6. While adopting Ind AS for the first time, previously designated financial assets

   a) can be designated as a financial asset measured at fair value through profit or loss while adopting Ind AS for the first time.

   b) cannot be designated as financial asset measured at fair value through profit or loss while adopting Ind AS for the first time.

   c) shall be derecognise while adopting Ind AS for the first time.

   d) shall continue to state at their carrying value.

7. If an entity presents an interim financial report for the period covered by its first Ind AS financial statements and presents comparable interim period of the immediately preceding financial year,

   a) it shall include a reconciliation of its equity as per previous GAAP at the end of last financial year to its equity under Ind AS at that date.

   b) it shall include a reconciliation of its equity as per previous GAAP at the end of comparable interim period to its equity under Ind AS at that date.

   c) it shall include a reconciliation of its equity as per previous GAAP at the date of transition to its equity under Ind AS at that date.

   d) it shall include a reconciliation of its equity as per previous GAAP both on the date of transition and at the end of last financial year to its equity under Ind AS at that date.

8. Entity adopting Ind AS for the first time are

   a) required to apply the derecognition requirement in Ind AS 109 retrospectively.

   b) not required to apply the derecognition requirement in Ind AS 109 retrospectively.

   c) not required to derecognise non-derivative assets in accordance with its previous GAAP.

   d) required to derecognise non-derivative assets in accordance with its previous GAAP.

9. Transactions entered into before the date of transition to Ind AS
   a) shall be designated as hedges retrospectively
   b) and designated as hedge as per previous GAAP, shall be derecognise on the date of transition
   c) shall not be retrospectively designated as hedges.
   d) and designated as hedge as per previous GAAP, shall be recognised as hedge as per Ind AS, even if it does not qualify for hedge accounting as per Ind AS 109.
10. If a first time adopter elects to apply Ind AS 103 retrospectively during first time adoption,
   a) entity can apply Ind AS 103 retrospectively.
   b) entity cannot apply Ind AS 103 retrospectively.
   c) it shall not apply Ind AS 110 retrospectively.
   d) it shall also apply Ind AS 110 from that date.
11. First time adopter can apply the requirement of Ind AS 20
   a) retrospectively to any government loan originated before the date of transition, provided the information needed to do so had been obtained at the time of initially accounted for that loan.
   b) prospectively from the date of transition.
   c) retrospectively to any government loan originating before the date of transition.
   d) either prospectively or retrospectively as entity deems fit.
12. A first time adopter may restates any business combination
   a) prospectively.
   b) retrospectively, provided it shall restate all later business combination.
   c) retrospectively to all business combination
   d) entity shall not restate any business combination.
13. If the first time adopter does not apply Ind AS 103 retrospectively to past business combination,
   a) it shall update the classification based on Ind AS 103.
   b) it shall test the business combination considering Ind AS 103.
   c) the first time adopter shall keep the same classification as in its previous GAAP financial statements.

d) no adjustment shall be made on assets and liabilities in the opening Ind AS Balance Sheet assumed in a past business combination.

14. Regardless of whether there is any indication that the goodwill may be impaired,

a) the first time adopter shall apply Ind AS 36 in testing the goodwill for impairment at the date of transition to Ind AS and in recognising any resulting impairment loss in retained earnings.

b) the first time adopter shall apply Ind AS 101 in testing the goodwill for impairment at the date of transition and recognising any resulting impairment loss.

c) the entity shall not recognised impairment loss on the date of transition.

d) the entity shall charge off the amount of impairment by creating a liability.

15. The exemption for past business combinations

a) does not applies to past acquisitions of investment in associates and of interests in joint ventures for first time adopter.

b) also applies to past acquisition of investment in associates but does not apply to interest in joint ventures for first time adopter.

c) does not applies to past acquisition of investment in associates but applies to interest in joint ventures for first time adopter.

d) also applies to past acquisitions of investment in associates and of interests in joint ventures for first time adopter.

16. If a first time adopter modifies the terms and conditions of a grant of equity instruments to which Ind AS 102 has not applied,

a) the entity is required to apply Ind AS 102 retrospectively.

b) the entity is not required to apply Ind AS 102 if the modification occurred before the date of transition to Ind AS.

c) the entity will not be compliant of Ind AS.

d) Liabilities recognised shall be charged off on the date of transition.

17. If an entity does not comply with requirement of cumulative translation differences on the date of transition,

a) the cumulative translation differences for all foreign operation are deemed to be zero at a date of transition to Ind AS.

b) entity shall calculate the amount of cumulative translation difference retrospectively.

c) entity shall not calculate the cumulative translation difference post date of transition.

d) requirement of cumulative translation difference will not be applicable to the entity.

18. Deemed cost for the purpose of investment in subsidiaries, joint ventures and associates shall be

a) its fair value at the date of purchase

b) its previous GAAP carrying amount on the date of transition.

c) its fair value at the date of transition to Ind AS in its separate financial statement or previous GAAP carrying amount.

d) its fair value on the date of transition to Ind AS.

19. If a subsidiary becomes a first time adopter later than its parents, the subsidiary can

a) adopt the carrying amount that would in the parents consolidated financial statement.

b) adopt the carrying amount as per previous GAAP.

c) not comply with the requirement of Ind AS.

d) not be consolidated by the parent.

20. If the first time adopter opted for exemption from cumulative translation differences,

a) no gain or loss on disposal of foreign operation shall be calculated.

b) any gain or loss on subsequent disposal of any foreign operation shall exclude translation difference that arose before the date of transition to Ind AS.

c) no cumulative translation difference shall be calculated post transition.

d) requirement of cumulative translation difference will not be applicable to the entity.

21. If an entity becomes a first time adopter later than its subsidiary the entity shall, in its consolidated financial statements,

a) measure the assets and liabilities of the subsidiary as the same carrying amount as in the financial statement of subsidiary as per previous GAAP.

b) it shall not consolidate that subsidiary which has adopted Ind AS

c) entity need not require to comply with Ind AS.

d) measure the assets and liabilities of the subsidiary at the same carrying amount as in the financial statement of the subsidiary, after adjusting for consolidation and equity accounting adjustment.

22. If a parent entity becomes a first time adopter for its separate financial statement earlier or later than for its consolidated financial statements,

    a) it shall measure its assets and liabilities at same amount in both financial statement except for consolidation adjustment.

    b) it can measure its assets and liabilities at different amount in both financial statement except for consolidation adjustment.

    c) parent shall not prepare the separate financial statement post preparation of consolidated financial statement.

    d) parent shall not consolidate subsidiary for next 2 year after transition to Ind AS.

23. If the liability component of compound financial instrument is no longer outstanding at the date of transition to Ind AS

    a) entity shall bifurcate the equity and liability component retrospectively.

    b) the amount determine initially shall be recognised on the date of transition.

    c) A first time adopter need not separate the two portion of compound financial instrument.

    d) entity shall derecognise the compound financial instrument.

24. When changing from proportionate consolidation to the equity method, a first time adopter shall test for impairment the investment in accordance with Ind AS 36.

    a) Any resulting impairment shall be recognised in retained earnings at the date of transition to Ind AS.

    b) any resulting impairment shall be recognised in profit or loss during the year of transition to Ind AS.

    c) resulting impairment loss shall not be recognised.

    d) any resulting impairment shall be adjusted with the amount of goodwill.

25. An entity shall prepare and present an opening Ind AS statement of financial position at the date of ________________.

    a) End of comparatives   b) end of current financial year

    c) Transition   d) end of earliest period.

26. An entity's estimates in accordance with Ind AS at the date of transition to Ind AS shall be consistent with estimates made for the same date in accordance with ______________, unless there is objective evidence that those evidences were in error.

    a) Previous GAAP   b) IFRS

    c) Ind AS   d) local GAAP

27. An entity shall explain how the transition from previous GAAP to Ind AS affected its reported Balance Sheet, Profit or loss and ___________.

    a) transactions b) estimates

    c) Policy d) cash flow

28. Ind AS 8 does not apply to changes in accounting policies until after it presents its ____________________.

    a) End of comparative b) first Ind AS financial statement

    c) date of transition financials d) previous GAAP financial statement

29. If an entity uses fair value in its opening Ind AS financial position as deemed cost for PPE, it shall disclose the aggregate of those _________ and aggregate adjustment to the carrying amount under previous GAAP.

    a) replacement value b) carrying amount

    c) Realizable value d) fair value

30. _______________ is the beginning of the earliest period for which an entity presents full comparable information under Ind AS in its first Ind AS financial statements.

    a) date of transition to Ind AS b) end of comparative financial statement

    c) end of current financials d) date of formation of entity.

31. An amount used as a surrogate for cost or depreciated cost at a given date is ____________.

    a) carrying amount b) deemed cost

    c) fair value d) replacement cost

32. _______________ is the basis of accounting that a first time adopter used immediately before adopting Ind AS.

    a) IFRS b) US GAAP

    c) previous GAAP d) UK GAAP

33. The first time adopter shall exclude from its opening Ind AS financial statement any item recognized in accordance with previous GAAP that does not qualify for _________ as an asset or liability under Ind ASs.

    a) measurement b) recognition

    c) classification d) disclosure

34. A first time adopter may elect to use a previous GAAP revaluation of an item of Property, plant and equipment at, or before, the date of transition to Ind AS as deemed cost at the date of revaluation, if revaluation was, at the date of revaluation broadly comparable to __________ or cost or depreciated cost in accordance with Ind AS.

    a) carrying amount b) realizable value

    c) replacement value d) fair value

35. An entity shall measure investment in subsidiaries, joint ventures and associates in its separate statement of financial position at cost determined in accordance with IAS 27; or _________.

    a) Previous GAAP carrying amount at the end of comparative period

    b) fair value at the end of comparative period

    c) deemed cost

    d) realizable value.

Solutions to MCQs

1. b) at the end of its first Ind AS reporting period.
2. b) three Balance sheet, two statement of profit or loss, two statement of cash flow and two statement of change in equity and related notes.
3. d) both on the date of transition to Ind AS and at the end of the latest period presented in the entity's most recent annual financial statement in accordance with previous GAAP.
4. a) the disclosure required under Impairment of assets is required to be made.
5. c) distinguish the correction of those errors from changes in accounting policies.
6. a) can be designated as a financial asset measured at fair value through profit or loss while adopting Ind AS for the first time.
7. b) it shall include a reconciliation of its equity as per previous GAAP at the end of comparable interim period to its equity under Ind AS at that date.
8. b) not required to apply the derecognition requirement in Ind AS 109 retrospectively.
9. c) shall not be retrospectively designated as hedges.
10. d) it shall also apply Ind AS 110 from that date.
11. a) retrospectively to any government loan originated before the date of transition, provided the information needed to do so had been obtained at the time of initially accounted for that loan.
12. b) retrospectively, provided it shall restate all later business combination.
13. c) the first time adopter shall keep the same classification as in its previous GAAP financial statements.

14. a) the first time adopter shall apply Ind AS 36 in testing the goodwill for impairment at the date of transition to Ind AS and in recognising any resulting impairment loss in retained earnings.
15. d) also applies to past acquisitions of investment in associates and of interests in joint ventures for first time adopter.
16. b) the entity is not required to apply Ind AS 102 if the modification occurred before the date of transition to Ind AS.
17. a) the cumulative translation differences for all foreign operation are deemed to be zero at a date of transition to Ind AS.
18. c) its fair value at the date of transition to Ind AS in its separate financial statement or previous GAAP carrying amount.
19. a) adopt the carrying amount that would in the parents consolidated financial statement.
20. b) any gain or loss on subsequent disposal of any foreign operation shall exclude translation difference that arose before the date of transition to Ind AS.
21. d) measure the assets and liabilities of the subsidiary at the same carrying amount as in the financial statement of the subsidiary, after adjusting for consolidation and equity accounting adjustment.
22. a) it shall measure its assets and liabilities at same amount in both financial statement except for consolidation adjustment.
23. c) A first time adopter need not separate the two portion of compound financial instrument.
24. a) Any resulting impairment shall be recognised in retained earnings at the date of transition to Ind AS
25. c) Transition to Ind AS
26. a) Previous GAAP
27. d) Cash Flow
28. b) first Ind AS financial statement
29. d) Fair value
30. a) Date of transition to Ind AS
31. b) Deemed cost
32. c) Previous GAAP
33. b) Recognition
34. d) Fair value
35. c) Deemed cost

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Annexure I
General Instructions for Preparation of Financial Statements of a Company required to comply with Ind AS as notified by MCA

MINISTRY OF CORPORATE AFFAIRS

Notification

New Delhi, the 6th April, 2016

Amendment in Companies Act 2013 Schedule III

G.S.R. 404(E).– In exercise of the powers conferred by sub-section (1) of section 467 of the Companies Act, 2013 (18 of 2013), the Central Government hereby makes the following amendments to Schedule III of the said Act with effect from the date of publication of this notification in the Official Gazette, namely:–

2. In the Companies Act, 2013 (hereinafter referred to as the principal Act) in Schedule III, for the heading "General instructions for preparation of Balance Sheet and Statements of Profit and Loss of a Company" the following shall be substituted, namely:–

"Division I

Financial Statements for a company whose Financial Statements are required to comply with the Companies (Accounting Standards) Rules, 2006.

GENERAL INSTRUCTIONS FOR PREPARATION OF BALANCE SHEET AND STATEMENT OF PROFIT AND LOSS OF A COMPANY

3. In the principal Act, in Schedule III, at the end, the following shall be inserted, namely:–

"Division II

Financial Statements for a company whose Financial Statements are drawn up in compliance of the Companies (Indian Accounting Standards) Rules, 2015.

GENERAL INSTRUCTIONS FOR PREPARATION OF FINANCIAL STATEMENTS OF A COMPANY REQUIRED TO COMPLY WITH Ind AS

1. Every company to which Indian Accounting Standards apply, shall prepare its financial statements in accordance with this Schedule or with such modification as may be required under certain circumstances.

2. Where compliance with the requirements of the Act including Indian Accounting Standards (except the option of presenting assets and liabilities in the order of liquidity as provided by the relevant Ind AS) as applicable to the companies require any change in treatment or disclosure including addition, amendment, substitution or deletion in

the head or sub-head or any changes *inter se*, in the financial statements or statements forming part thereof, the same shall be made and the requirements under this Schedule shall stand modified accordingly.

3. The disclosure requirements specified in this Schedule are in addition to and not in substitution of the disclosure requirements specified in the Indian Accounting Standards. Additional disclosures specified in the Indian Accounting Standards shall be made in the Notes or by way of additional statement or statements unless required to be disclosed on the face of the Financial Statements. Similarly, all other disclosures as required by the Companies Act, 2013 shall be made in the Notes in addition to the requirements set out in this Schedule.

4. (i) Notes shall contain information in addition to that presented in the Financial Statements and shall provide where required:

   (a) narrative descriptions or disaggregations of items recognised in those statements; and

   (b) information about items that do not qualify for recognition in those statements.

   (ii) Each item on the face of the Balance Sheet, Statement of Changes in Equity and Statement of Profit and Loss shall be cross-referenced to any related information in the Notes. In preparing the Financial Statements including the Notes, a balance shall be maintained between providing excessive detail that may not assist users of Financial Statements and not providing important information as a result of too much aggregation.

5. Depending upon the turnover of the company, the figures appearing in the Financial Statements shall be rounded off as below:

Turnover	Rounding off
(i) less than one hundred crore rupees	To the nearest hundreds, thousands, lakhs or millions, or decimals thereof.
(ii) one hundred crore rupees or more	To the nearest, lakhs, millions or crores, or decimals thereof.

Once a unit of measurement is used, it should be used uniformly in the Financial Statements.

6. Financial Statements shall contain the corresponding amounts (comparatives) for the immediately preceding reporting period for all items shown in the Financial Statements including Notes except in the case of first Financial Statements laid before the company after incorporation.

7. Financial Statements shall disclose all “material” items, i.e., the items if they could, individually or collectively, influence the economic decisions that users make on the basis of the Financial Statements. Materiality depends on the size or nature of the item or a combination of both, to be judged in the particular circumstances.

8. For the purpose of this Schedule, the terms used herein shall have the same meanings assigned to them in Indian Accounting Standards.

9. Where any Act or Regulation requires specific disclosures to be made in the standalone Financial Statements of a company, the said disclosures shall be made in addition to those required under this Schedule.

Note: This Schedule sets out the minimum requirements for disclosure on the face of the Financial Statements, i.e., Balance Sheet, Statement of Changes in Equity for the period, the Statement of Profit and Loss for the period (The term "Statement of Profit and Loss" has the same meaning as "Profit and Loss Account") and Notes. Cash flow statement shall be prepared, where applicable, in accordance with the requirements of the relevant Indian Accounting Standard.

Line items, sub-line items and sub-totals shall be presented as an addition or substitution on the face of the Financial Statements when such presentation is relevant to an understanding of the company's financial position or performance or to cater to industry or sector-specific disclosure requirements or when required for compliance with the amendments to the Companies Act, 2013 or under the Indian Accounting Standards.

PART I – BALANCE SHEET

Name of the Company…………………….
Balance Sheet as at ………………………
(Rupees in…………)

	Particulars	Note No.	Figures as at the end of current reporting period	Figures as at the end of the previous reporting period
	1	2	3	4
	(1) ASSETS **Non-current assets** (a) Property, Plant and Equipment (b) Capital work-in- progress (c) Investment Property (d) Goodwill (e) Other Intangible assets (f) Intangible assets under development (g) Biological Assets other than bearer plants (h) Financial Assets (i) Investments			

	Particulars	Note No.	Figures as at the end of current reporting period	Figures as at the end of the previous reporting period
	1	2	3	4
	(ii) Trade receivables			
	(iii) Loans			
	(iv) Others (to be specified)			
	(i) Deferred tax assets (net)			
	(j) Other non-current assets			
	(2) Current assets			
	(a) Inventories			
	(b) Financial Assets			
	(i) Investments			
	(ii) Trade receivables			
	(iii) Cash and cash equivalents			
	(iv) Bank balances other than (iii) above			
	(v) Loans			
	(vi) Others (to be specified)			
	(c) Current Tax Assets (Net)			
	(d) Other current assets			
	Total Assets			
	EQUITY AND LIABILITIES			
	Equity			
	(a) Equity Share capital			
	(b) Other Equity			
	LIABILITIES			
	Non-current liabilities			
	(a) Financial Liabilities			
	(i) Borrowings			
	(ii) Trade payables			
	(iii) Other financial liabilities (other than those specified in item (b) to be specified)			

	Particulars	Note No.	Figures as at the end of current reporting period	Figures as at the end of the previous reporting period
	1	2	3	4
	(b) Provisions			
	(c) Deferred tax liabilities (Net)			
	(d) Other non-current liabilities			
	Current liabilities			
	(a) Financial Liabilities			
	(i) Borrowings			
	(ii) Trade payables			
	(iii) Other financial liabilities (other than those specified in item (c)			
	(b) Other current liabilities			
	(c) Provisions			
	(d) Current Tax Liabilities (Net)			
	Total Equity and Liabilities			

See accompanying notes to the Financial Statements

STATEMENT OF CHANGES IN EQUITY

Name of the Company……………………..

Statement of Changes in Equity for the period ended ……………………..

(Rupees in………………)

A. Equity Share Capital

Balance at the beginning of the reporting period	Changes in equity share capital during the year	Balance at the end of the reporting period

B. Other Equity

	Share application money pending allotment	Equity component of compound financial instruments	Reserves and Surplus				Debt instruments through Other Comprehensive Income	Equity Instruments through Other Comprehensive Income	Effective portion of Cash Flow Hedges	Revaluation Surplus	Exchange differences on translating the financial statements of a foreign operation	Other items of Other Comprehensive Income (specify nature)	Money received against share warrants	Total
			Capital Reserve	Securities Premium Reserve	Other Reserves (specify nature)	Retained Earnings								
Balance at the beginning of the reporting period														
Changes in accounting policy or prior period errors														
Restated balance at the beginning of the reporting period														
Total Comprehensive Income for the year														
Dividends														
Transfer to retained earnings														
Any other change (to be specified)														
Balance at the end of the reporting period														

Note: Remeasurement of defined benefit plans and fair value changes relating to own credit risk of financial liabilities designated at fair value through profit or loss shall be recognised as a part of retained earnings with separate disclosure of such items along with the relevant amounts in the Notes.

Notes:

GENERAL INSTRUCTIONS FOR PREPARATION OF BALANCE SHEET

1. An entity shall classify an asset as current when–

   (a) it expects to realise the asset, or intends to sell or consume it, in its normal operating cycle;

   (b) it holds the asset primarily for the purpose of trading;

   (c) it expects to realise the asset within twelve months after the reporting period; or

   (d) the asset is cash or a cash equivalent unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

   An entity shall classify all other assets as non-current.

2. The operating cycle of an entity is the time between the acquisition of assets for processing and their realisation in cash or cash equivalents. When the entity's normal operating cycle is not clearly identifiable, it is assumed to be twelve months.

3. An entity shall classify a liability as current when–

   (a) it expects to settle the liability in its normal operating cycle;

   (b) it holds the liability primarily for the purpose of trading;

   (c) the liability is due to be settled within twelve months after the reporting period; or

   (d) it does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

   An entity shall classify all other liabilities as non-current.

4. A receivable shall be classified as a "trade receivable" if it is in respect of the amount due on account of goods sold or services rendered in the normal course of business.

5. A payable shall be classified as a "trade payable" if it is in respect of the amount due on account of goods purchased or services received in the normal course of business.

6. A company shall disclose the following in the Notes:

A. Non-Current Assets

I. Property, Plant and Equipment :

(i) Classification shall be given as:

(a) Land

(b) Buildings

(c) Plant and Equipment

(d) Furniture and Fixtures

(e) Vehicles

(f) Office equipment

(g) Bearer Plants

(h) Others (specify nature)

(ii) Assets under lease shall be separately specified under each class of assets.

(iii) A reconciliation of the gross and net carrying amounts of each class of assets at the beginning and end of the reporting period showing additions, disposals, acquisitions through business combinations and other adjustments and the related depreciation and impairment losses or reversals shall be disclosed separately.

II. Investment Property

A reconciliation of the gross and net carrying amounts of each class of property at the beginning and end of the reporting period showing additions, disposals, acquisitions through business combinations and other adjustments and the related depreciation and impairment losses or reversals shall be disclosed separately.

III. Goodwill

A reconciliation of the gross and net carrying amount of goodwill at the beginning and end of the reporting period showing additions, impairments, disposals and other adjustments.

IV. Other Intangible assets

(i) Classification shall be given as:

(a) Brands or trademarks

(b) Computer software

(c) Mastheads and publishing titles

(d) Mining rights

(e) Copyrights, patents, other intellectual property rights, services and operating rights

(f) Recipes, formulae, models, designs and prototypes

(g) Licences and franchises

(h) Others (specify nature)

(i) A reconciliation of the gross and net carrying amounts of each class of assets at the beginning and end of the reporting period showing additions, disposals, acquisitions through business combinations and other adjustments and the related amortization and impairment losses or reversals shall be disclosed separately.

V. Biological Assets other than bearer plants

A reconciliation of the carrying amounts of each class of assets at the beginning and end of the reporting period showing additions, disposals, acquisitions through business combinations and other adjustments shall be disclosed separately.

VI. Investments

(i) Investments shall be classified as:

(a) Investments in Equity Instruments;

(b) Investments in Preference Shares;

(c) Investments in Government or trust securities;

(d) Investments in debentures or bonds;

(e) Investments in Mutual Funds;

(f) Investments in partnership firms; or

(g) Other investments (specify nature).

Under each classification, details shall be given of names of the bodies corporate that are-

(i) subsidiaries,

(ii) associates,

(iii) joint ventures, or

(iv) structured entities,

in whom investments have been made and the nature and extent of the investment so made in each such body corporate (showing separately investments which are partly-paid). Investments in partnership firms alongwith names of the firms, their partners, total capital and the shares of each partner shall be disclosed separately.

(ii) The following shall also be disclosed:

(a) Aggregate amount of quoted investments and market value thereof;

(b) Aggregate amount of unquoted investments; and

(c) Aggregate amount of impairment in value of investments.

VII. Trade Receivables

(i) *Trade receivables shall be sub-classified as:*

(a) *Secured, considered good;*

(b) *Unsecured considered good; and*

(c) *Doubtful.*

(ii) *Allowance for bad and doubtful debts shall be disclosed under the relevant heads separately.*

(iii) *Debts due by directors or other officers of the company or any of them either severally or jointly with any other person or debts due by firms or private companies respectively in which any director is a partner or a director or a member should be separately stated.*

VIII. Loans

(i) *Loans shall be classified as-*

(a) *Security Deposits;*

(b) *Loans to related parties (giving details thereof); and*

(c) *Other loans (specify nature).*

(ii) *The above shall also be separately sub-classified as-*

(a) *Secured, considered good;*

(b) *Unsecured, considered good; and*

(c) *Doubtful.*

(iii) *Allowance for bad and doubtful loans shall be disclosed under the relevant heads separately.*

(iv) *Loans due by directors or other officers of the company or any of them either severally or jointly with any other persons or amounts due by firms or private companies respectively in which any director is a partner or a director or a member should be separately stated.*

IX. Bank deposits with more than 12 months maturity shall be disclosed under 'Other financial assets'

X. Other non-current assets: Other non-current assets shall be classified as–

(i) *Capital Advances; and*

(ii) *Advances other than capital advances;*

(1) *Advances other than capital advances shall be classified as:*

(a) Security Deposits;

(b) Advances to related parties (giving details thereof); and

(c) Other advances (specify nature).

(2) Advances to directors or other officers of the company or any of them either severally or jointly with any other persons or advances to firms or private companies respectively in which any director is a partner or a director or a member should be separately stated. In case advances are of the nature of a financial asset as per relevant Ind AS, these are to be disclosed under „other financial assets' separately.

(iii) Others (specify nature).

B. Current Assets

I. Inventories:

(i) Inventories shall be classified as-

(a) Raw materials;

(b) Work-in-progress;

(c) Finished goods;

(d) Stock-in-trade (in respect of goods acquired for trading);

(e) Stores and spares;

(f) Loose tools; and

(g) Others (specify nature).

(ii) Goods-in-transit shall be disclosed under the relevant sub-head of inventories.

(iii) Mode of valuation shall be stated.

II. Investments:

(i) Investments shall be classified as-

(a) Investments in Equity Instruments;

(b) Investment in Preference Shares;

(c) Investments in government or trust securities;

(d) Investments in debentures or bonds;

(e) Investments in Mutual Funds;

(f) Investments in partnership firms; and

(g) Other investments (specify nature).

Under each classification, details shall be given of names of the bodies corporate that are-

(i) subsidiaries,

(ii) associates,

(iii) joint ventures, or

(iv) structured entities,

in whom investments have been made and the nature and extent of the investment so made in each such body corporate (showing separately investments which are partly-paid).

(ii) The following shall also be disclosed–

(a) Aggregate amount of quoted investments and market value thereof;

(b) Aggregate amount of unquoted investments;

(c) Aggregate amount of impairment in value of investments.

III. Trade Receivables

(i) Trade receivables shall be sub-classified as:

(a) Secured, considered good;

(b) Unsecured considered good; and

(c) Doubtful.

(ii) Allowance for bad and doubtful debts shall be disclosed under the relevant heads separately.

(iii) Debts due by directors or other officers of the company or any of them either severally or jointly with any other person or debts due by firms or private companies respectively in which any director is a partner or a director or a member should be separately stated.

IV. Cash and cash equivalents: Cash and cash equivalents shall be classified as

a. Balances with Banks (of the nature of cash and cash equivalents);

b. Cheques, drafts on hand;

c. Cash on hand; and

d. Others (specify nature).

V. Loans:

(i) Loans shall be classified as:

(a) Security deposits;

(b) Loans to related parties (giving details thereof); and

(c) Others (specify nature).

(ii) The above shall also be sub-classified as-

(a) Secured, considered good;

(b) Unsecured, considered good; and

(c) Doubtful.

(iii) Allowance for bad and doubtful loans shall be disclosed under the relevant heads separately.

(iv) Loans due by directors or other officers of the company or any of them either severally or jointly with any other person or amounts due by firms or private companies respectively in which any director is a partner or a director or a member shall be separately stated.

VI. Other current assets (specify nature): This is an all-inclusive heading, which incorporates current assets that do not fit into any other asset categories. Other current assets shall be classified as–

(i) Advances other than capital advances

(1) Advances other than capital advances shall be classified as:

(a) Security Deposits;

(b) Advances to related parties (giving details thereof);

(c) Other advances (specify nature).

(2) Advances to directors or other officers of the company or any of them either severally or jointly with any other persons or advances to firms or private companies respectively in which any director is a partner or a director or a member should be separately stated.

(ii) Others (specify nature)

C. Cash and Bank balances: The following disclosures with regard to cash and bank balances shall be made:

(a) Earmarked balances with banks (for example, for unpaid dividend) shall be separately stated.

(b) *Balances with banks to the extent held as margin money or security against the borrowings, guarantees, other commitments shall be disclosed separately.*

(c) *Repatriation restrictions, if any, in respect of cash and bank balances shall be separately stated.*

D. Equity

I. Equity Share Capital: For each class of equity share capital:

(a) *the number and amount of shares authorised;*

(b) *the number of shares issued, subscribed and fully paid, and subscribed but not fully paid;*

(c) *par value per share;*

(d) *a reconciliation of the number of shares outstanding at the beginning and at the end of the period;*

(e) *the rights, preferences and restrictions attaching to each class of shares including restrictions on the distribution of dividends and the repayment of capital;*

(f) *shares in respect of each class in the company held by its holding company or its ultimate holding company including shares held by subsidiaries or associates of the holding company or the ultimate holding company in aggregate;*

(g) *shares in the company held by each shareholder holding more than five per cent shares specifying the number of shares held;*

(h) *shares reserved for issue under options and contracts or commitments for the sale of shares or disinvestment, including the terms and amounts;*

(i) *for the period of five years immediately preceding the date at which the Balance Sheet is prepared–*

aggregate number and class of shares allotted as fully paid-up pursuant to contract without payment being received in cash;

aggregate number and class of shares allotted as fully paid-up by way of bonus shares; and

aggregate number and class of shares bought back;

(j) *terms of any securities convertible into equity shares issued along with the earliest date of conversion in descending order starting from the farthest such date;*

(k) *calls unpaid (showing aggregate value of calls unpaid by directors and officers);*

(l) *forfeited shares (amount originally paid-up).*

II. Other Equity

(i) 'Other Reserves' shall be classified in the notes as–

(a) Capital Redemption Reserve;

(b) Debenture Redemption Reserve;

(c) Share Options Outstanding Account; and

(d) Others – (specify the nature and purpose of each reserve and the amount in respect thereof);

(Additions and deductions since last balance sheet to be shown under each of the specified heads)

(ii) Retained Earnings represents surplus i.e. balance of the relevant column in the Statement of Changes in Equity;

(iii) A reserve specifically represented by earmarked investments shall disclose the fact that it is so represented;

(iv) Debit balance of Statement of Profit and Loss shall be shown as a negative figure under the head 'retained earnings'. Similarly, the balance of 'Other Equity', after adjusting negative balance of retained earnings, if any, shall be shown under the head 'Other Equity' even if the resulting figure is in the negative; and

(v) Under the sub-head 'Other Equity', disclosure shall be made for the nature and amount of each item.

E. Non-current Liabilities

I. Borrowings

(i) borrowings shall be classified as–

(a) Bonds or debentures

(b) Term loans

(I) from banks

(II) from other parties

(c) Deferred payment liabilities

(d) Deposits

(e) Loans from related parties

(f) Long-term maturities of finance lease obligations

(g) Liability component of compound financial instruments

(h) Other loans (specify nature)

(ii) *borrowings shall further be sub-classified as secured and unsecured. Nature of security shall be specified separately in each case.*

(iii) *where loans have been guaranteed by directors or others, the aggregate amount of such loans under each head shall be disclosed;*

(iv) *bonds or debentures (along with the rate of interest, and particulars of redemption or conversion, as the case may be) shall be stated in descending order of maturity or conversion, starting from farthest redemption or conversion date, as the case may be. Where bonds/debentures are redeemable by installments, the date of maturity for this purpose must be reckoned as the date on which the first installment becomes due;*

(v) *particulars of any redeemed bonds or debentures which the company has power to reissue shall be disclosed;*

(vi) *terms of repayment of term loans and other loans shall be stated; and*

(vii) *period and amount of default as on the balance sheet date in repayment of borrowings and interest shall be specified separately in each case.*

III. Provisions: The amounts shall be classified as–

(a) *Provision for employee benefits; and*

(b) *Others (specify nature).*

IV. Other non-current liabilities;

(a) *Advances; and*

(b) *Others (specify nature).*

F. Current Liabilities

I. Borrowings

(i) *Borrowings shall be classified as-*

(a) *Loans repayable on demand*

(I) *from banks*

(II) *from other parties*

(b) *Loans from related parties*

(c) *Deposits*

(d) *Other loans (specify nature)*

(ii) *borrowings shall further be sub-classified as secured and unsecured. Nature of security shall be specified separately in each case;*

(iii) *where loans have been guaranteed by directors or others, the aggregate amount of such loans under each head shall be disclosed;*

(iv) *period and amount of default as on the balance sheet date in repayment of borrowings and interest, shall be specified separately in each case.*

II. Other Financial Liabilities : Other Financial liabilities shall be classified as–

(a) *Current maturities of long-term debt;*

(b) *Current maturities of finance lease obligations;*

(c) *Interest accrued;*

(d) *Unpaid dividends;*

(e) *Application money received for allotment of securities to the extent refundable and interest accrued thereon;*

(f) *Unpaid matured deposits and interest accrued thereon;*

(g) *Unpaid matured debentures and interest accrued thereon; and*

(h) *Others (specify nature).*

'Long-term debt' is a borrowing having a period of more than twelve months at the time of origination

III. Other current liabilities

The amounts shall be classified as–

(a) revenue received in advance;

(b) other advances (specify nature); and

(c) others (specify nature)

IV. Provisions: The amounts shall be classified as–

(i) provision for employee benefits; and

(ii) others (specify nature).

G. The presentation of liabilities associated with group of assets classified as held for sale and non-current assets classified as held for sale shall be in accordance with the relevant Indian Accounting Standards (Ind ASs).

H. Contingent Liabilities and Commitments

(to the extent not provided for)

(i) *Contingent Liabilities shall be classified as–*

(a) *claims against the company not acknowledged as debt;*

(b) guarantees excluding financial guarantees; and

(c) other money for which the company is contingently liable.

(ii) Commitments shall be classified as-

(a) estimated amount of contracts remaining to be executed on capital account and not provided for;

(b) uncalled liability on shares and other investments partly paid; and

(c) other commitments (specify nature).

I. The amount of dividends proposed to be distributed to equity and preference shareholders for the period and the related amount per share shall be disclosed separately. Arrears of fixed cumulative dividends on irredeemable preference shares shall also be disclosed separately.

J. Where in respect of an issue of securities made for a specific purpose the whole or part of amount has not been used for the specific purpose at the Balance Sheet date, there shall be indicated by way of note how such unutilised amounts have been used or invested.

7. When a company applies an accounting policy retrospectively or makes a restatement of items in the financial statements or when it reclassifies items in its financial statements, the company shall attach to the Balance Sheet, a “Balance Sheet” as at the beginning of the earliest comparative period presented.

8. Share application money pending allotment shall be classified into equity or liability in accordance with relevant Indian Accounting Standards. Share application money to the extent not refundable shall be shown under the head Equity and share application money to the extent refundable shall be separately shown under „Other financial liabilities'.

9. Preference shares including premium received on issue, shall be classified and presented as “Equity” or “Liability” in accordance with the requirements of the relevant Indian Accounting Standards. Accordingly, the disclosure and presentation requirements in this regard applicable to the relevant class of equity or liability shall be applicable *mutatis mutandis* to the preference shares. For instance, redeemable preference shares shall be classified and presented under “non-current liabilities” as “borrowings” and the disclosure requirements in this regard applicable to such borrowings shall be applicable *mutatis mutandis* to redeemable preference shares.

10. Compound financial instruments such as convertible debentures, where split into equity and liability components, as per the requirements of the relevant Indian Accounting Standards, shall be classified and presented under the relevant heads in “Equity” and “Liabilities”

11. Regulatory Deferral Account Balances shall be presented in the Balance Sheet in accordance with the relevant Indian Accounting Standards.

PART II – STATEMENT OF PROFIT AND LOSS

Name of the Company…………………….

Statement of Profit and Loss for the period ended ………………………

(Rupees in…………)

	Particulars	Note No.	Figures for the current reporting period	Figures for the previous reporting period
I	Revenue From Operations			
II	Other Income			
III	Total Income (I+II)			
IV	**EXPENSES** Cost of materials consumed			
	Purchases of Stock-in-Trade			
	Changes in inventories of finished goods, Stock-in-Trade and work-in-progress			
	Employee benefits expense			
	Finance costs			
	Depreciation and amortization expense			
	Other expenses			
	Total expenses (IV)			
V	Profit/(loss) before exceptional items and tax (I-IV)			
VI	Exceptional Items			
VII	Profit/(loss) before tax (V-VI)			
VIII	Tax expense: (1) Current tax (2) Deferred tax			
IX	Profit (Loss) for the period from continuing operations (VII-VIII)			
X	Profit/(loss) from discontinued operations			

	Particulars	Note No.	Figures for the current reporting period	Figures for the previous reporting period
XI	Tax expense of discontinued operations			
XII	Profit/(loss) from discontinued operations (after tax) (X-XI)			
XIII	Profit/(loss) for the period (IX+XII)			
XIV	Other Comprehensive Income A (i) Items that will not be reclassified to profit or loss (ii) Income tax relating to items that will not be reclassified to profit or loss B (i) Items that will be reclassified to profit or loss (ii) Income tax relating to items that will be reclassified to profit or loss			
XV	Total Comprehensive Income for the period (XIII+XIV)(Comprising Profit (Loss) and Other Comprehensive Income for the period)			
XVI	Earnings per equity share (for continuing operation): (1) Basic (2) Diluted			
XVII	Earnings per equity share (for discontinued operation): (1) Basic (2) Diluted			
XVIII	Earnings per equity share (for discontinued & continuing operations) (1) Basic (2) Diluted			

See accompanying notes to the financial statements

Notes:

GENERAL INSTRUCTIONS FOR PREPARATION OF STATEMENT OF PROFIT AND LOSS

1. The provisions of this Part shall apply to the income and expenditure account, in like manner as they apply to a Statement of Profit and Loss.

2. The Statement of Profit and Loss shall include:

   (1) Profit or loss for the period;

   (2) Other Comprehensive Income for the period.

   The sum of (1) and (2) above is 'Total Comprehensive Income'.

3. Revenue from operations shall disclose separately in the notes

   (a) sale of products (including Excise Duty);

   (b) sale of services; and

   (c) other operating revenues.

4. Finance Costs: Finance costs shall be classified as–

   (a) interest;

   (b) dividend on redeemable preference shares;

   (c) exchange differences regarded as an adjustment to borrowing costs; and

   (d) other borrowing costs (specify nature).

5. Other income: Other income shall be classified as–

   (a) interest Income ;

   (b) dividend Income; and

   (c) other non-operating income (net of expenses directly attributable to such income).

6. Other Comprehensive Income shall be classified into–

   (A) Items that will not be reclassified to profit or loss

      (i) Changes in revaluation surplus;

      (ii) Remeasurements of the defined benefit plans;

      (iii) Equity Instruments through Other Comprehensive Income;

      (iv) Fair value changes relating to own credit risk of financial liabilities designated at fair value through profit or loss;

      (v) Share of Other Comprehensive Income in Associates and Joint Ventures, to the extent not to be classified into profit or loss; and

(vi) Others (specify nature).

(B) Items that will be reclassified to profit or loss;

(i) Exchange differences in translating the financial statements of a foreign operation;

(ii) Debt Instruments through Other Comprehensive Income;

(iii) The effective portion of gains and loss on hedging instruments in a cash flow hedge;

(iv) Share of Other Comprehensive Income in Associates and Joint Ventures, to the extent to be classified into profit or loss; and

(v) Others (specify nature).

7. Additional Information: A Company shall disclose by way of notes, additional information regarding aggregate expenditure and income on the following items:

(a) employee Benefits expense [showing separately (i) salaries and wages, (ii) contribution to provident and other funds, (iii) share based payments to employees, (iv) staff welfare expenses].

(b) depreciation and amortisation expense;

(c) any item of income or expenditure which exceeds one per cent of the revenue from operations or ` 10,00,000, whichever is higher, in addition to the consideration of 'materiality' as specified in clause 7 of the General Instructions for Preparation of Financial Statements of a Company;

(d) interest Income;

(e) interest Expense;

(f) dividend income;

(g) net gain or loss on sale of investments;

(h) net gain or loss on foreign currency transaction and translation (other than considered as finance cost);

(i) payments to the auditor as (a) auditor, (b) for taxation matters, (c) for company law matters, (d) for other services, (e) for reimbursement of expenses;

(j) in case of companies covered under section 135, amount of expenditure incurred on corporate social responsibility activities; and

(k) details of items of exceptional nature;

8. Changes in Regulatory Deferral Account Balances shall be presented in the Statement of Profit and Loss in accordance with the relevant Indian Accounting Standards.

PART III – GENERAL INSTRUCTIONS FOR THE PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

1. Where a company is required to prepare Consolidated Financial Statements, i.e., consolidated balance sheet, consolidated statement of changes in equity and consolidated statement of profit and loss, the company shall *mutatis mutandis* follow the requirements of this Schedule as applicable to a company in the preparation of balance sheet, statement of changes in equity and statement of profit and loss. In addition, the consolidated financial statements shall disclose the information as per the requirements specified in the applicable Indian Accounting Standards notified under the Companies (Indian Accounting Standards) Rules, 2015, including the following, namely:–

   (i) Profit or loss attributable to 'non-controlling interest' and to 'owners of the parent' in the statement of profit and loss shall be presented as allocation for the period. Further, 'total comprehensive income' for the period attributable to 'non-controlling interest' and to 'owners of the parent' shall be presented in the statement of profit and loss as allocation for the period. The aforesaid disclosures for 'total comprehensive income' shall also be made in the statement of changes in equity. In addition to the disclosure requirements in the Indian Accounting Standards, the aforesaid disclosures shall also be made in respect of 'other comprehensive income'.

   (ii) 'Non-controlling interests' in the Balance Sheet and in the Statement of Changes in Equity, within equity, shall be presented separately from the equity of the 'owners of the parent'.

   (iii) Investments accounted for using the equity method.

2. In Consolidated Financial Statements, the following shall be disclosed by way of additional information:

Name of the entity in the Group	Net Assets, i.e., total assets minus total liabilities		Share in profit or loss		Share in other comprehensive income		Share in total comprehensive income	
	As % of consolidated net assets	Amount	As % of consolidated profit or loss	Amount	As % of consolidated other compre-hensive income	Amount	As % of total compre-hensive income	Amount
Parent Subsidiaries Indian								
1. 2. 3.								

Name of the entity in the Group	Net Assets, i.e., total assets minus total liabilities		Share in profit or loss		Share in other comprehensive income		Share in total comprehensive income	
	As % of consolidated net assets	Amount	As % of consolidated profit or loss	Amount	As % of consolidated other compre-hensive income	Amount	As % of total compre-hensive income	Amount
Foreign 1. 2. 3.								
Non-controlling Interests in all subsidiaries Associates (Investment as per the equity method) Indian 1. 2. 3.								
Foreign 1. 2. 3.								
Joint Ventures (investment as per the equity method)								

Name of the entity in the Group	Net Assets, i.e., total assets minus total liabilities		Share in profit or loss		Share in other comprehensive income		Share in total comprehensive income	
	As % of consolidated net assets	Amount	As % of consolidated profit or loss	Amount	As % of consolidated other compre-hensive income	Amount	As % of total compre-hensive income	Amount
Indian								
1.								
2.								
3.								
Foreign								
1.								
2.								
3.								
Total								

3. All subsidiaries, associates and joint ventures (whether Indian or foreign) will be covered under consolidated financial statements.

4. An entity shall disclose the list of subsidiaries or associates or joint ventures which have not been consolidated in the consolidated financial statements along with the reasons of not consolidating.

[F. No. 17/62/2015-CL-V]

AMARDEEP S. BHATIA, Jt. Secy.

Note: Schedule III of the Companies Act, 2013 came into force with effect from the 1st April, 2014 *vide* Notification S.O. 902(E), dated 26-3-2014.

Annexure II
RBI: Proforma Ind AS Financial Statements by Banks

RBI/2015-16/429 DBR.BP.BC.No.106/21.07.001/2015-16 June 23, 2016

All Scheduled Commercial Banks
(excluding Regional Rural Banks)

Madam / Dear Sir,

Implementation of Indian Accounting Standards (Ind AS)

Please refer to circular DBR.BP.BC.No.76/21.07.001/2015-16 dated February 11, 2016 on the captioned subject in terms of which banks have been directed to be in preparedness to submit Proforma Ind AS Financial Statements to the Reserve Bank from the half-year ended September 30, 2016, onwards.

2. Banks shall submit Proforma Ind AS Financial Statements, for the half year ended September 30, 2016 latest by November 30, 2016 to the Principal Chief General Manager, Department of Banking Regulation, Central Office, Reserve Bank of India, Mumbai. Banks shall be guided by the Ind ASs notified by the Ministry of Corporate Affairs, Government of India under the Companies (Indian Accounting Standards) Rules, 2015 and Companies (Indian Accounting Standards) (Amendment) Rules, 2016, as amended from time-to-time, in this regard. [reference G.S.R.111(E) dated February 16, 2015 and G.S.R.365(E) dated March 30, 2016]. Banks shall also refer to the Report of the Working Group on "Implementation of Ind AS by Banks in India" placed on the RBI website on October 20, 2015.

3. The Proforma Ind AS Financial Statements shall include the following:-

(a) Balance Sheet including Statement of Changes in Equity (Annexes I & II).

(b) Profit and Loss Account (Annex III).

(c) Notes (Annex IV).

4. The formats as per the Annexes are solely for the preparation and submission of proforma Ind AS financial statements to the Reserve Bank. The formats for the Ind AS financial statements for the accounting periods beginning April 1, 2018 shall be notified separately. It is also clarified that banks shall continue to be guided by the extant instructions issued *vide* circular Ref. DBOD.No.BP.BC.78/C.686/91-92 dated February 6, 1992 (as amended from time to time) with respect to the preparation and presentation of financial statements for the financial years 2016-17 and 2017-18.

5. Banks may refer to Annex V for the broad application guidance on the major line items/ sub-line items in the financial statements. Banks may email to the Reserve Bank for specific clarifications/issues, in this regard.

6. To begin with, banks which are not in a position to submit both standalone and consolidated proforma Ind AS financial statements for the half year ended September 30, 2016 are permitted to submit only standalone financial statements. However, banks shall submit both proforma Ind AS standalone and consolidated financial statements in the subsequent periods.

7. Banks shall disclose significant accounting policies including, *inter alia,* the following:

(i) financial assets and financial liabilities, including use of fair value option in designating financial assets or financial liabilities at Fair Value Through Profit or Loss (FVTPL) upon initial recognition.

(ii) impairment of financial assets, with the following details:

- Methodology for computation of expected credit losses (ECL).
- Level of segmentation in the portfolio used.
- Criteria used for determination of movement from Stage 1 (12 month ECL) to Stage 2 and Stage 3 (lifetime ECL).
- The method used to compute lifetime ECL.
- The manner in which the forward looking information has been incorporated in the ECL estimates – the information provided should include both discussion of the judgment required and how it is applied in determining the allowance.
- The treatment for non-fund based facilities.
- The methodology for computation of ECL for revolving credit facilities.
- The areas where the bank intends to refine work on in this ECL estimate and the work plan/timeline to achieve it.
- The impact of movement from the current approach to the ECL approach-reconciliation of the stock of provisions under the current reporting requirements with the opening Ind AS 109 allowance. A comparison of the impairment allowance under ECL for the half-year ended September 30, 2016 with the corresponding provisions under the extant Prudential norms on Income Recognition, Asset Classification and Provisioning (IRACP) norms shall also be disclosed.

Banks may note that Ind AS 109 is not specific in terms of the approach to be followed when measuring expected credit losses. The Reserve Bank expects banks to adopt sound expected credit loss methodologies commensurate with the size, complexity, and risk profile specific to individual banks. Banks may also note that the Reserve Bank shall finalise the policy on expected credit loss provisioning, taking into account the impairment requirements under Ind AS 109, after due deliberations, and considering various factors including, *inter alia,* the inputs as above. Banks are therefore advised to maintain flexibility while designing the systems and processes in this regard.

(iii) derivatives and hedge accounting.

(iv) derecognition of financial assets and financial liabilities.

(v) employee benefits.

(vi) offsetting financial instruments.

(vii) income taxes.

(viii) significant areas of estimation uncertainty, critical judgments and assumptions in applying accounting policies.

(ix) Approach on exemptions under Ind AS 101 *First Time Adoption of Indian Accounting Standards.*

8. For the purpose of preparation of proforma Ind AS financial statements for the half year ending September 30, 2016, the notional date of transition to Ind ASs shall be the beginning of business as on April 01, 2016 (or equivalently close of business as on March 31, 2016). This however, does not change the date of transition for the purpose of preparation of Ind AS financial statements for the accounting periods beginning April 1, 2018, which shall be as per the provisions of Ind AS 101 *First Time Adoption of Indian Accounting Standards.*

9. The Proforma Ind ASs Financial Statements shall also include:

(i) (a) reconciliation of equity reported in accordance with the existing financial reporting requirements as at April 1, 2016 to its equity in accordance with Ind ASs as on the same date.

(b) reconciliation of equity reported in accordance with the existing financial reporting requirements as at September 30, 2016 to its equity in accordance with Ind ASs as on the same date.

(ii) reconciliation of the total comprehensive income in accordance with Ind AS for the half year ended September 30, 2016 with the profit or loss under the existing financial reporting requirements.

10. The reconciliations required by paragraph 9 above shall be given in sufficient detail to understand the material adjustments to the Balance Sheet and Statement of Profit and Loss, thereby explaining how the transition from the existing financial reporting to Ind ASs affected the reported Balance Sheet and financial performance. The detail shall be such as to enable the Reserve Bank to understand the significant adjustments to equity that will impact regulatory capital. The Reserve Bank does not require the proforma Ind AS financial statements to be audited and understands that this information, while being a fair estimate of the impact to opening equity, is subject to change.

11. Please note that the submission of proforma Ind AS financial statements to the Reserve Bank shall not be construed as validation, in any form, of the financial statements, by the Reserve Bank.

Yours faithfully,

(Sudarshan Sen)

Principal Chief General Manager

ANNEX I

Balance Sheet of .... (name of banking company)

as at September 30, 2016

	Note	As at September 30, 2016	As at April 1, 2016 (Deemed date of transition)
Assets			
Cash in hand and balances with Reserve Bank of India			
Balances with other central banks			
Balances with other banks, Financial Institutions and money at call and short notice			
Derivative financial instruments			
Investments			
Advances			
Property, plant and equipment			
Goodwill			
Other intangible assets			
Current tax assets			
Deferred tax assets			
Other assets			
Total assets			
Liabilities and equity			
Liabilities			
Deposits			
Borrowings			
Derivative financial instruments			
Other liabilities and provisions			
Current tax liabilities			
Deferred tax liabilities			
Debt securities			
Subordinated liabilities			
Total liabilities			
Equity			
Equity share capital			
Other equity			
Total equity			
Total liabilities and equity			
Contingent liabilities, commitments and guarantees			

ANNEX II

Statement of Changes in Equity of .... (Name of banking company)

for the half year ended September 30, 2016

1. Equity Share Capital

Balance at the beginning of the year	Issued during the period	Reductions during the period	Balance at the close of the period

2. Other equity

	Share application money pending allotment	Equity component of financial instruments	Reserves and Surplus					Items of Other Comprehensive Income (OCI)							Total
			Statutory Reserve	Capital Reserve	Share Premium Account	Other Reserves (specify nature)	Retained Earnings	Re-measurements of net defined benefit plans	Gains/ (losses) from equity investments through OCI	Gains/ (losses) of other financial assets through OCI	Exchange differences on translating financial statements of foreign operations	Cash flow hedge reserve	Revaluation Surplus	Others (specify nature)	
Balance as at April 1, 2016															
Changes in accounting policy/ prior period errors															
Restated balance at the beginning of the reporting period															
Dividend paid including dividend distribution tax															
Transfer to/from retained earnings															
Other Additions/ Deductions during the year (to be specified)															
Income tax on the above															

	Share application money pending allotment	Equity component of financial instruments	Reserves and Surplus					Items of Other Comprehensive Income (OCI)							Total
			Statutory Reserve	Capital Reserve	Share Premium Account	Other Reserves (specify nature)	Retained Earnings	Re-measurements of net defined benefit plans	Gains/ (losses) from equity investments through OCI	Gains/ (losses) of other financial assets through OCI	Exchange differences on translating financial statements of foreign operations	Cash flow hedge reserve	Revaluation Surplus	Others (specify nature)	
Profit (loss) for the year after income tax															
Other Comprehensive Income for the year before income tax															
Less: Income Tax Other Comprehensive Income															
Total Comprehensive Income for the year															
Balance as at September 30, 2016															

ANNEX III

Form of Profit and Loss Account

Profit and Loss Account of .... (name of banking company) for the half year ended September 30, 2016

	Note	Half-year ended September 30, 2016
Interest income		
Interest expense		
Net interest income		
Fees and commission income		
Fees and commission expense		
Net fee and commission income		
Net gain/(loss) on fair value changes		
Other income		
Total income		
Impairment losses on financial instruments		
Employee benefits		
Depreciation and impairment of property, plant and equipment		
Amortisation and impairment of intangible assets		
Other expenses		
Total expenses		
Net profit/(loss) before taxes and exceptional items		
Exceptional items		
Net profit/(loss) before taxes		
Taxes		
- Current tax		
- Deferred Tax		
Net profit/(loss) after tax from continuing operations		
Profit/(loss) from discontinued operations, net of tax		
Net profit/(loss) for the period		
Other Comprehensive Income		
A (i) Items that will not be reclassified to profit or loss		
(specify items and amounts)		

	Note	Half-year ended September 30, 2016
(ii) Income tax relating to items that will not be reclassified to profit or loss		
Subtotal		
B (i) Items that will be reclassified to profit or loss		
(specify items and amounts)		
(ii) Income tax relating to items that will be reclassified to profit or loss		
Subtotal		
Other Comprehensive Income (A + B)		
Total Comprehensive Income for the period		
Earnings per equity share (for continuing operations)		
Basic (`)		
Diluted (`)		
Earnings per equity share (for discontinued operations)		
Basic (`)		
Diluted (`)		
Earnings per equity share (for continuing and discontinued operations)		
Basic (`)		
Diluted (`)		

Annex IV - Notes to Financial Statements

The following are the suggested formats of the information to be presented by way of Notes to the Financial Statements.

1. Summarised classification of assets and liabilities

	As at September 30, 2016							As at April 1, 2016 (Deemed date of transition)						
	Amortised cost	At Fair Value				Others*	Total	Amortised cost	At Fair Value				Others*	Total
		Through other comprehensive income	Through profit and loss account	Designated at fair value through profit and loss account	Subtotal				Through other comprehensive income	Through profit and loss account	Designated at fair value through profit and loss account	Subtotal		
	(1)	(2)	(3)	(4)	(5=2+3+4)	(6)	(7=1+5+6)	(8)	(9)	(10)	(11)	(12=9+10+11)	(13)	(14=8+12+13)
Assets														
Cash in hand and balances with Reserve Bank of India														
Balances with other central banks														
Balances with other banks, Financial Institutions and money at call and short notice														
Derivative financial instruments														
Investments														
Advances														
Property, plant and equipment														
Goodwill														
Other intangible assets														

	As at September 30, 2016							As at April 1, 2016 (Deemed date of transition)						
	Amortised cost	At Fair Value				Others*	Total	Amortised cost	At Fair Value				Others*	Total
		Through other comprehensive income	Through profit and loss account	Designated at fair value through profit and loss account	Subtotal				Through other comprehensive income	Through profit and loss account	Designated at fair value through profit and loss account	Subtotal		
	(1)	(2)	(3)	(4)	(5=2+ 3+4)	(6)	(7=1+ 5+6)	(8)	(9)	(10)	(11)	(12=9+ 10+11)	(13)	(14=8+ 12+13)
Current tax assets														
Deferred tax assets														
Other assets														
Total assets														
Liabilities														
Deposits														
Borrowings														
Derivative financial instruments														
Other liabilities and provisions														
Current tax liabilities														
Deferred tax liabilities														
Debt securities														
Subordinated liabilities														
Total liabilities														

* Other basis of measurement such as cost may be explained as a footnote

2. Cash in hand and balances with Reserve Bank of India

		As at September 30, 2016	As at April 1, 2016 (Deemed date of transition)
I.	Cash in hand (including foreign currency notes)		
II.	Balances with Reserve Bank of India		
	(a) In Current Accounts		
	(b) In Reverse Repo		
	(c) In Other Accounts*		
	Subtotal (a, b and c)		
	Total (I and II)		

* Restrictions, if any, on utilisation of balances should be disclosed

3. Balances with other central banks*

		As at September 30, 2016	As at April 1, 2016 (Deemed date of transition)
I	In Current Accounts		
II	In Reverse Repo		
III	In Other Accounts		
	Total (I, II and III)		

* Restrictions, if any, on utilisation of balances should be disclosed

4. Balances with other banks, Financial Institutions and money at call and short notice

		As at September 30, 2016	As at April 1, 2016 (Deemed date of transition)
I.	Balances with other Banks		
	(a) in Current Accounts		
	(b) In Reverse Repo		
	(c) in Other deposit accounts		
	Subtotal (a, b and c)		
II	Balances with Financial Institutions		
	(a) Deposits in lieu of shortfall in priority sector lending targets		

		As at September 30, 2016	As at April 1, 2016 (Deemed date of transition)
	(b) In Reverse Repo		
	(c) Other deposits		
	Subtotal (a, b and c)		
III.	Money at Call and Short Notice		
	(a) with Banks		
	(b) with other institutions		
	Subtotal (a and b)		
	Total (I, II and III)		
	Balances in India		
	Balances outside India		
	Total		

5. Derivative financial instruments

1 *Explain use of derivatives*

2 *Cross-reference to Financial Risks section for management of risks arising from derivatives*

	As at September 30, 2016			As at April 1, 2016 (Deemed date of transition)		
	Notional amounts	**Fair Value - Assets**	**Fair Value - Liabilities**	**Notional amounts**	**Fair Value - Assets**	**Fair Value - Liabilities**
Currency derivatives						
Spot and forwards						
Currency Futures						
Currency swaps						
Options purchased						
Options sold (written)						
Others						
Total						
Interest rate derivatives						
Forward Rate Agreements and Interest Rate Swaps						
Options purchased						

	As at September 30, 2016			As at April 1, 2016 (Deemed date of transition)		
	Notional amounts	**Fair Value - Assets**	**Fair Value - Liabilities**	**Notional amounts**	**Fair Value - Assets**	**Fair Value - Liabilities**
Options sold (written)						
Futures						
Others						
Total						
Credit derivatives						
Equity linked derivatives						
Other derivatives (Please specify)						
Total derivatives						
Included in above are derivatives held for hedging and risk management purposes as follows:						
Fair value hedging:						
- Currency derivative						
- Interest rate derivative						
- Credit derivative						
- Equity linked derivative						
- Others						
Subtotal (A)						
Cash flow hedging:						
- Currency derivative						
- Interest rate derivative						
- Credit derivative						
- Equity linked derivative						
- Others						
Subtotal (B)						
Net investment hedging:						
- Currency derivative						

	As at September 30, 2016			**As at April 1, 2016 (Deemed date of transition)**		
	Notional amounts	**Fair Value - Assets**	**Fair Value - Liabilities**	**Notional amounts**	**Fair Value - Assets**	**Fair Value - Liabilities**
- Interest rate derivative						
- Credit derivative						
- Equity linked derivative						
- Others						
Subtotal (C)						
Total (A+B+C)						

With respect to hedges and hedge accounting, banks may provide a description in accordance with the requirements of Indian Accounting Standards, of how derivatives are used for hedging, explain types of hedges recognised for accounting purposes and their usage/ application by the entity.

6. Investments

	As at September 30, 2016							As at April 1, 2016 (Deemed date of transition)						
	Amortised cost	At Fair Value				Others*	Total	Amortised cost	At Fair Value				Others*	Total
		Through other comprehensive income	Through profit and loss account	Designated at fair value through profit and loss account	Subtotal				Through other comprehensive income	Through profit and loss account	Designated at fair value through profit and loss account	Subtotal		
	(1)	(2)	(3)	(4)	(5=2+3+4)	(6)	(7=1+5+6)	(8)	(9)	(10)	(11)	(12=9+10+11)	(13)	(14=8+12+13)
Investments														
A) In India														
Government securities														
Other approved securities														
Debt securities														
Equity instruments														
Mutual fund units														
Subsidiaries, associates and joint ventures														
Others (specify)														
Total – Gross														
Less: Impairment loss allowance														
Total – Net														
B) Outside India														
Government securities														
Debt securities														
Equity instruments														
Mutual fund units														

	As at September 30, 2016							As at April 1, 2016 (Deemed date of transition)						
	Amortised cost	At Fair Value				Others*	Total	Amortised cost	At Fair Value				Others*	Total
		Through other comprehensive income	Through profit and loss account	Designated at fair value through profit and loss account	Subtotal				Through other comprehensive income	Through profit and loss account	Designated at fair value through profit and loss account	Subtotal		
	(1)	(2)	(3)	(4)	(5=2+3+4)	(6)	(7=1+5+6)	(8)	(9)	(10)	(11)	(12=9+10+11)	(13)	(14=8+12+13)
Subsidiaries, associates and joint ventures														
Others (specify)														
Total – Gross														
Less: Impairment loss allowance														
Total – Net														
Total Investments – Gross (C) = (A) + (B)														
Less: Impairment loss allowance														
Total – Net														

* Other basis of measurement such as cost may be explained as a footnote

7. Advances

	As at September 30, 2016							As at April 01,2016 (Deemed date of transition)						
	Amortised cost	At Fair Value				Others*	Total	Amortised cost	At Fair Value				Others*	Total
		Through other comprehensive income	Through profit and loss account	Designated at fair value through profit and loss account	Subtotal				Through other comprehensive income	Through profit and loss account	Designated at fair value through profit and loss account	Subtotal		
	(1)	(2)	(3)	(4)	(5=2+3+4)	(6)	(7=1+5+6)	(8)	(9)	(10)	(11)	(12=9+10+11)	(13)	(14=8+12+13)
Advances														
A (i) Bills Purchased and Bills Discounted														
(ii) Cash Credits, Overdrafts, Loans repayable on Demand														
(iii) Term Loans														
Gross														
Less: Impairment loss allowance														
Net														
B.(i) Secured by tangible assets														
(ii) Covered by Bank/ Government Guarantees														
(iii) Unsecured														
Gross														
Less: Impairment loss allowance														
Total														
C.I Advances in India														

	As at September 30, 2016							As at April 01,2016 (Deemed date of transition)						
	Amortised cost	At Fair Value				Others*	Total	Amortised cost	At Fair Value				Others*	Total
		Through other comprehensive income	Through profit and loss account	Designated at fair value through profit and loss account	Subtotal				Through other comprehensive income	Through profit and loss account	Designated at fair value through profit and loss account	Subtotal		
	(1)	(2)	(3)	(4)	(5=2+3+4)	(6)	(7=1+5+6)	(8)	(9)	(10)	(11)	(12=9+10+11)	(13)	(14=8+12+13)
(i) Priority Sectors														
(ii) Public Sectors														
(iii) Banks														
(iv)Others														
Gross														
Less: Impairment loss allowance														
Net														
II. Advances outside India														
(i) Banks														
(ii) Others														
Gross														
Less: Impairment loss allowance														
Net														
Total: (C I and C II)														

* Other basis of measurement such as cost may be explained as a footnote

8. Property, plant and equipment

	As at September 30, 2016				As at April 01, 2016 (Deemed date of transition)			
	Property*	Equipment / Furniture and Fittings	Assets on lease	Total	Property*	Equipment / Furniture and Fittings	Assets on lease	Total
At cost or fair value at the beginning of the year								
Additions								
Acquisitions #								
Revaluation adjustment, if any								
Disposals								
Reclassification from/to held for sale								
Other adjustments (please specify)								
At cost or fair value at the end of the year								
Accumulated depreciation and impairment as at the beginning of the year								
Depreciation for the year								
Disposals								
Impairment/(reversal) of impairment								
Reclassification from/to held for sale								
Other adjustments (please specify)								
Accumulated depreciation and impairment as at the end of the year								
Net carrying amount as at the end of the year								
Capital Work-in-Progress including advances for capital assets								

* Includes Land ` XXX (Previous Year ` XXX)

Represents assets acquired in a business combination during the year

9. Goodwill

	As at September 30, 2016	As at April 1, 2016 (Deemed date of transition)
At cost, beginning of the year		
Additions		
Acquisitions		
Disposals		
Other adjustments		
Total cost		
Accumulated impairment:		
At beginning of the year		
Disposals		
Impairment/(reversal) of impairment		
Other adjustments		
Total impairment		
Net carrying amount		

10. Other intangible assets

	As at September 30, 2016			As at April 1, 2016 (Deemed date of transition)		
	Software	Other Intangible assets	Total	Software	Other Intangible Assets	Total
At cost, beginning of the year						
Additions						
Acquisitions						
Fair value adjustments						
Disposals						
Other adjustments						
Total cost						
Accumulated amortization and impairment:						
At beginning of the year						
Amortization						
Disposals						
Impairment/(reversal) of impairment						

	As at September 30, 2016			As at April 1, 2016 (Deemed date of transition)		
	Software	**Other Intangible assets**	**Total**	**Software**	**Other Intangible Assets**	**Total**
Other adjustments						
Total amortization and impairment						
Net carrying amount						

11. Other assets

	As at September 30, 2016	As at April 1, 2016 (Deemed date of transition)
Interest accrued		
Assets held for sale		
- Out of the above, non-banking assets acquired in satisfaction of claims		
Security and other Deposits		
Acceptances and endorsements		
Others		
Total		

12. Deposits

	As at September 30, 2016			As at April 1, 2016 (Deemed date of transition)		
	At Amortised Cost	**At Fair Value Through profit and loss**	**Total**	**At Amortised Cost**	**At Fair Value Through profit and loss**	**Total**
	(1)	(2)	(3)=(1)+(2)	(4)	(5)	(6)=(4)+(5)
Demand deposits						
(i) From Banks						
(ii) From Others						
Savings deposits						
Term deposits						
(i) From Banks						
(ii) From Others						

	As at September 30, 2016			As at April 1, 2016 (Deemed date of transition)		
	At Amortised Cost	At Fair Value Through profit and loss	Total	At Amortised Cost	At Fair Value Through profit and loss	Total
	(1)	(2)	(3)=(1)+(2)	(4)	(5)	(6)=(4)+(5)
(iii) Certificate of Deposits						
Total						
Deposits of branches in India						
Deposits of branches outside India						
Total						
Deposits - Non-interest bearing						
Deposits - Interest bearing						
Total						

13. Borrowings

	As at September 30, 2016			As at April 1, 2016 (Deemed date of transition)		
	At Amortised Cost	At Fair Value Through profit and loss	Total	At Amortised Cost	At Fair Value Through profit and loss	Total
	(1)	(2)	(3)=(1)+(2)	(4)	(5)	(6)=(4)+(5)
Reserve Bank of India						
Other Banks						
Others						
Total						
Borrowings in India						
Borrowings outside India						
Total						

14. Other liabilities and provisions

	As at September 30, 2016	As at April 1, 2016 (Deemed date of transition)
Interest accrued		
Bills payable		
Acceptances and endorsements		
Provisions for employee benefits		
Share application money pending allotment		
Others		
Total		

15. Debt Securities

	As at September 30, 2016				As at April 1, 2016 (Deemed date of transition)			
	At Amortised Cost	At Fair Value Through profit and loss	Designated at fair value through profit and loss	Total	At Amortised Cost	At Fair Value Through profit and loss	Designated at fair value through profit and loss	Total
	(1)	(2)	(3)	(4)=(1)+(2)+(3)	(4)	(5)	(6)	(7)=(4)+(5)+(6)
Liability component of compound financial instruments								
Others (Bonds/ Debenture etc.)								
Total								
Debt securities in India								
Debt securities outside India								
Total								

16. Subordinated Liabilities

	As at September 30, 2016			As at April 1, 2016 (Deemed date of transition)		
	At Amortised Cost	At Fair Value Through profit and loss	Total	At Amortised Cost	At Fair Value Through profit and loss	Total
	(1)	(2)	(3)=(1)+(2)	(4)	(5)	(6)=(4)+(5)
Perpetual Debt Instruments other than those that qualify as equity						
Preference Shares other than those that qualify as Equity						
Others (specifying the nature and type of instrument issued)						
Total						
Subordinated Liabilities in India						
Subordinated Liabilities outside India						
Total						

17. Equity

A banking company shall disclose the following in the notes to accounts:

1. Share Capital

   for each class of share capital:

   (a) the number and amount of shares authorized;

   (b) the number of shares issued, subscribed and fully paid, and subscribed but not fully paid;

   (c) par value per share;

   (d) a reconciliation of the number of shares outstanding at the beginning and at the end of the period; separately disclosing the shares held by the Central Government and the percentage thereof

(e) the terms and conditions of the main features of each class of shares including rights, preferences and restrictions attaching to each class of shares and restrictions on the distribution of dividends and the repayment of capital;

(f) shares in respect of each class in the company held by its holding company or its ultimate holding company including shares held by or by subsidiaries or associates of the holding company or the ultimate holding company in aggregate;

(g) shares in the banking company held by each shareholder holding 5 percent or more shares specifying the number of shares held and the percentage thereof;

(h) shares reserved for issue under options and contracts/commitments for the sale of shares, including the terms and amounts;

(i) Terms of any securities convertible into equity shares issued along with the earliest date of conversion in descending order

(j) Calls unpaid (showing aggregate value of calls unpaid by directors and officers)

(k) Forfeited shares (amount originally paid up)

(l) In case of Banks incorporated outside India:-

   a. Share Capital represents amount brought in by banks as capital including the start up capital prescribed by RBI

   b. Amount of deposit kept with RBI u/s. 11(2) of the Banking Regulation Act, 1949 to be separately disclosed

2. Other Equity

(i) A description of the nature and purpose of each reserve under 'Other Reserves' shall be made in the notes.

(ii) Debit balance of Profit and Loss account shall be shown as a negative figure under the head 'retained earnings'.

(iii) In case the sum of 'Other Equity' in the Statement of Changes in Equity is negative, it shall continue to be presented as a negative amount under 'Other Equity'.

3. Share application money pending allotment shall be classified into equity or liability in accordance with relevant Indian Accounting Standards. Share application money to the extent not refundable shall be shown under the head Equity and share application money to the extent refundable shall be separately shown under the head 'Other liabilities and provisions'.

4. Preference shares including premium received on issue shall be classified and presented as 'Equity' or 'Liability' in accordance with the requirements of the relevant Accounting Standards. Accordingly, the disclosure and presentation requirements in this regard applicable to the relevant class of equity or liability shall be applicable

mutatis mutandis to the preference shares. For instance, redeemable preference shares shall be classified and presented under 'Subordinated Liabilities' and the disclosure requirements in this regard applicable to such borrowings shall be applicable *mutatis mutandis* to redeemable preference shares.

5. Compound financial instruments such as convertible debentures, where split into equity and liability components, as per the requirements of the relevant Accounting Standards, shall be classified and presented under the relevant heads in 'Equity' and 'Liabilities'.

6. The amount of dividends proposed to be distributed to equity and preference shareholders for the period and the related amount per share shall be disclosed separately. Arrears of cumulative dividends on preference shares shall also be disclosed separately.

18. Contingent liabilities and commitments

	As at September 30, 2016	**As at April 1, 2016 (Deemed date of transition)**
Claims against bank not acknowledged as debts		
Liability for partly paid investments		
Guarantees given on behalf of constituents – in India		
Guarantees given on behalf of constituents – outside India		
Letters of Credit issued on behalf of constituents		
Others		
Total		

19. Interest income

	Half year ended September 30, 2016
Interest on balances with and dues from banks	
Interest on advances	
Interest income from investments	
Other interest income	
Total	

20. Interest expense

	Half year ended September 30, 2016
Interest on deposits	
Interest on borrowings	
Interest on debt securities	
Interest on subordinated liabilities	
Other interest expense	
Total	

21. Net gain/ (loss) on fair value changes

	Half year ended September 30, 2016
A. Net gain/ (loss) on financial instruments at fair value through profit and loss account :-	
a) On trading portfolio	
- Investments	
- Derivatives	
- Others	
b) On financial instruments designated at fair value through profit and loss account	
B. Others	
Total	

22. Other income

	Half year ended September 30, 2016
Net gain/(loss) on derecognition of financial assets at amortised cost	
Net gain/(loss) on ineffective portion of hedges	
Net gain/(loss) on derecognition of property, plant and equipment	
Dividend	
Foreign exchange gain/(loss)	
Others*	
Total	

* Any item under the subhead 'Others' which exceeds one per cent of the total income to be presented separately

23. Impairment losses on financial instruments

	Half year ended September 30, 2016
On advances	
On investments	
On off Balance Sheet Items	
On other assets	
Total	

24. Employee benefits

	Half year ended September 30, 2016
Salaries and wages including bonus	
Post employment benefits	
Employee Share Based Payments	
Others	
Total	

25. Other expenses

	Half year ended September 30, 2016
Rent, taxes and energy costs	
Repairs and maintenance	
Communication Costs	
Printing and stationery	
Advertisement and publicity	
Director's fees, allowances and expenses	
Auditor's fees and expenses	
Legal and Professional charges	
Insurance	
Other expenditure*	
Total	

* Any item under the subhead 'other expenditure' which exceeds one per cent of the total income to be presented separately.

ANNEX V

Guidance for preparation of proforma Ind AS financial statements

1. Banks are advised to follow the application guidance given in Annex III of the Report of the Working Group on Implementation of Ind AS by Banks in India, in the preparation of Proforma Ind AS financial statements.

2. Banks may note that the application guidance referred to in para 1 above provides broad guidance on the major line items/sub-line items in the financial statements. Banks may also note that it is not always necessary or possible to define a term /title/ line item specifically and exclusively. Banks are also advised to refer to relevant Indian Accounting Standards and their framework, as well as the prevailing industry practices, where relevant, to interpret the meaning thereof.

3. In order to promote uniformity, banks may present the proforma Ind AS financial statements in the following order:

   (i) Balance Sheet including Statement of Changes in Equity.

   (ii) Profit and Loss Account.

   (iii) Notes to Account.

4. The figures appearing in the financial statements shall be rounded off to the nearest million rupees.

5. Net realised and unrealised gains and losses on financial assets/liabilities at fair value through profit or loss are included in the head **'Net Gain/loss on fair value changes'** in **Note 21**. However, contractual interest income and expense on financial instruments (other than derivatives) held at /designated at fair value through profit or loss may be recognised under interest income and interest expense, respectively. The effect of the same should be suitably adjusted while determining fair value gains and losses. The subhead 'Others' in Note 21 would include reclassification from OCI.

Annexure III
SEBI: Formats for publishing financial results

CIRCULAR

CIR/CFD/CMD/15/2015 November 30, 2015

To

All Listed Entities

All Recognized Stock Exchanges

Dear Madam / Sir,

Sub.: Formats for publishing financial results

1. In order to enable investors to make well-informed investment decisions, timely, adequate and accurate disclosure of financial results on a periodical basis is critical. At the same time, to ensure comparability, uniformity and parity in disclosures made by listed entities across stock exchanges is essential.

2. Towards this end, Regulation 33 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (hereinafter referred to as "the listing Regulations, 2015"), has prescribed various disclosures to be filed under various provisions contained therein in the formats as may be specified by the Board.

3. Formats:

   a) The quarterly financial results shall be presented in the format prescribed at Annexure I for companies other than banks and that prescribed at Annexure II for banks.

   b) Manufacturing, trading and service companies, which propose to follow functional (secondary) classification of expenditure in the annual profit and loss account, shall furnish quarterly financial results in the alternative format prescribed at Annexure III. The alternative format shall be used only if such format is used consistently from the first quarter of the financial year.

   c) If the company has more than one reportable primary segment in terms of Accounting Standard ('AS') 17/ Indian Accounting Standard ('Ind AS') 108 mandated under Section 133 of the Companies Act, 2013 read with rules framed thereunder or issued by ICAI, it shall also submit quarterly and annual segment information as part of financial results in the format given in Annexure IV.

   d) Limited review reports shall be given by auditors in the format prescribed in Annexure V for companies other than banks (including those using the alternative format of financial results) and in the format given in Annexure VI for banks.

e) In case of audited financial reports, the audit report shall be given by the auditors in the format given in Annexure VII for companies other than banks (including those using the alternative format of financial results) and in the format given in Annexure VIII for banks.

f) Half-Yearly Statement of Assets and Liabilities shall be in the format specified in Annexure IX drawn from Schedule III of the Companies Act, 2013 or its equivalent formats in other statutes, as applicable.

g) The Form A (for audit report with unmodified opinion) and Form B (for audit report with modified opinion) shall be filed in the format specified in Annexure X.

h) The financial results published in the newspapers in terms of Regulation 47(1)(b) shall be in the format prescribed in Annexure XI.

4. While preparation of the financial results, the following shall be noted:-

   a. Annual audited financial results shall be in the format as is applicable to quarterly financial results. However, columns and figures relating to the last quarter, year to date results and corresponding three months in previous year may not be disclosed.

   b. The applicable Accounting Standards are those standards mandated under Section 133 of the Companies Act, 2013 read with the relevant rules issued thereunder/ issued by ICAI as applicable.

   c. The classification / disclosure of items in the financial results shall be in accordance with the Schedule III of the Companies Act, 2013 or its equivalent formats in other statutes, as applicable.

5. Companies adopting the Ind AS in terms of Companies (Indian Accounting Standards) Rules, 2015 notified by the Ministry of Corporate Affairs on February 16, 2015 while publishing quarterly/annual financial results under Regulation 33 of the Listing Regulations, 2015, shall ensure that the comparatives filed along with such quarterly/ annual financial results are also Ind AS compliant.

6. The Stock Exchanges are advised to bring the provisions of this circular to the notice of listed entities and also to disseminate the same on its website. This circular shall come into force with effect from December 01, 2015.

7. This Circular is being issued in exercise of powers conferred under Section 11 and Section 11A of the Securities and Exchange Board of India Act, 1992 read with Regulation 33, Regulation 47 and Regulation 101(2) of the Listing Regulations, 2015.

8. This circular is available on SEBI website at http://www.sebi.gov.in under the category "Circulars".

Yours faithfully,

B N Sahoo General Manager
Compliance and Monitoring Division Corporation Finance Department
biranchins@sebi.gov.in

ANNEXURE I

Format for submission of Unaudited/Audited financial results by companies other than banks.

Part I

(` in)

Statement of Standalone / Consolidated Unaudited / Audited Results for the Quarter and Months Ended dd/mm/yyyy OR for the Year Ended dd/mm/yyyy

Particulars	3 months ended (dd/mm/yyyy)	Preceding 3 months ended (dd/mm/yyyy)	Corresponding 3 months ended in the previous year (dd/mm/yyyy)	Year to date figures for current period ended (dd/mm/yyyy)	Year to date figures for the previous year ended dd/mm/yyyy)	Previous year ended (dd/mm/yyyy)
(Refer Notes Below)	**(Unaudited)/ (Audited)**	**(Unaudited)/ (Audited)**	**(Unaudited)/ (Audited)**	**(Unaudited)/ (Audited)**	**(Unaudited)/ (Audited)**	**(Audited)**
1. Income from Operations (a) Net Sales/Income from Operations (Net of excise duty) (b) Other Operating Income						
Total income from Operations (net)						
2. Expenses (a) Cost of Materials consumed (b) Purchase of stock-in-trade (c) Changes in inventories of finished goods, work-in-progress and stock-in-trade (d) Employee benefits expense						

Particulars	3 months ended (dd/mm/yyyy)	Preceding 3 months ended (dd/mm/yyyy)	Corresponding 3 months ended in the previous year (dd/mm/yyyy)	Year to date figures for current period ended (dd/mm/yyyy)	Year to date figures for the previous year ended dd/mm/yyyy)	Previous year ended (dd/mm/yyyy)
(Refer Notes Below)	**(Unaudited)/ (Audited)**	**(Unaudited)/ (Audited)**	**(Unaudited)/ (Audited)**	**(Unaudited)/ (Audited)**	**(Unaudited)/ (Audited)**	**(Audited)**
(e) Depreciation and amortisation expense (f)Other expenses(Any item exceeding 10% of the total expenses relating to continuing operations to be shown separately) **Total Expenses**						
3. Profit / (Loss) from operations before other income, finance costs and exceptional items (1-2)						
4. Other Income						
5. Profit / (Loss) from ordinary activities before finance costs and exceptional items (3 ± 4)						
6. Finance Costs						
7. Profit / (Loss) from ordinary activities after finance costs but before exceptional items (5 ± 6)						
8. Exceptional Items						
9. Profit / (Loss) from ordinary activities before tax (7 ± 8)						
10. Tax expense						
11. Net Profit / (Loss) from ordinary activities after tax (9 ± 10)						

Particulars	3 months ended (dd/ mm/yyyy)	Preceding 3 months ended (dd/ mm/yyyy)	Corresponding 3 months ended in the previous year (dd/mm/yyyy)	Year to date figures for current period ended (dd/mm/yyyy)	Year to date figures for the previous year ended dd/mm/yyyy)	Previous year ended (dd/ mm/yyyy)
(Refer Notes Below)	**(Unaudited)/ (Audited)**	**(Unaudited)/ (Audited)**	**(Unaudited)/ (Audited)**	**(Unaudited)/ (Audited)**	**(Unaudited)/ (Audited)**	**(Audited)**
12. Extraordinary items (net of tax ` expense - Lakhs)						
13. Net Profit / (Loss) for the period (11 ± 12)						
14. Share of Profit / (loss) of associates *						
15. Minority Interest*						
16. Net Profit / (Loss) after taxes, minority interest and share of profit / (loss) of associates (13 ± 14 ± 15) *						
17. Paid-up equity share capital (Face Value of the Share shall be indicated)						
18. Reserve excluding Revaluation Reserves as per balance sheet of previous accounting year						
19.i Earnings Per Share (before extraordinary items) (of ` /- each) (not annualised): **(a) Basic** **(b) Diluted**						

Particulars	3 months ended (dd/mm/yyyy)	Preceding 3 months ended (dd/mm/yyyy)	Corresponding 3 months ended in the previous year (dd/mm/yyyy)	Year to date figures for current period ended (dd/mm/yyyy)	Year to date figures for the previous year ended dd/mm/yyyy)	Previous year ended (dd/mm/yyyy)
(Refer Notes Below)	(Unaudited)/ (Audited)	(Unaudited)/ (Audited)	(Unaudited)/ (Audited)	(Unaudited)/ (Audited)	(Unaudited)/ (Audited)	(Audited)
19.ii Earnings Per Share (after extraordinary items) (of ` / - each) (not annualised): **(a) Basic** **(b) Diluted** See accompanying note to the Financial Results						

* Applicable in the case of consolidated results.

Note:

- Profit / loss from discontinuing operations, if any, included in the above shall be disclosed separately with details thereof.
- A company which presents quarterly financial results in accordance with Ind AS 34 Interim Financial Reporting (applicable under Companies (Indian Accounting Standards) Rules, 2015) for the period covered by its first Ind AS financial statement shall comply with the requirements of paragraph 32 of Ind AS 101 – First time Adoption of Indian Accounting Standard.

Annexure II
Format for submitting the quarterly financial results by banks

(` in)

Particulars	3 months ended (dd/mm/yyyy)	Preceding 3 months ended (dd/mm/yyyy)	Corresponding 3 months ended in the previous year (dd/mm/yyyy)	Year to date figures for current period ended (dd/mm/yyyy)	Year to date figures for the previous year ended dd/mm/yyyy)	Previous accounting year ended (dd/mm/yyyy)
	Audited/ Unaudited*	Audited/ Unaudited*	Audited/ Unaudited*	Audited/ Unaudited*	Audited/ Unaudited*	Audited/ Unaudited*
1. Interest earned (a)+(b)+(c)+(d)						
(a) Interest/ discount on advances/ bills						
(b) Income on investments						
(c) Interest on balances with Reserve Bank of India and other interbank funds						
(d) Others						
2. Other Income						
3. Total Income (1+2)						
4. Interest Expended						
5. Operating Expenses (i)+(ii)						
(i) Employees cost						
(ii) Other operating expenses						
(All items exceeding 10% of the total expenditure excluding interest expenditure may be shown separately)						

Particulars	3 months ended (dd/mm/yyyy)	Preceding 3 months ended (dd/mm/yyyy)	Corresponding 3 months ended in the previous year (dd/mm/yyyy)	Year to date figures for current period ended (dd/mm/yyyy)	Year to date figures for the previous year ended dd/mm/yyyy)	Previous accounting year ended (dd/mm/yyyy)
	Audited/ Unaudited*	Audited/ Unaudited*	Audited/ Unaudited*	Audited/ Unaudited*	Audited/ Unaudited*	Audited/ Unaudited*
6. Total Expenditure ((4+5) excluding provisions and contingencies						
7. Operating Profit before Provisions and Contingencies (3-6)						
8. Provisions (other than tax) and Contingencies						
9. Exceptional Items						
10. Profit (+)/ Loss (-) from Ordinary Activities before tax (7-8-9)						
11. Tax expense						
12. Net Profit(+)/ Loss(-) from Ordinary Activities after tax (10-11)						
13. Extraordinary items (net of tax expense) (if applicable)						
14. Net Profit (+)/ Loss (–) for the period (12-13)						
15. Paid-up equity share capital (Face Value of the Share shall be indicated)						

Particulars	3 months ended (dd/mm/yyyy)	Preceding 3 months ended (dd/mm/yyyy)	Corresponding 3 months ended in the previous year (dd/mm/yyyy)	Year to date figures for current period ended (dd/mm/yyyy)	Year to date figures for the previous year ended dd/mm/yyyy)	Previous accounting year ended (dd/mm/yyyy)
	Audited/ Unaudited*	**Audited/ Unaudited***	**Audited/ Unaudited***	**Audited/ Unaudited***	**Audited/ Unaudited***	**Audited/ Unaudited***
16. Reserves excluding Revaluation Reserves (as per balance sheet of previous accounting year)						
17. Analytical Ratios						
(i) Percentage of shares held by Government of India (ii) Capital Adequacy Ratio (iii) Earnings Per Share (EPS) a) Basic and diluted EPS before Extraordinary items (net of tax expense) for the period, for the year to date and for the previous year (not to be annualized) b) Basic and diluted EPS after Extraordinary items for the period, for the year to date and for the previous year (not to be annualized)						

Particulars	3 months ended (dd/mm/yyyy)	Preceding 3 months ended (dd/mm/yyyy)	Corresponding 3 months ended in the previous year (dd/mm/yyyy)	Year to date figures for current period ended (dd/mm/yyyy)	Year to date figures for the previous year ended dd/mm/yyyy)	Previous accounting year ended (dd/mm/yyyy)
	Audited/ Unaudited*	Audited/ Unaudited*	Audited/ Unaudited*	Audited/ Unaudited*	Audited/ Unaudited*	Audited/ Unaudited*
(ii) NPA Ratios						
a) Gross/Net NPA						
b) % of Gross/Net NPA						
c) Return on Assets						

* Strike off whichever is not applicable

Notes (as per RBI requirements)

1. Employee cost under operating expenses to include all forms of consideration given by the bank in exchange for services rendered by employees. It should also include provisions for post-employment benefits such as gratuity, pension, other retirement benefits, etc.

2. A company which presents quarterly financial results in accordance with Ind AS 34 Interim Financial Reporting (applicable under Companies (Indian Accounting Standards) Rules, 2015) for the period covered by its first Ind AS financial statement shall comply with the requirements of paragraph 32 of Ind AS 101 – First time Adoption of Indian Accounting Standard.

Annexure III

Format for submitting the quarterly financial results by companies eligible for alternative format

(` In)

Sr. No.	Particulars	3 months ended (dd/mm/yyyy)	Preceding 3 months ended (dd/mm/yyyy)	Corresponding 3 months ended in the previous year (dd/mm/yyyy)	Year to date figures for current period ended (dd/mm/yyyy)	Year to date figures for the previous year ended dd/mm/yyyy)	Previous accounting year ended (dd/mm/yyyy)
		Audited/ Unaudited*	Audited/ Unaudited*	Audited/ Unaudited*	Audited/ Unaudited*	Audited/ Unaudited*	Audited/ Unaudited*
1	Net Income from sales/services						
2	Cost of sales/services						
(a)	Increase/decrease in stock in trade and work in progress						
(b)	Consumption of raw materials						
(c)	Purchase of traded goods						
(d)	Other expenditure						
3	Gross Profit (1-2)						
4	General Administrative Expenses						
5	Selling and Distribution Expenses						
6	Depreciation						
7	Operating Profit before interest (3) – (4+5+6)						
8	Interest						
9	Exceptional Items						
10	Operating Profit after interest and Exceptional Items (7-8-9)						

Sr. No.	Particulars	3 months ended (dd/mm/yyyy)	Preceding 3 months ended (dd/mm/yyyy)	Corresponding 3 months ended in the previous year (dd/mm/yyyy)	Year to date figures for current period ended (dd/mm/yyyy)	Year to date figures for the previous year ended dd/mm/yyyy)	Previous accounting year ended (dd/mm/yyyy)
		Audited/ Unaudited*	**Audited/ Unaudited***	**Audited/ Unaudited***	**Audited/ Unaudited***	**Audited/ Unaudited***	**Audited/ Unaudited***
11	Other Income						
12	Profit (+)/Loss (-) from Ordinary Activities before tax (10-11)						
13	Tax Expense						
14	Net Profit (+)/ Loss (-) from Ordinary Activities after tax (12-13)						
15	Extraordinary items (net of tax expense)						
16	Net Profit (+)/ Loss(-) for the period (14-15)						
17	Paid-up equity share capital (Face value of the Share shall be indicated)						
18	Reserves excluding Revaluation Reserves (as per balance sheet) of previous accounting year						
19 a)	Earnings Per Share (EPS) Basic and diluted EPS before Extraordinary items for the period, for the year to date and for the previous year (not to be annualized)						

Sr. No.	Particulars	3 months ended (dd/mm/yyyy)	Preceding 3 months ended (dd/mm/yyyy)	Corresponding 3 months ended in the previous year (dd/mm/yyyy)	Year to date figures for current period ended (dd/mm/yyyy)	Year to date figures for the previous year ended dd/mm/yyyy)	Previous accounting year ended (dd/mm/yyyy)
		Audited/ Unaudited*	Audited/ Unaudited*	Audited/ Unaudited*	Audited/ Unaudited*	Audited/ Unaudited*	Audited/ Unaudited*
b)	Basic and diluted EPS after Extraordinary items for the period, for the year to date and for the previous year (not to be annualized)						

* strike off whichever is not applicable

Note:

- Total expenditure incurred on (1) Employee Cost or (2) Any item of expenditure which exceeds 10% of the total expenditure, shall be given as a note.
- A company which presents quarterly financial results in accordance with Ind AS 34 Interim Financial Reporting (applicable under Companies (Indian Accounting Standards) Rules, 2015) for the period covered by its first Ind AS financial statement shall comply with the requirements of paragraph 32 of Ind AS 101 – First time Adoption of Indian Accounting Standard.

Annexure IV

Format for Reporting of Segment wise Revenue, Results and Capital Employed along with the quarterly results (applicable for banks as well as companies other than banks)

(` in)

Particulars	3 months ended (dd/mm/yyyy)	Preceding 3 months ended (dd/mm/yyyy)	Corresponding 3 months ended in the previous year (dd/mm/yyyy)	Year to date figures for current period ended (dd/mm/yyyy)	Year to date figures for the previous year ended dd/mm/yyyy)	Previous accounting year ended (dd/mm/yyyy)
	Audited/ Unaudited*	Audited/ Unaudited*	Audited/ Unaudited*	Audited/ Unaudited*	Audited/ Unaudited*	Audited/ Unaudited*
1. Segment Revenue (net sale/ income from each segment should be disclosed under this head)						
(a) Segment – A						
(b) Segment – B						
(c) Segment – C						
(d) Segment....						
(e) Unallocated						
Total						
Less: Inter Segment Revenue						
Net sales/Income From Operations						
2. Segment Results (Profit)(+)/ Loss (-) before tax and interest from Each segment)#						
(a) Segment – A						
(b) Segment – B						

Particulars	3 months ended (dd/ mm/yyyy)	Preceding 3 months ended (dd/ mm/yyyy)	Corresponding 3 months ended in the previous year (dd/mm/ yyyy)	Year to date figures for current period ended (dd/mm/yyyy)	Year to date figures for the previous year ended dd/mm/yyyy)	Previous accounting year ended (dd/mm/ yyyy)
	Audited/ Unaudited*	Audited/ Unaudited*	Audited/ Unaudited*	Audited/ Unaudited*	Audited/ Unaudited*	Audited/ Unaudited*
(c) Segment – C (d) Segment.... (e) Unallocated Total						
Less: i) Interest** ii) Other Unallocable Expenditure net off (iii) Unallocable income Total Profit Before Tax						
3. Capital Employed (Segment assets – Segment Liabilities) (a) Segment – A (b) Segment – B (c) Segment – C (d) Segment.... (e) Unallocated Total						

*Strike off whichever is not applicable

Profit/loss before tax and after interest in case of segments having operations which are primarily of financial nature.

** Other than the interest pertaining to the segments having operations which are primarily of financial nature.

Annexure V

Format for the Limited Review Report for companies (other than banks)

Review Report to ……………………..

We have reviewed the accompanying statement of unaudited financial results of …………………………….. (Name of the Company) for the period ended…………. This statement is the responsibility of the Company's Management and has been approved by the Board of Directors. Our responsibility is to issue a report on these financial statements based on our review.

We conducted our review in accordance with the Standard on Review Engagement (SRE) 2400, *Engagements to Review Financial Statements* issued by the Institute of Chartered Accountants of India. This standard requires that we plan and perform the review to obtain moderate assurance as to whether the financial statements are free of material misstatement. A review is limited primarily to inquiries of company personnel and analytical procedures applied to financial data and thus provides less assurance than an audit. We have not performed an audit and accordingly, we do not express an audit opinion.

Based on our review conducted as above, nothing has come to our attention that causes us to believe that the accompanying statement of unaudited financial results prepared in accordance with applicable accounting standards and other recognized accounting practices and policies has not disclosed the information required to be disclosed in terms of Regulation 33 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 including the manner in which it is to be disclosed, or that it contains any material misstatement.

For XYZ & Co.
Chartered Accountants

Signature
(Name of the member signing the audit report)
(Designation)[1]
(Membership Number)

Place of signature

Date

1 Partner or proprietor, as the case may be.

Annexure VI

Format for the Limited Review Report (for Banks)

Review Report to ……………………..

We have reviewed the accompanying statement of unaudited financial results of .... (Name of the Company) for the period ended . This statement is the responsibility of the Company's Management and has been approved by the Board of Directors. Our responsibility is to issue a report on these financial statements based on our review.

We conducted our review in accordance with the Standard on Review Engagement (SRE) 2400, *Engagements to Review Financial Statements* issued by the Institute of Chartered Accountants of India. This standard requires that we plan and perform the review to obtain moderate assurance as to whether the financial statements are free of material misstatement. A review is limited primarily to inquiries of company personnel and analytical procedures applied to financial data and thus provides less assurance than an audit. We have not performed an audit and accordingly, we do not express an audit opinion.

In the conduct of our Review we have relied on the review reports in respect of non-performing assets received from concurrent auditors of .... branches, inspection teams of the bank of .... branches and other firms of auditors of branches specifically appointed for this purpose. These review reports cover .... percent of the advances portfolio of the bank. Apart from these review reports, in the conduct of our review, we have also relied upon various returns received from the branches of the bank.

Based on our review conducted as above, nothing has come to our attention that causes us to believe that the accompanying statement of unaudited financial results prepared in accordance with applicable accounting standards and other recognized accounting practices and policies has not disclosed the information required to be disclosed in terms of Regulation 33 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 including the manner in which it is to be disclosed, or that it contains any material misstatement or that it has not been prepared in accordance with the relevant prudential norms issued by the Reserve Bank of India in respect of income recognition, asset classification, provisioning and other related matters.

For XYZ & Co.
Chartered Accountants

Signature
(Name of the member signing the audit report)
(Designation)[1]
(Membership Number)

Place of signature

Date

1 Partner or proprietor, as the case may be.

Annexure VII

When an Unmodified Opinion is expressed on the Quarterly financial results (for companies other than banks)

Auditor's Report On Quarterly Financial Results and Year to Date Results of the Company Pursuant to the Regulation 33 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015

To

Board of Directors of …………………… (Name of the company)

We have audited the quarterly financial results of …………………….. (Name of the company) for the quarter ended ……………………… (date of the quarter end) and the year to date results for the period ……………. to …………………, attached herewith, being submitted by the company pursuant to the requirement of Regulation 33 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015. These quarterly financial results as well as the year to date financial results have been prepared on the basis of the interim financial statements, which are the responsibility of the company's management. Our responsibility is to express an opinion on these financial results based on our audit of such interim financial statements, which have been prepared in accordance with the recognition and measurement principles laid down in Accounting Standard for Interim Financial Reporting (AS 25 / Ind AS 34), prescribed, under Section 133 of the Companies Act, 2013 read with relevant rules issued thereunder; or by the Institute of Chartered Accountants of India[1], as applicable and other accounting principles generally accepted in India.

We conducted our audit in accordance with the auditing standards generally accepted in India. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial results are free of material misstatement(s). An audit includes examining, on a test basis, evidence supporting the amounts disclosed as financial results. An audit also includes assessing the accounting principles used and significant estimates made by management. We believe that our audit provides a reasonable basis for our opinion.

In our opinion and to the best of our information and according to the explanations given to us these quarterly financial results as well as the year to date results:

(i) are presented in accordance with the requirements of Regulation 33 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 in this regard; and

(ii) give a true and fair view of the net profit/ loss[2] and other financial information for the quarter ended ……………… (date of the quarter end) as well as the year to date results for the period from ………….. to …………………

For XYZ & Co.
Chartered Accountants

Signature
(Name of the member signing the audit report)
(Designation)[3]
(Membership Number)

Place of signature

Date

1 Where, a listed entity is not a company.
2 Whichever is applicable.
3 Partner or proprietor, as the case may be

When an Unmodified Opinion is expressed on the Quarterly Consolidated Financial Results (for companies other than banks)

Auditor's Report On Quarterly Consolidated Financial Results and Consolidated Year to Date Results of the Company Pursuant to the Regulation 33 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015

To

Board of Directors of …………………… (Name of the company)

We have audited the quarterly consolidated financial results of …………………… (Name of the company) for the quarter ended ……………………… (date of the quarter end) and the consolidated year to date results for the period …………… to …………………, attached herewith, being submitted by the company pursuant to the requirement of Regulation 33 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015. These consolidated quarterly financial results as well as the consolidated year to date financial results have been prepared from consolidated interim financial statements, which are the responsibility of the company's management. Our responsibility is to express an opinion on these consolidated financial results based on our audit of such consolidated interim financial statements, which have been prepared in accordance with the recognition and measurement principles laid down in Accounting Standard for Interim Financial Reporting (AS 25 / Ind AS 34), mandated under Section 133 of the Companies Act, 2013 read with relevant rules issued thereunder or by the Institute of Chartered Accountants of India[1], as applicable and other accounting principles generally accepted in India.

We conducted our audit in accordance with the auditing standards generally accepted in India. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial results are free of material misstatement(s). An audit includes examining, on a test basis, evidence supporting the amounts disclosed as financial results. An audit also includes assessing the accounting principles used and significant estimates made by management. We believe that our audit provides a reasonable basis for our opinion.

We did not audit the financial statements of .... (number) subsidiaries included in the consolidated quarterly financial results and consolidated year to date results, whose consolidated interim financial statements reflect total assets of ` ………… as at ………. (year to date) and …………… as at the quarter ended ……….(date of quarter end); as well as the total revenue of ` ………… as at ……….. (year to date) and Rs. ……………….. as at the quarter ended ………….(date of quarter end). These interim financial statements and other financial information have been audited by other auditors whose report(s) has (have) been furnished to us, and our opinion on the quarterly financial results and the year to date results, to the extent they have been derived from such interim financial statements is based solely on the report of such other auditors.

In our opinion and to the best of our information and according to the explanations given to us these consolidated quarterly financial results as well as the consolidated year to date results:

(i) include the quarterly financial results and year to date of the following entities (list of entities included in consolidation);

(ii) have been presented in accordance with the requirements of Regulation 33 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 in this regard; and

(iii) give a true and fair view of the consolidated net profit/loss[2] and other financial information for the quarter ended ………………(date of the quarter end) as well as the consolidated year to date results for the period from …………… to ………………….

For XYZ & Co.
Chartered Accountants

Signature
(Name of the member signing the audit report)
(Designation)[3]
(Membership Number)

Place of signature

Date

1 Where, a listed entity is not a company.
2 Whichever is applicable.
3 Partner or proprietor, as the case may be

Annexure VIII

When an Unmodified Opinion is Expressed on the Quarterly Financial Results (for Banks)

Auditor's Report On Quarterly Financial Results and Year to Date Results of the Company Pursuant to the Regulation 33 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015

To

Board of Directors of …………………… (Name of the Bank)

We have audited the quarterly financial results of ………………… (Name of the bank) for the quarter ended ……………………… (date of the quarter end) and the year to date results for the period ……………. to …………………, attached herewith, being submitted by the bank pursuant to the requirement of Regulation 33 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015. These quarterly financial results as well as the year to date financial results have been prepared from interim financial statements, which are the responsibility of the bank's management. Our responsibility is to express an opinion on these financial results based on our audit of such interim financial statements, which have been prepared in accordance with the recognition and measurement principles laid down in Accounting Standard 25 / Indian Accounting Standard 34 (AS 25/ Ind AS 34 – Interim Financial Reporting) mandated under Section 133 of the Companies Act, 2013 read with relevant rules issued thereunder or by the Institute of Chartered Accountants of India[1] and other accounting principles generally accepted in India.

We conducted our audit in accordance with the auditing standards generally accepted in India. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial results are free of material misstatement(s). An audit includes examining, on a test basis, evidence supporting the amounts disclosed as financial results. An audit also includes assessing the accounting principles used and significant estimates made by management. We believe that our audit provides a reasonable basis for our opinion.

These financial results incorporate the relevant returns of .... (number) branches audited by us, ... (number) branches including .... (number) foreign branches audited by the other auditors specially appointed for this purpose and unaudited returns in respect of .... (number) branches. In conduct of our audit, we have taken note of the reports in respect of non performing assets received from the concurrent auditors of .... (number) branches, inspection teams of banks of .... (number) branches specifically appointed for this purpose. These reports cover .... percent of advances portfolio of the Bank.

In our opinion and to the best of our information and according to the explanations given to us these quarterly financial results as well as the year to date results:

(i) have been presented in accordance with the requirements of Regulation 33 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 in this regard; and

(ii) give a true and fair view of the net profit/loss[2] for the quarter ended ………………(date of the quarter end) as well as the year to date results for the period from …………… to …………………

For XYZ & Co.
Chartered Accountants

Signature
(Name of the member signing the audit report)
(Designation)[3]
(Membership Number)

Place of signature

Date

1 Where, a listed entity is not a company
2 Whichever is applicable
3 Partner or proprietor, as the case may be

When an Unmodified Opinion is expressed on the Consolidated Quarterly Financial Results (for Banks)

Auditor's Report on Quarterly Consolidated Financial Results and Consolidated Year to Date Results of the Company Pursuant to the Regulation 33 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015

To

Board of Directors of …………………….. (Name of the company)

We have audited the quarterly consolidated financial results of …………………… (Name of the bank) for the quarter ended ……………………….. (date of the quarter end) and the consolidated year to date results for the period ……. to …………………, attached herewith, being submitted by the bank pursuant to the requirement of Regulation 33 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015. These consolidated quarterly financial results as well as the consolidated year to date financial results have been prepared from the interim consolidated financial statements, which are the responsibility of the bank's management. Our responsibility is to express an opinion on these consolidated financial results based on our audit of such consolidated interim financial statements, which have been prepared in accordance with the recognition and measurement principles laid down in Accounting Standard 25 / Indian Accounting Standard 34 (AS 25/ Ind AS 34 – Interim Financial Reporting) mandated under Section 133 of the Companies Act, 2013 read with relevant rules issued thereunder or by the Institute of Chartered Accountants of India[1] and other accounting principles generally accepted in India.

We conducted our audit in accordance with the auditing standards generally accepted in India. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial results are free of material misstatement(s). An audit includes examining, on a test basis, evidence supporting the amounts disclosed as financial results. An audit also includes assessing the accounting principles used and significant estimates made by management. We believe that our audit provides a reasonable basis for our opinion.

These financial results incorporate the relevant returns of …….. (number) branches audited by us, …….. (number) branches including …….. (number) foreign branches audited by the other auditors specially appointed for this purpose and unaudited returns in respect of …….. (number) branches. In conduct of our audit, we have taken note of the reports in respect of non-performing assets received from the concurrent auditors of …….. (number) branches, inspection teams of banks of …….. (number) branches specifically appointed for this purpose. These reports cover …….. per cent of advances portfolio of the Bank.

We did not audit the financial statements of …….. (number) subsidiaries included in the consolidated quarterly financial results and consolidated year to date results, whose consolidated interim financial statements reflect total assets of ` …… as at …….(year to date) and ` …….. for the quarter ended ……….(date of quarter end) as well as the total revenue of ` ……… as at ……. (year to date) and ` …… for the quarter ended ……..(date of the quarter end). These interim financial statements and other financial information have been audited by other auditors whose report(s) has (have) been furnished to us, and our opinion on the quarterly financial results and the year to date results, to the extent they have been derived from such interim financial statements is based solely on the report of such other auditors.

In our opinion and to the best of our information and according to the explanations given to us these consolidated quarterly financial results as well as the consolidated year to date results:

(i) Include the quarterly financial results and year to date of the following entities included in the consolidation (list the entities):

(ii) have been presented in accordance with the requirements of Regulation 33 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 in this regard; and

(iii) give a true and fair view of the consolidated net profit/loss[2] and other financial information for the quarter ended …………(date of the quarter end) as well as the consolidated year to date results for the period from …………… to ………………….

For XYZ & Co.
Chartered Accountants

Signature
(Name of the member signing the audit report)
(Designation)[3]
(Membership Number)

Place of signature

Date

1 Where, a listed entity is not a company.
2 Whichever is applicable
3 Partner or proprietor, as the case may be.

ANNEXURE IX

Statement of Assets and Liabilities for Companies (Other than Banks)

Standalone/ Consolidated Statement of Assets and Liabilities Particulars	As at (Current half year end / Year end) (dd/mm/yyyy)	As at (Previous year end) (dd/mm/yyyy)
Â EQUITY AND LIABILITIES		
1 Shareholders’ funds (a) Share capital (b) Reserves and surplus (c) Money received against share warrants		
Sub-total - Shareholders' funds		
2. Share application money pending allotment		
3. Minority interest *		
4. Non-current liabilities (a) Long-term borrowings (b) Deferred tax liabilities (net) (c) Other long-term liabilities (d) Long-term provisions		
Sub-total - Non-current liabilities		
5. Current liabilities		
(a) Short-term borrowings (b) Trade payables (c) Other current liabilities (d) Short-term provisions		
Sub-total - Current liabilities		
TOTAL - EQUITY AND LIABILITIES		
B ASSETS		
1. Non-current assets		
(a) Fixed assets		

Standalone/ Consolidated Statement of Assets and Liabilities **Particulars**	**As at (Current half year end / Year end) (dd/mm/yyyy)**	**As at (Previous year end) (dd/mm/yyyy)**
(b) Goodwill on consolidation* (c) Non-current investments (d) Deferred tax assets (net) (e) Long-term loans and advances (f) Other non-current assets		
Sub-total - Non-current assets		
2 Current assets		
(a) Current investments (b) Inventories (c) Trade receivables (d) Cash and cash equivalents (e) Short-term loans and advances (f) Other current assets		
Sub-total - Current assets		
Total-Assets		

*Applicable in the case of consolidated statement of assets and Liabilities

ANNEXURE X

Form A (for audit report with unmodified opinion) or Form B (for audit report with modified opinion) along with Financial Results

FORM A (for audit report with unmodified opinion)

1.	Name of the company	XYZ Ltd.
2.	Annual financial statements for the year ended	31st March ……..
3.	Type of Audit observation	Unmodified / Emphasis of Matter
4.	Frequency of observation	Whether appeared first time……/ repetitive……./ since how long period …….
5.	To be signed by- • CEO/Managing Director • CFO • Auditor of the company • Audit Committee Chairman	

FORM B (for audit report with modified opinion)

1.	Name of the company	XYZ Ltd.
2.	Annual financial statements for the year ended	31st March ……..
3.	Type of Audit qualification	Qualified/Disclaimer of Opinion/Adverse
4.	Frequency of qualification	Whether appeared first time……/ repetitive……./ since how long period …….
	Draw attention to relevant notes in the annual financial statements and management response to the qualification in the directors report:	May give gist of qualifications/headings (Refer page numbers in the annual report) and management's response
	Additional comments from the board/ audit committee chair:	This may relate to nature of the qualification including materiality, agreement/disagreement on the qualification, steps taken to resolve the qualification, etc.
5.	To be signed by- • CEO/Managing Director • CFO • Auditor of the company • Audit Committee Chairman	

Annexure XI

Format for Newspaper Publishing Purpose (Standalone/Consolidated)

Particulars	Quarter ending/ Current Year ending	Year to date Figures/ Previous Year ending	Corresponding 3 months ended in the previous year
Total income from operations (net)			
Net Profit / (Loss) from ordinary activities after tax			
Net Profit / (Loss) for the period after tax (after Extraordinary items)			
Equity Share Capital			
Reserves (excluding Revaluation Reserve as shown in the Balance Sheet of previous year)			
Earnings Per Share (before extraordinary items) (of ` /- each) Basic : Diluted:			
Earnings Per Share (after extraordinary items) (of ` /- each) Basic : Diluted :			

Note: The above is an extract of the detailed format of Quarterly/Annual Financial Results filed with the Stock Exchanges under Regulation 33 of the SEBI (Listing and Other Disclosure Requirements) Regulations, 2015. The full format of the Quarterly/Annual Financial Results are available on the Stock Exchange websites. (URL of the filings)

Annexure IIIA
Revised Formats for Financial Results and Implementation of Ind-AS by Listed Entities

CIRCULAR

CIR/CFD/FAC/62/2016 July 05, 2016

To

All Listed Entities

All Recognized Stock Exchanges

Dear Sir / Madam,

Sub: Revised Formats for Financial Results and Implementation of Ind-AS by Listed Entities

1. SEBI *vide* Circular No. CIR/CFD/CMD/15/2015 dated November 30, 2015, has prescribed formats for publishing financial results.

2. SEBI, in consultation with the market participants viz. Listed Entities, Stock Exchanges and Members of the Institute of Chartered Accountants of India ('ICAI'), has now decided the following:

Formats:

2.1. The existing formats prescribed in SEBI Circular dated November 30, 2015 for Unaudited/Audited quarterly financial results i.e. Statement of Profit and Loss and the Unaudited/Audited Half-Yearly Balance Sheet to be submitted by the listed entities, with the stock exchanges, shall continue till the period ending December 31, 2016.

For the period ending on or after March 31, 2017, the formats for Unaudited/Audited quarterly financial results i.e. Statement of Profit and Loss and the Unaudited/Audited Half-Yearly Balance Sheet to be submitted by the Listed Entities, with the stock exchanges, shall be as per the formats for Balance Sheet and Statement of Profit and Loss (excluding notes and detailed sub-classification) as prescribed in Schedule III to the Companies Act, 2013. However, Banking Companies and Insurance Companies shall follow the formats as prescribed under the respective Acts/Regulations as specified by their Regulators.

2.2. Until Companies (Indian Accounting Standards) Rules, 2015 **('Ind-AS Rules')** become applicable, the listed entities shall adopt Companies (Accounting Standards) Rules, 2006 (**'AS Rules'**) as prescribed by the Ministry of Corporate Affairs **('MCA')**.

2.3. The Quarterly / Annual Segment Information published in compliance with the requirements as prescribed under Accounting Standard ('AS') 17/ Indian Accounting Standard ('Ind AS') 108 of the AS Rules/Ind-AS Rules, as applicable, shall contain the following minimum information: -

(a) Segment Revenue (including inter-segment revenue);

(b) Segment Results;

(c) Segment Assets;

(d) Segment Liabilities.

Unallocated items, wherever applicable, shall be shown separately in respect of the above information. Aggregate inter-segment revenue shall be shown as a deduction from the segment revenue.

2.4. While publishing the aforementioned financial results, the listed entities shall disclose the figures relating to the periods as mentioned in the respective annexures to the circular dated November 30, 2015.

2.5. The financial results published in the newspapers, in terms of Regulation 47(1)(b) of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (**'Listing Regulations'**), shall be in the format as prescribed in **Annexure I** to the instant circular, which has now been slightly modified.

Implementation of Ind-AS during the first year

2.6. As mentioned in para 5 of the circular dated November 30, 2015, the comparatives filed alongwith the quarterly / annual financial results are required to be Ind-AS compliant. However, in order to facilitate smooth transition during the first year of Ind-AS implementation, the following relaxations are being given to the listed entities to which Ind-AS Rules are applicable from the accounting period beginning on or after April, 1, 2016:

2.6.1. For the quarter ending June 30, 2016 and September 30, 2016

(i) The timeline for submitting the financial results in compliance with the provisions of this Circular is extended by one month. The results for the quarter ending June 30, 2016 and September 30, 2016 may be submitted by September 14, 2016 and December 14, 2016 respectively.

(ii) For the quarter ending June 30, 2016, Ind-AS compliant financial results for the corresponding quarter ended June 30, 2015 shall be provided. For the quarter ending September 30, 2016, Ind-AS compliant financial results for the corresponding year to date / quarter ended September 30, 2015 shall be provided. However, in such cases, limited review or audit of the same is not mandatory.

(iii) For the quarter ending June 30, 2016, submission of Ind-AS compliant financial results for the preceding quarter and previous year ended March 31, 2016 is not mandatory. For the quarter ending September 30, 2016, submission of Ind-AS compliant financial results and Balance Sheet for the previous year ended March 31, 2016 is not mandatory. However, in case the entities intend to submit these results, the same may be without limited review or audit.

(iv) In such cases, the listed entities shall disclose with due prominence that the Ind-AS compliant financial results, pertaining to the relevant periods of the previous year as mentioned in (ii) and (iii) above, as applicable, have not been subjected to limited review or audit. However, the management has exercised necessary due diligence to ensure that the financial results provide a true and fair view of its affairs.

(v) The format of Balance Sheet for the Half-Yearly ended September 30, 2016 shall be as per the format for Balance Sheet (excluding notes and detailed sub-classifications) as prescribed in Schedule III to the Companies Act, 2013.

2.6.2. For the quarter ending December 31, 2016

(i) The submission of Ind-AS compliant financial results for the previous year ended March 31, 2016 is not mandatory.

(ii) In case a listed entity chooses to provide Ind-AS comparatives for the period mentioned above to facilitate comparison, the same shall be subjected to limited review or audit.

2.6.3. For all the aforementioned three quarters, disclosure of the line item – Reserves (excluding Revaluation Reserves), as per Balance sheet of the previous accounting year ended March 31, 2016, as prescribed in the existing formats for quarterly financial results is not mandatory.

2.6.4. In case the listed entity has subsidiaries/Joint Ventures/Associates, the entity may exercise the option under Regulation 33(3)(b)(i) of the Listing Regulations to submit quarterly/year-to-date consolidated financial results in the second quarter instead of the first quarter of the financial year and this option shall not be changed during the remaining part of the financial year.

2.7. For listed entities to which Ind AS Rules are applicable in subsequent phases (beginning from the Financial Year 2017-18, 2018-19 and 2019-20), the relaxations as mentioned in para 2.6 above shall *mutatis mutandis* apply during their corresponding first year of Ind-AS implementation.

Clarifications on issues with regard to Ind-AS implementation

2.8. The listed entities in order to comply with the requirements of paragraph 32 of Ind AS 101 – First time Adoption of Ind AS, shall provide a reconciliation of its equity and net profit/loss, in the following manner, for enabling the investors to understand the material adjustments to the Balance Sheet and Statement of Profit and Loss on account of transition from the previous Indian GAAP to Ind-AS:

(i) Reconciliation of its equity for the previous year ended March 31, 2016, shall be provided while submitting the Audited Yearly Balance Sheet for the period ended March 31, 2017.

Reconciliation of its equity for the previous year ended March 31, 2016, shall be provided in case the listed entity intends to provide the same while submitting the Unaudited/Audited Ind-AS compliant Half-Yearly Balance Sheet for the period ended September 30, 2016.

(ii) Reconciliation of its net profit / loss as mentioned in the Unaudited/Audited quarterly financial results shall be provided only for the corresponding quarter of the previous year.

2.9. A listed entity may historically have a year-end other than 31st day of March, and may now be required to prepare financial statements for a period longer or shorter than the normal 12 month period for coinciding with 31st day of March as prescribed under Section 2 (41) of the Companies Act, 2013. In such cases, the Ind-AS financial statements for various periods beginning from April 01, 2016, shall have comparative information for a shorter or longer period i.e. beginning from a date other than 1st of April 2015. The listed entity, in such cases, shall disclose a suitable note, with due prominence, that comparative amounts presented in the Quarterly / Half-yearly / Year to date / Annual financial results are not entirely comparable.

2.10. In case of any technical difficulty in the interpretation of any specific item in the formats or implementation of this circular while publishing the financial results, the listed entities shall be guided by the relevant provisions of the Ind-AS Rules / AS Rules and Schedule III to the Companies Act, 2013 and may make suitable modifications, as applicable. The listed entities shall also provide suitable explanations and clarifications, wherever felt necessary.

3. This Circular shall come into force with immediate effect and the contents of the circular dated November 30, 2015, shall stand modified to the extent stated under this circular.

4. The stock exchanges are advised to bring the provisions of this circular to the notice of listed entities and also to disseminate the same on its website.

5. This Circular is being issued in exercise of powers conferred under Section 11 and Section 11A of the SEBI Act, 1992 read with Regulation 33, Regulation 47, Regulation 101(2) and Regulation 102 of the Listing Regulations.

6. This circular is available on SEBI website at http://www.sebi.gov.in under the category "Circulars".

Yours faithfully,

Prasanta Mahapatra
General Manager
Corporation Finance Department
prasantam@sebi.gov.in

ANNEXURE I

Format for Newspaper Publishing Purpose (Standalone / Consolidated)
[See Regulation 47(1)(b) of the SEBI (LODR) Regulations, 2015]

Sl. No.	Particulars	Quarter ending/ Current Year ending	Year to date Figures/ Previous Year ending	Corresponding 3 months ended in the previous year
1.	Total Income from Operations			
2.	Net Profit / (Loss) for the period (before Tax, Exceptional and/or Extraordinary items#)			
3.	Net Profit / (Loss) for the period before tax (after Exceptional and/or Extraordinary items#)			
4.	Net Profit / (Loss) for the period after tax (after Exceptional and/or Extraordinary items#)			
5.	Total Comprehensive Income for the period [Comprising Profit / (Loss) for the period (after tax) and Other Comprehensive Income (after tax)]			
6.	Equity Share Capital			
7.	Reserves (excluding Revaluation Reserve) as shown in the Audited Balance Sheet of the previous year			
8.	Earnings Per Share (of ` ___/- each) (for continuing and discontinued operations) - 1. Basic: 2. Diluted:			

Note:

a) The above is an extract of the detailed format of Quarterly/Annual Financial Results filed with the Stock Exchanges under Regulation 33 of the SEBI (Listing and Other Disclosure Requirements) Regulations, 2015. The full format of the Quarterly/Annual Financial Results are available on the websites of the Stock Exchange(s) and the listed entity. (URL of the filings).

b) The impact on net profit / loss, total comprehensive income or any other relevant financial item(s) due to change(s) in accounting policies shall be disclosed by means of a footnote.

c) # - Exceptional and/or Extraordinary items adjusted in the Statement of Profit and Loss in accordance with Ind-AS Rules/AS Rules, whichever is applicable.

Appendix A
Ind AS Terminology

	Terms	Definitions	Standard
1.	*12-month expected Credit losses*	The portion of **lifetime expected credit** losses that represent the **expected credit losses** that result from default events on a financial instrument that are possible within the 12 months after the reporting date.	Ind AS 109
2.	*Accounting policies*	Are the specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements.	Ind AS 8
3.	*Accounting profit*	Is profit or loss for a period before deducting tax expense.	Ind AS 12
4.	*Acquire*	The business or businesses that the **acquirer** obtains control of in a **business combination.**	Ind AS 103
5.	*Acquirer*	The entity that obtains control of the **acquiree**.	Ind AS 103
6.	*Acquisition date*	The date on which the **acquirer** obtains control of the **acquiree.**	Ind AS 103
7.	*Active market*	Is a market in which all the following conditions exist: (a) The items traded within the market are homogeneous; (b) Willing buyers and sellers can normally be found at any time; and (c) Prices are available to the public	Ind AS 36, Ind AS 38
8.	*Active market*	A market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis	Ind AS 113
9.	*Actuarial gains and losses*	Are changes in the present value of the defined benefit obligation resulting from: (a) experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred); and (b) the effects of changes in actuarial assumptions	Ind AS 19

	Terms	Definitions	Standard
10.	*Agricultural activity*	Is the management by an entity of the biological transformation and harvest of biological assets for sale or for conversion into agricultural produce or into additional biological assets.	Ind AS 41
11.	*Agricultural produce*	Is the harvested product of the entity's biological assets.	Ind AS 41
12.	*Amortisation*	Is the systematic allocation of the depreciable amount of an intangible asset over its useful life.	Ind AS 38
13.	*Amortised cost of a financial asset or financial liability*	The amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the **effective interest method** of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any **loss allowance.**	Ind AS 109
14.	*Antidilution*	Is an increase in earnings per share or a reduction in loss per share resulting from the assumption that convertible instruments are converted, that options or warrants are exercised, or that ordinary shares are issued upon the satisfaction of specified conditions.	Ind AS 33
15.	*Asset*	Is a resource: (a) Controlled by an entity as a result of past events; and (b) From which future economic benefits are expected to flow to the entity.	Ind AS 38
16.	*Assets held by a long-term employee benefit fund*	Are assets (other than non-transferable financial instruments issued by the reporting entity) that: (a) Are held by an entity (a fund) that is legally separate from the reporting entity and exists solely to pay or fund employee benefits; and (b) Are available to be used only to pay or fund employee benefits, are not available to the reporting entity's own creditors (even in bankruptcy), and cannot be returned to the reporting entity, unless either:	Ind AS 19

	Terms	Definitions	Standard
		(i) the remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the reporting entity; or (ii) the assets are returned to the reporting entity to reimburse it for employee benefits already paid.	
17.	*Associate*	Is an entity over which the investor has significant influence.	Ind AS 28
18.	*Bearer plant*	Is a living plant that: (a) Is used in the production or supply of agricultural produce; (b) Is expected to bear produce for more than one period; and (c) Has a remote likelihood of being sold as agricultural produce, except for incidental scrap sales.	Ind AS 41
19.	*Biological asset*	Is a living animal or plant.	Ind AS 41
20.	*Borrowing costs*	Are interest and other costs that an entity incurs in connection with the borrowing of funds.	Ind AS 23
21.	*Business*	An integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs or other economic benefits directly to investors or other owners, members or participants.	Ind AS 103
22.	*Business Combination*	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.	Ind AS 103
23.	*Carrying amount*	Is the amount at which an asset is recognised after deducting any accumulated depreciation/ amortization and accumulated impairment losses.	Ind AS 16, Ind As 36, Ind AS 38
24.	*Carrying amount*	Is the amount at which an asset is recognised in the balance sheet.	Ind AS 40, Ind AS 41

	Terms	Definitions	Standard
25.	*Cash*	Comprises cash on hand and demand deposits.	Ind AS 7
26.	*Cash equivalents*	Are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.	Ind AS 7
27.	*Cash flows*	Are inflows and outflows of cash and cash equivalents.	Ind AS 7
28.	*Cash-generating unit*	Is 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.	Ind AS 36, Ind AS 105
29.	*Cash-settled share-based transaction*	A **share-based payment transaction** in which the **payment** entity acquires goods or services by incurring a liability to transfer cash or other assets to the supplier of those goods or services for amounts that are based on the price (or value) of **equity instruments** (including shares or **share options**) of the entity or another group entity.	Ind AS 102
30.	*Cedant*	The policyholder under a reinsurance contract	Ind AS 104
31.	*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. Changes in accounting estimates result from new information or new developments and, accordingly, are not corrections of errors	Ind AS 8
32.	*Close members of the family of a person*	Are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity including: (d) That person's children, spouse or domestic partner, brother, sister, father and mother; (e) Children of that person's spouse or domestic partner; and (f) Dependants of that person or that person's spouse or domestic partner.	Ind AS 24

	Terms	Definitions	Standard
33.	*Closing rate*	Is the spot exchange rate at the end of the reporting period.	Ind AS 21
34.	*Commencement of the lease term*	Is the date from which the lessee is entitled to exercise its right to use the leased asset. It is the date of initial recognition of the lease (i.e. the recognition of the assets, liabilities, income or expenses resulting from the lease, as appropriate).	
35.	*Common control business combination*	Means a business combination involving entities or businesses in which all the combining entities or businesses are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory.	Appendix C Ind AS 103
36.	*Component of an entity*	Operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity.	Ind AS 105
37.	*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.	Ind AS 27, Ind AS 28, Ind AS 110
38.	*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. It also includes agreements of real estate development to provide services together with construction material in order to perform contractual obligation to deliver the real estate to the buyer.	Ind AS 11
39.	*Constructive obligation*	Is an obligation that derives from an entity's actions where: (a) By an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities; and (b) As a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.	Ind AS 37

	Terms	Definitions	Standard
40.	*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.	Ind AS 37
41.	*Contingent Consideration*	Usually, an obligation of the **acquirer** to transfer additional assets or **equity interests** to the former owners of an **acquiree** as part of the exchange for **control** of the **acquiree** if specified future events occur or conditions are met. However, contingent consideration also may give the **acquirer** the right to the return of previously transferred consideration if specified conditions are met.	Ind AS 103
42.	*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.	Ind AS 37
43.	*Contingent rent*	Is that portion of the lease payments that is not fixed in amount but is based on the future amount of a factor that changes other than with the passage of time (e.g. percentage of future sales, amount of future use, future price indices, future market rates of interest).	Ind AS 17
44.	*Contingent share agreement*	Is an agreement to issue shares that is dependent on the satisfaction of specified conditions.	Ind AS 33
45.	*Contingently issuable ordinary shares*	Are ordinary shares issuable for little or no cash or other consideration upon the satisfaction of specified conditions in a contingent share agreement.	Ind AS 33

	Terms	Definitions	Standard
46.	*Contract assets*	Those rights that Ind AS 115 *Revenue from Contracts with Customers* specifies are accounted for in accordance with this Standard for the purposes of recognising and measuring impairment gains or losses.	Ind AS 109
47.	*Control*	The power to govern the financial and operating policies of an economic activity so as to obtain benefits from it.	Ind AS 31, Ind AS 103
48.	*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	Ind AS 110
49.	*Corporate assets*	Are assets other than goodwill that contribute to the future cash flows of both the cash-generating unit under review and other cash-generating units.	Ind AS 36
50.	*Cost*	Is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other Indian Accounting Standards, e.g. Ind AS 102 Share-based Payment	Ind AS 16, Ind AS 38, Ind As 40
51.	*Cost approach*	A valuation technique that reflects the amount that would be required currently to replace the service capacity of an asset (often referred to as current replacement cost).	Ind AS 113
52.	*Cost Plus Contract*	Is a construction contract in which the contractor is reimbursed for allowable or otherwise defined costs, plus a percentage of these costs or a fixed fee.	Ind AS 11
53.	*Costs of disposal*	Are incremental costs directly attributable to the disposal of an asset or cash-generating unit, excluding finance costs and income tax expense.	Ind AS 36
54.	*Costs to sell*	Are the incremental costs directly attributable to the disposal of an asset, excluding finance costs and income taxes	Ind AS 41

	Terms	Definitions	Standard
55.	*Costs to sell*	The incremental costs directly attributable to the disposal of an asset (or disposal group), excluding finance costs and income tax expense.	Ind AS 105
56.	*Credit impaired financial asset*	A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired include observable data about the following events: (g) Significant financial difficulty of the issuer or the borrower; (h) A breach of contract, such as a default or **past due** event; (i) The lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider; (j) It is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; (k) The disappearance of an active market for that financial asset because of financial difficulties; or (l) The purchase or origination of a financial asset at a deep discount that reflects the incurred **credit losses.** It may not be possible to identify a single discrete event instead, the combined effect of several events may have caused financial assets to become credit-impaired.	Ind AS 109

	Terms	Definitions	Standard
57.	*Credit loss*	The difference between all contractual cash flows that are due to an entity in accordance with the contract and all the cash flows that the entity expects to receive (ie all cash shortfalls), discounted at the original **effective interest rate** (or **credit-adjusted effective interest rate** for **purchased or originated credit-impaired financial assets)**. An entity shall estimate cash flows by considering all contractual terms of the financial instrument (for example, prepayment, extension, call and similar options) through the expected life of that financial instrument. The cash flows that are considered shall include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms. There is a presumption that the expected life of a financial instrument can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the expected life of a financial instrument, the entity shall use the remaining contractual term of the financial instrument.	Ind AS 109
58.	*Credit risk*	The risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.	Ind AS 107
59.	*Credit risk rating grades*	Credit risk rating of credit risk based on the risk of a default occurring rating grades on the financial instrument.	Ind AS 107
60.	*Credit-adjusted Effective interest Rate*	The rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial asset to the **amortised cost of a financial asset** that is a **purchased or originated credit-impaired financial asset.** When calculating the credit-adjusted effective interest rate, an entity shall estimate the expected cash flows by considering all contractual terms of the financial asset (for example, prepayment, extension, call and similar options) and **expected credit losses.**	Ind AS 109

	Terms	Definitions	Standard
		The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, **transaction costs,** and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the remaining life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).	
61.	*Currency risk*	The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.	Ind AS 107
62.	*Current asset*	An entity shall classify an asset as current when: (a) it expects to realise the asset, or intends to sell or consume it, in its normal operating cycle; (b) it holds the asset primarily for the purpose of trading; (c) it expects to realise the asset within twelve months after the reporting period; or (d) the asset is cash or a cash equivalent (as defined in Ind AS 7) unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.	Ind AS 105
63.	*Current tax*	is the amount of income taxes payable (recoverable) in respect of the taxable profit (tax loss) for a period.	Ind AS 12
64.	*Date of transition to Ind-AS*	The beginning date of financial year on or after 1st April 2011 for which an entity presents financial information under Ind-ASs in its first Ind-AS financial statements.	Ind AS 101
65.	*Decision maker*	An entity with decision-making rights that is either a principal or an agent for other parties	Ind AS 110

	Terms	Definitions	Standard
66.	*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.	Ind AS 101
67.	*Deferred tax assets*	Are the amounts of income taxes recoverable in future periods in respect of: (a) Deductible temporary differences; (b) The carryforward of unused tax losses; and (c) The carryforward of unused tax credits.	Ind AS 12
68.	*Deferred tax liabilities*	are the amounts of income taxes payable in future periods in respect of taxable temporary differences.	Ind AS 12
69.	*Defined benefit plans*	are post-employment benefit plans other than defined contribution plans.	Ind AS 19
70.	*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.	Ind AS 19
71.	*Deposit component*	A contractual component that is not accounted for as a derivative under Ind AS 39 and would be within the scope of Ind AS 39 if it were a separate instrument.	Ind AS 104
72.	*Depreciable amount*	is the cost of an asset, or other amount substituted for cost, less its residual value.	Ind AS 16, Ind AS 38
73.	*Depreciable amount*	is the cost of an asset, or other amount substituted for cost in the financial statements, less its residual value.	Ind AS 36
74.	*Depreciation*	is the systematic allocation of the depreciable amount of an asset over its useful life.	Ind AS 16
75.	*Depreciation (Amortisation)*	is the systematic allocation of the depreciable amount of an asset over its useful life.	Ind AS 36

	Terms	Definitions	Standard
76.	*Derivative*	A financial instrument or other contract within the scope of this Standard with all three of the following characteristics. (a) Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the 'underlying'). (b) It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors. (c) It is settled at a future date.	Ind AS 109
77.	*Development*	Is the application of research findings or other knowledge to a plan or design for the production of new or substantially improved materials, devices, products, processes, systems or services before the start of commercial production or use.	Ind AS 38
78.	*Dilution*	Is a reduction in earnings per share or an increase in loss per share resulting from the assumption that convertible instruments are converted, that options or warrants are exercised, or that ordinary shares are issued upon the satisfaction of specified conditions.	Ind AS 33
79.	*Discontinued operation*	A component of an entity that either has been disposed of or is classified as held for sale and: (a) represents a separate major line of business or geographical area of operations, (b) is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations or (c) is a subsidiary acquired exclusively with a view to resale.	Ind AS 105

	Terms	Definitions	Standard
80.	*Discretionary participation*	A contractual right to receive, as a supplement feature to guaranteed benefits, additional benefits: (a) That are likely to be a significant portion of the total contractual benefits; (b) Whose amount or timing is contractually at the discretion of the issuer; and (c) That are contractually based on: (i) The performance of a specified pool of contracts or a specified type of contract; (ii) Realised and/or unrealized investment returns on a specified pool of assets held by the issuer; or (iii) The profit or loss of the company, fund or other entity that issues the contract.	Ind AS 104
81.	*Disposal group*	A group of assets to be disposed of, by sale or otherwise, together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction. The group includes goodwill acquired in a business combination if the group is a cash-generating unit to which goodwill has been allocated in accordance with the requirements of paragraphs 80–87 of Ind AS 36, Impairment of Assets, or if it is an operation within such a cash generating unit.	Ind AS 105
82.	*Dividends*	Distributions of profits to holders of equity instruments in proportion to their holdings of a particular class of capital.	Ind AS 109
83.	*Economic life*	Is either: (a) The period over which an asset is expected to be economically usable by one or more users; or (b) The number of production or similar units expected to be obtained from the asset by one or more users.	Ind AS 17

	Terms	Definitions	Standard
84.	*Effective interest method*	The rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset or to the amortised cost of a financial liability.	Ind AS 109
85.	*Employee benefits*	Are all forms of consideration given by an entity in exchange for service rendered by employees or for the termination of employment	Ind AS 19
86.	*Employees and others providing similar services*	Individuals who render personal services to the entity and either (a) The individuals are regarded as employees for legal or tax purposes, (b) The individuals work for the entity under its direction in the same way as individuals who are regarded as those rendered by employees. For example, the term encompasses all management personnel, i.e. those persons having authority and responsibility for planning, directing and controlling the activities of the entity, including non-executive directors.	Ind AS 102
87.	*Entity-specific value*	Is the present value of the cash flows an entity expects to arise from the continuing use of an asset and from its disposal at the end of its useful life or expects to incur when settling a liability.	Ind AS 16, Ind AS 38
88.	*Entry price*	The price paid to acquire an asset or received to assume a liability in an exchange transaction.	Ind AS 113
89.	*Equity instrument*	is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.	Ind AS 32
90.	*Equity instrument*	A contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.	Ind AS 102
91.	*Equity instrument granted*	The right (conditional or unconditional) to an **equity instrument** of the entity conferred by the entity on another party, under a **share based payment arrangement.**	Ind AS 102

	Terms	Definitions	Standard
92.	*Equity interests*	For the purposes of this Indian Accounting Standard, equity interests is used broadly to mean ownership interests of investor-owned entities and owner, member or participant interests of **mutual entities.**	Ind AS 103
93.	*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. The investor's profit or loss includes its share of the investee's profit or loss and the investor's other comprehensive income includes its share of the investee's other comprehensive income.	Ind AS 28
94.	*Equity method*	Is a method of accounting whereby an interest in a jointly controlled entity is initially recorded at cost and adjusted thereafter for the post acquisition change in the venturer's share of net assets of the jointly controlled entity. The profit or loss of the venturer includes the venturer's share of the profit or loss of the jointly controlled entity	Ind AS 31
95.	*Equity-settled share- based payment transaction*	A **share-based payment transaction in which the entity** (a) Receives goods or services as consideration for its **equity instruments** own (including shares or **share options**), or (b) Receives goods or services but has no obligation to settle the transaction with the supplier	Ind AS 102
96.	*Events after the reporting period*	Are those events, favourable and unfavourable, that occur between the end of the reporting period and the date when the financial statements are approved by the Board of Directors in case of a company, and, by the corresponding approving authority in case of any other entity for issue. Two types of events can be identified: (a) Those that provide evidence of conditions that existed at the end of the reporting period (adjusting events after the reporting period); and	Ind AS 10

	Terms	Definitions	Standard
		(b) those that are indicative of conditions that arose after the reporting period (non-adjusting events after the reporting period).	
97.	*Exchange difference*	Is the difference resulting from translating a given number of units of one currency into another currency at different exchange rates.	Ind AS 21
99.	*Exchange rate*	Is the ratio of exchange for two currencies.	Ind AS 21
100.	*Exit price*	The price that would be received to sell an asset or paid to transfer a liability.	Ind AS 113
101.	*Expected cash flow*	The probability-weighted average (ie mean of the distribution) of possible future cash flows.	Ind AS 113
102.	*Expected credit losses*	The weighted average of credit losses with the respective risks of a default occurring as the weights.	Ind AS 109
103.	*Exploration and evaluation assets*	Exploration and evaluation expenditures recognised as assets in accordance with the entity's accounting policy.	Ind AS 106
104.	*Exploration evaluation expenditures*	Expenditures incurred by an entity in connection with the exploration for and evaluation of mineral resources before the technical feasibility and commercial viability of extracting a mineral resource are demonstrable.	Ind AS 106
105.	*Exploration for and evaluation of mineral resources*	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.	Ind AS 106
106.	*Fair value*	Is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.	Ind AS 2 Ind AS 17, Ind AS 32
107.	*Fair value*	Is the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction.	Ind AS 16, Ind AS 38, Ind AS 40
108.	*Fair value*	Is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.	Ind AS 19, Ind AS 21, Ind AS 41, Ind AS 105, Ind AS 113

	Terms	Definitions	Standard
109.	*Fair value*	Is the amount for which an asset could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's length transaction.	Ind AS 20
110.	*Fair value*	is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.	Ind AS 18, Ind AS 101, Ind AS 103, Ind AS 104
111.	*Fair value*	The amount for which an asset could be exchanged, a liability settled, or an **equity instrument granted** could be exchanged, between knowledgeable, willing parties in an arm's length transaction.	Ind AS 102
112.	*Fair value*	The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date	Ind AS 113
113.	*Fair value less costs to sell*	Is the amount obtainable from the sale of an asset or cash-generating unit in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.	Ind AS 36
114.	*Finance lease*	Is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Title may or may not eventually be transferred.	Ind AS 17
115.	*Financial asset*	Is any asset that is: a. Cash; b. An equity instrument of another entity; c. A contractual right: I. To receive cash or another financial asset from another entity; or II. To exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity; or d. A contract that will or may be settled in the entity's own equity instruments and is:	Ind AS 32

	Terms	Definitions	Standard
		I. A non-derivative for which the entity is or may be obliged to receive a variable number of the entity's own equity instruments; or II. A derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments.	
116.	*Financial guarantee contract*	A contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.	Ind AS 104, Ind AS 109
117.	*Financial instrument*	Is any contract that gives rise to a financial asset of	Ind AS 32
118.	*Financial liability*	Is any liability that is: a. A contractual obligation : I. To deliver cash or another financial asset to another entity; or II. To exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity; or b. A contract that will or may be settled in the entity's own equity instruments and is: i. A non-derivative for which the entity is or may be obliged to deliver a variable number of the entity's own equity instruments; or ii. A derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments.	Ind AS 32

	Terms	Definitions	Standard
119.	*Financial liability at fair value through profit or loss*	A financial liability that meets one of the following conditions: (a) It meets the definition of held for trading. (b) Upon initial recognition it is designated by the entity as at fair value through profit or loss in accordance with paragraph 4.2.2 or 4.3.5. (c) It is designated either upon initial recognition or subsequently as at fair value through profit or loss in accordance with paragraph 6.7.1.	Ind AS 109
120.	*Financial risk*	The risk of a possible future change in one or more of a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract	Ind AS 104
121.	*Financing activities*	are activities that result in changes in the size and composition of the contributed equity and borrowings of the entity.	Ind AS 7
122.	*Firm commitment*	A binding agreement for the exchange of a specified quantity of resources at a specified price on a specified future date or dates.	Ind AS 109
123.	*Firm purchase commitment*	An agreement with an unrelated party, binding on both parties and usually legally enforceable, that (a) Specifies all significant terms, including the price and timing of the transactions, and (b) Includes a disincentive for non-performance that is sufficiently large to make performance highly probable.	Ind AS 105
124.	*First Ind-AS financial statements*	The first annual financial statements in which an entity adopts Indian Accounting Standards (Ind-ASs), by an explicit and unreserved statement of compliance with Ind-ASs.	Ind AS 101
125.	*First Ind-AS reporting period*	The latest reporting period covered by an entity's first Ind-AS financial statements.	Ind AS 101

	Terms	Definitions	Standard
126.	*First-time adopter*	An entity that presents its first Ind-AS financial statements.	Ind AS 101
127.	*Fixed Price Contract*	Is a construction contract 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.	Ind AS 11
128.	*Forecast transaction*	An uncommitted but anticipated future transaction.	Ind AS 109
129.	*Foreign currency*	Is a currency other than the functional currency of the entity.	Ind AS 21
130	*Foreign operation*	Is an entity that is a subsidiary, associate, joint arrangement or branch of a reporting entity, the activities of which are based or conducted in a country or currency other than those of the reporting entity.	Ind AS 21
131.	*Forgivable loans*	Are loans which the lender undertakes to waive repayment of under certain prescribed conditions.	Ind AS 20
132.	*Functional currency*	Is the currency of the primary economic environment in which the entity operates.	Ind AS 21
133.	*General purpose financial statements (referred to as 'financial statements')*	Are those intended to meet the needs of users who are not in a position to require an entity to prepare reports tailored to their particular information needs.	Ind AS 1
134.	*Goodwill*	An asset representing the future economic benefits arising from other assets acquired in a **business combination** that are not individually identified and separately recognised.	Ind AS 103
135.	*Government*	refers to government, government agencies and similar bodies whether local, national or international.	Ind AS 20, Ind AS 24
136.	*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.	Ind AS 20

	Terms	Definitions	Standard
137.	*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. They exclude those forms of government assistance which cannot reasonably have a value placed upon them and transactions with government which cannot be distinguished from the normal trading transactions of the entity	Ind AS 20
138.	*Government-related entity*	Is an entity that is controlled, jointly controlled or significantly influenced by a government.	Ind AS 24
139.	*Grant date*	The date at which the entity and another party (including an employee) agree to a share based payment arrangement, being when the entity and the counterparty have a shared understanding of the terms and conditions of the arrangement. At grant date the entity confers on the counterparty the right to cash, other assets, or **equity instruments** of the entity, provided the specified **vesting conditions**, if any, are met. If that agreement is subject to an approval process (for example, by shareholders), grant date	Ind AS 102
140.	*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.	Ind AS 20
141.	*Grants related to income*	Are government grants other than those related to assets.	Ind AS 20
142.	*Gross carrying amount of a financial asset*	The amortised cost of a financial asset, before adjusting for any loss allowance.	Ind AS 109
143.	*Gross investment in the lease*	Is the aggregate of: (a) the minimum lease payments receivable by the lessor under a finance lease, and (b) any unguaranteed residual value accruing to the lessor.	Ind AS 17
144.	*Group*	Is a parent and all its subsidiaries	Ind AS 21, Ind AS 110

	Terms	Definitions	Standard
145.	*Group of biological assets*	Is an aggregation of similar living animals or plants.	Ind AS 41
146.	*Guaranteed benefits*	Payments or other benefits to which a particular policyholder or investor has an unconditional right that is not subject to the contractual discretion of the issuer.	Ind AS 104
147.	*Guaranteed element*	An obligation to pay guaranteed benefits, included in a contract that contains a discretionary participation feature	Ind AS 104
148.	*Guaranteed residual value*	Is: (a) For a lessee, that part of the residual value that is guaranteed by the lessee or by a party related to the lessee (the amount of the guarantee being the maximum amount that could, in any event, become payable); and (b) For a lessor, that part of the residual value that is guaranteed by the lessee or by a third party unrelated to the lessor that is financially capable of discharging the obligations under the guarantee.	Ind AS 17
149.	*Harvest*	Is the detachment of produce from a biological asset or the cessation of a biological asset's life processes.	Ind AS 41
150.	*Hedge ratio*	The relationship between the quantity of the hedging instrument and the quantity of the hedged item in terms of their relative weighting.	Ind AS 109
151.	*Hedging instrument*	A designated derivative or (for a hedge of the risk of changes in foreign currency exchange rates only) a designated non-derivative financial asset or non-derivative financial liability whose fair value or cash flows are expected to offset changes in the fair value or cash flows of a designated hedged item	Ind AS 109
152.	*Held for trading*	A financial asset or financial liability that: (a) Is acquired or incurred principally for the purpose of selling or repurchasing it in the near term;	Ind AS 109

	Terms	Definitions	Standard
		(b) On initial recognition is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or (c) Is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).	
153.	*Highest and best use*	The use of a non-financial asset by market participants that would maximise the value of the asset or the group of assets and liabilities (e.g. a business) within which the asset would be used.	Ind AS 113
154.	*Highly probable*	Significantly more likely than probable.	Ind AS 105
155.	*Identifiable*	An asset is identifiable if it either: (a) Is separable, i.e. capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable asset or liability, regardless of whether the entity intends to do so; or (b) 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.	Ind AS 103
156.	*Impairment gain or loss*	Gains or losses that are recognised in profit or loss in accordance with paragraph 5.5.8 and that arise from applying the impairment requirements in Section 5.5.	Ind AS 109
157.	*Impairment Loss*	is the amount by which the carrying amount of an asset exceeds its recoverable amount.	Ind AS 16, Ind AS 38
158.	*Impairment loss*	is the amount by which the carrying amount of an asset or a cash-generating unit exceeds its recoverable amount.	Ind AS 36
159.	*Impracticable*	Applying a requirement is impracticable when the entity cannot apply it after making every reasonable effort to do so.	Ind AS 1

	Terms	Definitions	Standard
160.	*Impracticable*	Applying a requirement is impracticable when the entity cannot apply it after making every reasonable effort to do so. For a particular prior period, it is impracticable to apply a change in an accounting policy retrospectively or to make a retrospective restatement to correct an error if: (a) The effects of the retrospective application or retrospective restatement are not determinable; (a) The retrospective application or retrospective restatement requires assumptions about what management's intent would have been in that period; or (b) The retrospective application or retrospective restatement requires significant estimates of amounts and it is impossible to distinguish objectively information about those estimates that: (i) Provides evidence of circumstances that existed on the date(s) as at which those amounts are to be recognised, measured or disclosed; and (ii) Would have been available when the financial statements for that prior period were approved for issue from other information.	Ind AS 8
161.	*Inception of the lease*	Is the earlier of the date of the lease agreement and the date of commitment by the parties to the principal provisions of the lease. As at this date: (a) A lease is classified as either an operating or a finance lease; and (b) In the case of a finance lease, the amounts to be recognised at the commencement of the lease term are determined.	Ind AS 17
162.	*Income approach*	Valuation techniques that convert future amounts (e.g. cash flows or income and expenses) to a single current (i.e. discounted) amount. The fair value measurement is determined on the basis of the value indicated by current market expectations about those future amounts.	Ind AS 113

	Terms	Definitions	Standard
163.	*Income from a structured entity*	For the purpose of Ind AS 112, income from a structured entity includes, but is not limited to, recurring and non-recurring fees, interest, dividends, gains or losses on the remeasurement or derecognition of interests in structured entities and gains or losses from the transfer of assets and liabilities to the structured entity.	Ind AS 112
164.	*Indian Accounting Standards (Ind ASs)*	are Standards prescribed under Section 133 of the Companies Act, 2013.	Ind AS 1
165.	*Indian Accounting Standards (Ind ASs)*	Indian Accounting Standards are Accounting Standards prescribed under Section 211(3C) of the Companies Act, 1956.	Ind AS 101
166.	*Initial direct costs (lease)*	are incremental costs that are directly attributable to negotiating and arranging a lease, except for such costs incurred by manufacturer or dealer lessors.	Ind AS 17
167.	*Inputs*	The assumptions that market participants would use when pricing the asset or liability, including assumptions about risk, such as the following: (a) the risk inherent in a particular valuation technique used to measure fair value (such as a pricing model); and (b) the risk inherent in the inputs to the valuation technique. Inputs may be observable or unobservable.	Ind AS 113
168.	*Insurance asset*	An insurer's net contractual rights under an insurance contract	Ind AS 104
169.	*Insurance contract*	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.	Ind AS 104
170.	*Insurance liability*	An insurer's net contractual obligations under an insurance contract	Ind AS 104
171.	*Insurance risk*	Risk, other than financial risk, transferred from the holder of a contract to the issuer	Ind AS 104

	Terms	Definitions	Standard
172.	*Insured event*	An uncertain future event that is covered by an insurance contract and creates insurance risk.	Ind AS 104
173.	*Insurer*	The party that has an obligation under an insurance contract to compensate a policyholder if an insured event occurs.	Ind AS 104
174.	*Intangible asset*	is an identifiable non-monetary asset without physical substance.	Ind AS 38
175.	*Intangible asset*	An **identifiable** non-monetary asset without physical substance	Ind AS 103
176.	*Interest in another entity*	For the purpose of Ind AS 112, an interest in another entity refers to contractual and non-contractual involvement that exposes an entity to variability of returns from the performance of the other entity. An interest in another entity can be evidenced by, but is not limited to, the holding of equity or debt instruments as well as other forms of involvement such as the provision of funding, liquidity support, credit enhancement and guarantees. It includes the means by which an entity has control or joint control of, or significant influence over, another entity. An entity does not necessarily have an interest in another entity solely because of a typical customer supplier relationship.	Ind AS 112
177.	*Interest rate implicit in the lease*	Is the discount rate that, at the inception of the lease, causes the aggregate present value of (a) The minimum lease payments and (b) The unguaranteed residual value to be equal to the sum of (i) The fair value of the leased asset and (ii) Any initial direct costs of the lessor.	Ind AS 17
178.	*Interest rate risk*	The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.	Ind AS 107
179.	*Interim financial report*	Means a financial report containing either a complete set of financial statements (as described in Ind AS 1 Presentation of Financial Statements or a set of condensed financial statements (as described in this Standard) for an interim period	Ind AS 34

	Terms	Definitions	Standard
180.	*Interim period*	Is a financial reporting period shorter than a full financial year.	Ind AS 34
181.	*Intrinsic value*	The difference between the **fair value** of the shares to which the counterparty has the (conditional or unconditional) right to subscribe or which it has the right to receive, and the price (if any) the counterparty is (or will be) required to pay for those shares. For example, a **share option** with an exercise price of Rs15, on a share with a **fair value** of Rs 20, has an intrinsic value of Rs 5.	Ind AS 102
182.	*Inventories*	Are assets: (a) Held for sale in the ordinary course of business; (b) In the process of production for such sale; or (c) In the form of materials or supplies to be consumed in the production process or in the rendering of services.	Ind AS 2
183.	*Investing activities*	Are the acquisition and disposal of long-term assets and other investments not included in cash equivalents.	Ind AS 7
184.	*Investment entity*	An entity that: (a) Obtains funds from one or more investors for the purpose of providing those investor(s) with investment management services; (b) Commits to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and (c) Measures and evaluates the performance of substantially all of its investments on a fair value basis.	Ind AS 110
185.	*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: (m) Use in the production or supply of goods or services or for administrative purposes; or (n) Sale in the ordinary course of business.	Ind AS 40

	Terms	Definitions	Standard
186.	*Investor in a joint venture*	Is a party to a joint venture and does not have joint control over that joint venture.	Ind AS 31
187.	*Joint arrangement*	Is an arrangement of which two or more parties have joint control.	Ind AS 28, Ind AS 111
188.	*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.	Ind AS 28, Ind AS 111
189.	*Joint control*	Is the contractually agreed sharing of control over an economic activity, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the venturers).	Ind AS 31
190.	*Joint operation*	A **joint arrangement** whereby the parties that have **joint control** of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement.	Ind AS 111
191.	*Joint operator*	A party to a **joint operation** that has **joint control** of that joint operation.	Ind AS 111
192.	*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.	Ind AS 28, Ind AS 111
193.	*Joint venture*	Is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control.	Ind AS 31
194.	*Joint venturer*	Is a party to a joint venture that has joint control of that joint venture.	Ind AS 28, Ind AS 111
195.	*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.	Ind AS 24
196.	*Lease*	Is an agreement whereby the lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time.	Ind AS 17

	Terms	Definitions	Standard
197.	*Lease term*	Is the non-cancellable period for which the lessee has contracted to lease the asset together with any further terms for which the lessee has the option to continue to lease the asset, with or without further payment, when at the inception of the lease it is reasonably certain that the lessee will exercise the option	Ind AS 17
198.	*Legal obligation*	Is an obligation that derives from: (a) A contract (through its explicit or implicit terms); (b) Legislation; or (c) Other operation of law.	Ind AS 37
199.	*Lessee's incremental borrowing rate of interest*	Is the rate of interest the lessee would have to pay on a similar lease or, if that is not determinable, the rate that, at the inception of the lease, the lessee would incur to borrow over a similar term, and with a similar security, the funds necessary to purchase the asset.	Ind AS 17
200.	*Level 1 inputs*	Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.	Ind AS 113
201.	*Level 2 inputs*	Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.	Ind AS 113
202.	*Level 3 inputs*	Unobservable inputs for the asset or liability	Ind AS 113
203.	*Liability*	Is a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits.	Ind AS 37
204.	*Liability adequacy test*	An assessment of whether the carrying amount of an insurance liability needs to be increased (or the carrying amount of related deferred acquisition costs or related intangible assets decreased), based on a review of future cash flows.	Ind AS 104
205.	*Lifetime expected credit losses*	The expected credit losses that result from all possible default events over the expected life of a financial instrument.	Ind AS 109

	Terms	Definitions	Standard
206.	*Liquidity risk*	The risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.	Ind AS 107
207.	*Loans payable*	Loans payable are financial liabilities, other than short-term trade payables on normal credit terms.	Ind AS 107
208.	*Loss allowance*	The allowance for expected credit losses on financial assets measured in accordance with paragraph 4.1.2, lease receivables and contract assets, the accumulated impairment amount for financial assets measured in accordance with paragraph 4.1.2A and the provision for expected credit losses on loan commitments and financial guarantee contracts.	Ind AS 109
209.	*Market approach*	A valuation technique that uses prices and other relevant information generated by market transactions involving identical or comparable (ie similar) assets, liabilities or a group of assets and liabilities, such as a business.	Ind AS 113
210.	*Market condition*	A condition upon which the exercise price, vesting or exercisability of an **equity instrument** depends that is related to the market price of the entity's **equity instruments**, such as attaining a specified share price or a specified amount of **intrinsic value** of a **share option,** or achieving a specified target that is based on the market price of the entity's **equity instruments** relative to an index of market prices of **equity instruments** of other entities	Ind AS 102
211.	*Market corroborated inputs*	Inputs that are derived principally from or corroborated by observable market data by correlation or other means	Ind AS 113
212.	*Market participants*	Buyers and sellers in the principal (or most advantageous) market for the asset or liability that have all of the following characteristics: (a) They are independent of each other, i.e. they are not related parties as defined in Ind AS 24, although the price in a related party transaction may be used as an input to a fair value measurement if the entity has evidence that the transaction was entered into at market terms.	Ind AS 113

	Terms	Definitions	Standard
		(b) They are knowledgeable, having a reasonable understanding about the asset or liability and the transaction using all available information, including information that might be obtained through due diligence efforts that are usual and customary. (c) They are able to enter into a transaction for the asset or liability. (d) They are willing to enter into a transaction for the asset or liability, i.e. they are motivated but not forced or otherwise compelled to do so.	
213.	*Market risk*	The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.	Ind AS 107
214.	*Material*	Omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions that users make on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor.	Ind AS 1
215.	*Measurement date*	The date at which the **fair value** of the **equity instruments granted** is measured for the purposes of this Ind AS. For transactions with **employees and others providing similar services,** the measurement date is **grant date.** For transactions with parties other than employees (and those providing similar services), the measurement date is the date the entity obtains the goods or the counterparty renders service.	Ind AS 102
216.	*Minimum lease payments*	Are the payments over the lease term that the lessee is or can be required to make, excluding contingent rent, costs for services and taxes to be paid by and reimbursed to the lessor, together with:	Ind AS 17

	Terms	Definitions	Standard
		(a) For a lessee, any amounts guaranteed by the lessee or by a party related to the lessee; or (b) For a lessor, any residual value guaranteed to the lessor by: (i) The lessee; (ii) A party related to the lessee; or (iii) A third party unrelated to the lessor that is financially capable of discharging the obligations under the guarantee.	
217.	*Modification gain or loss*	The amount arising from adjusting the gross carrying amount of a financial asset to reflect the renegotiated or modified contractual cash flows.	Ind AS 109
218.	*Monetary assets*	Are money held and assets to be received in fixed or determinable amounts of money.	Ind AS 38
219.	*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.	Ind AS 21
220.	*Most advantageous market*	The market that maximises the amount that would be received to sell the asset or minimises the amount that would be paid to transfer the liability, after taking into account transaction costs and transport costs.	Ind AS 113
221.	*Multi-employer plans*	Are defined contribution plans (other than state plans) or defined benefit plans (other than state plans) that: (a) Pool the assets contributed by various entities that are not under common control; and (b) Use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees.	Ind AS 19

	Terms	Definitions	Standard
222.	*Mutual entity*	An entity, other than an investor-owned entity, that provides dividends, lower costs or other economic benefits directly to its **owners**, members or participants. For example, a mutual insurance company, a credit union and a co-operative entity are all mutual entities.	Ind AS 103
223.	*Net defined benefit liability (asset)*	Is the deficit or surplus, adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The *deficit or surplus* is: (a) The present value of the defined benefit obligation less (b) The fair value of plan assets (if any). The *asset ceiling* is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.	Ind AS 19
224.	*Net interest on the net defined benefit liability (asset)*	Is the change during the period in the net defined benefit liability (asset) that arises from the passage of time.	Ind AS 19
225.	*Net investment in a foreign operation*	Is the amount of the reporting entity's interest in the net assets of that operation.	Ind AS 21
226.	*Net investment in the lease*	Is the gross investment in the lease discounted at the interest rate implicit in the lease. It is the difference between: (a) The gross investment in the lease, and (b) The net investment in the lease.	Ind AS 17
227.	*Net realisable value*	Is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.	Ind AS 2
228.	*Non-cancellable lease*	Is a lease that is cancellable only: (a) Upon the occurrence of some remote contingency; (b) With the permission of the lessor;	Ind AS 17

	Terms	Definitions	Standard
		(c) If the lessee enters into a new lease for the same or an equivalent asset with the same lessor; or (d) Upon payment by the lessee of such an additional amount that, at inception of the lease, continuation of the lease is reasonably certain.	
229.	*Non-controlling interest*	The equity in a subsidiary not attributable, directly or indirectly, to a parent.	Ind AS 103, Ind AS 110
230.	*Non-current asset*	An asset that does not meet the definition of a current asset.	Ind AS 105
231.	*Non-performance risk*	The risk that an entity will not fulfill an obligation. Non-performance risk includes, but may not be limited to, the entity's own credit risk.	Ind AS 113
232.	*Notes*	Contain information in addition to that presented in the balance sheet), statement of profit and loss, statement of changes in equity and statement of cash flows. Notes provide narrative descriptions or disaggregations of items presented in those statements and information about items that do not qualify for recognition in those statements.	Ind AS 1
233.	*Obligating event*	Is an event that creates a legal or constructive obligation that results in an entity having no realistic alternative to settling that obligation.	Ind AS 37
234.	*Observable inputs*	Inputs that are developed using market data, such as publicly available information about actual events or transactions, and that reflect the assumptions that market participants would use when pricing the asset or liability.	Ind AS 113
235.	*Onerous contract*	Is a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.	Ind AS 37
236.	*Opening Ind-AS Balance Sheet*	An entity’s Balance Sheet at the date of transition to Ind-AS	Ind AS 101
237.	*Operating activities*	Are the principal revenue-producing activities of the entity and other activities that are not investing or financing activities.	Ind AS 7
238.	*Operating lease*	Is a lease other than a finance lease.	Ind AS 17

	Terms	Definitions	Standard
239.	*Operating segment*	An operating segment is a component of an entity: (a) 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), (b) Whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and (c) For which discrete financial information is available.	Ind AS 108
240.	*Options, warrants and their equivalents*	Are financial instruments that give the holder the right to purchase ordinary shares.	Ind AS 33
241.	*Orderly transaction*	A transaction that assumes exposure to the market for a period before the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets or liabilities; it is not a forced transaction (e.g. a forced liquidation or distress sale).	Ind AS 113
242.	*Ordinary share*	Is an equity instrument that is subordinate to all other classes of equity instruments.	Ind AS 33
243.	*Other Comprehensive Income*	Comprises items of income and expense (including reclassification adjustments) that are not recognised in profit or loss as required or permitted by other Ind ASs.	Ind AS 1
244.	*Other long-term employee benefits*	Are all employee benefits other than short-term employee benefits, post-employment benefits and termination benefits.	Ind AS 19
245.	*Other price risk*	The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer or by factors affecting all similar financial instruments traded in the market.	Ind AS 107

	Terms	Definitions	Standard
246.	*Owner-occupied property*	Is property held (by the owner or by the lessee under a finance lease) for use in the production or supply of goods or services or for administrative purposes.	Ind AS 40
247.	*Owners*	Are holders of instruments classified as equity	Ind AS 1
248.	*Owners*	For the purposes of Ind AS 103, owners is used broadly to include holders of **equity interests** of investor-owned entities and owners or members of, or participants in, **mutual entities.**	Ind AS 103
249.	*Parent*	An entity that controls one or more entities.	Ind AS 110
250.	*Party to a joint arrangement*	An entity that participates in a **joint arrangement**, regardless of whether that entity has **joint control** of the arrangement.	Ind AS 111
251.	*Past due*	A financial asset is past due when a counter party has failed to make a payment when that payment was contractually due.	Ind AS 109
252.	*Plan assets*	Comprise: (a) Assets held by a long-term employee benefit fund; and (b) Qualifying insurance policies	Ind AS 19
253.	*Policyholder*	A party that has a right to compensation under an insurance contract if an insured event occurs.	Ind AS 104
254.	*Post-employment benefit plans*	Are formal or informal arrangements under which an entity provides post-employment benefits for one or more employees.	Ind AS 19
255.	*Post-employment benefits*	Are employee benefits (other than termination benefits and short term employee benefits) that are payable after the completion of employment	Ind AS 19
256.	*Potential ordinary share*	Is a financial instrument or other contract that may entitle its holder to ordinary shares.	Ind AS 33
257.	*Power*	Existing rights that give the current ability to direct the **relevant activities.**	Ind AS 110
258.	*Present value of a defined benefit obligation*	Is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.	Ind AS 19
259.	*Presentation currency*	Is the currency in which the financial statements are presented.	Ind AS 21

	Terms	Definitions	Standard
260.	*Previous GAAP*	The basis of accounting that a first-time adopter used immediately before adopting Ind-ASs for its reporting requirements in India. For instance, for companies preparing their financial statements in accordance with the existing Accounting Standards notified under the Companies (Accounting Standards) Rules, 2006 shall consider those financial statements as previous GAAP financial statements.	Ind AS 101
261.	*Principal market*	The market with the greatest volume and level of activity for the asset or liability	Ind AS 113
262.	*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: (a) Was available when financial statements for those periods were approved for issue; and (b) 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.	Ind AS 8
263.	*Probable*	More likely than not.	Ind AS 105
264.	*Profit or loss*	Is the total of income less expenses, excluding the components of other comprehensive income.	Ind AS 1
265.	*Property, plant and equipment*	Are tangible items that: (a) Are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and (b) Are expected to be used during more than one period.	Ind AS 16

	Terms	Definitions	Standard
266.	*Proportionate consolidation*	Is a method of accounting whereby a venturer's share of each of the assets, liabilities, income and expenses of a jointly controlled entity is combined line by line with similar items in the venturer's financial statements or reported as separate line items in the venturer's financial statements.	Ind AS 31
267.	*Prospective application*	Of a change in accounting policy and of recognizing the effect of a change in an accounting estimate, respectively, are: (a) Applying the new accounting policy to transactions, other events and conditions occurring after the date as at which the policy is changed; and (b) Recognising the effect of the change in the accounting estimate in the current and future periods affected by the change.	Ind AS 8
268.	*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.	Ind AS 110
269.	*Provision*	Is a liability of uncertain timing or amount.	Ind AS 37
270.	*Purchased or originated credit-impaired financial asset*	Purchased or originated financial asset(s) that are credit impaired on initial recognition.	Ind AS 109
271.	*Put options on ordinary shares*	Are contracts that give the holder the right to sell ordinary shares at a specified price for a given period.	Ind AS 33
272.	*Puttable instrument*	Is a financial instrument that gives the holder the right to put the instrument back to the issuer for cash or another financial asset or is automatically put back to the issuer on the occurrence of an uncertain future event or the death or retirement of the instrument holder	Ind AS 32
273.	*Qualifying asset*	Is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale.	Ind AS 23

	Terms	Definitions	Standard
274.	*Qualifying insurance policy*	Is an insurance policy issued by an insurer that is not a related party (as defined in Ind AS 24, *Related Party Disclosures*) of the reporting entity, if the proceeds of the policy: (a) Can be used only to pay or fund employee benefits under a defined benefit plan; and (b) Are not available to the reporting entity's own creditors (even in bankruptcy) and cannot be paid to the reporting entity, unless either: i. The proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or ii. The proceeds are returned to the reporting entity to reimburse it for employee benefits already paid.	Ind AS 19
275.	*Rate regulation*	'Cost of Service Regulation' as defined in the Guidance Note on Accounting for Rate Regulated Activities.	Ind AS 114
276.	*Rate regulator*	'Regulator' as defined in the Guidance Note on Accounting for Rate Regulated Activities.	Ind AS 114
277.	*Rate-regulated activities*	An entity's activities that are subject to rate regulation.	Ind AS 114
278.	*Reclassification adjustments*	Are amounts reclassified to profit or loss in the current period that were recognised in other comprehensive income in the current or previous periods.	Ind AS 1
279.	*Reclassification date*	The first day of the first reporting period following the change in business model that results in an entity reclassifying financial assets.	Ind AS 109
280.	*Recoverable amount*	Is the higher of an asset's fair value less costs to sell and its value in use.	Ind AS 16
281.	*Recoverable amount*	Of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use.	Ind AS 36

	Terms	Definitions	Standard
282.	*Recoverable amount*	The higher of an asset's fair value less costs to sell and its value in use	Ind AS 105
283.	*Regular way purchase or sale*	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 market place concerned	Ind AS 109
284.	*Regulatory deferral account balance*	A 'Regulatory Asset' or a 'Regulatory Liability' as defined in the Guidance Note on Accounting for Rate Regulated Activities.	Ind AS 114
285.	*Reinsurance assets*	A cedant's net contractual rights under a reinsurance contract	Ind AS 104
286.	*Reinsurance contract*	An insurance contract issued by one insurer (the reinsurer) to compensate another insurer (the cedant) for losses on one or more contracts issued by the cedant.	Ind AS 104
287.	*Reinsurer*	The party that has an obligation under a reinsurance contract to compensate a cedant if an insured event occurs	Ind AS 104
288.	*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: (ii) Has control or joint control of the reporting entity; (iii) Has significant influence over the reporting entity; or (iv) 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).	Ind AS 24

	Terms	Definitions	Standard
		(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). (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the reporting entity or to the parent of the reporting entity	
289.	*Related party transaction*	Is a transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged.	Ind AS 24
290.	*Relevant activities*	For the purpose of this Ind AS, relevant activities are activities of the investee that significantly affect the investee's returns.	Ind AS 110

	Terms	Definitions	Standard
291.	*Reload feature*	A feature that provides for an automatic grant of additional **share options** whenever the option holder exercises previously granted options using the entity's shares, rather than cash, to satisfy the exercise price.	Ind AS 102
292.	*Reload option*	A new **share option** granted when a share is used to satisfy the exercise price of a previous share option.	Ind AS 102
293.	*Removal rights*	Rights to deprive the decision maker of its decision-making authority	Ind AS 110
294.	*Research*	Is original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding.	Ind AS 38
295.	*Reserve*	Means the portion of earnings, receipts or other surplus of an entity (whether capital or revenue) appropriated by the management for a general or a specific purpose other than provision for depreciation.	Appendix C Ind AS 103
296.	*Residual value of an 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.	Ind AS 16, Ind AS 38
297.	*Restructuring*	Is a programme that is planned and controlled by management, and materially changes either: (a) the scope of a business undertaken by an entity; or (b) the manner in which that business is conducted	Ind AS 37
298.	*Retrospective application*	Is correcting the recognition, measurement and disclosure of amounts of elements of financial statements as if a prior period error had never occurred.	Ind AS 8
299.	*Return on plan assets*	Is interest, dividends and other income derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less: (b) Any costs of managing plan assets; and	Ind AS 19

	Terms	Definitions	Standard
		(c) Any tax payable by the plan itself, other than tax included in the actuarial assumptions used to measure the present value of the defined benefit obligation.	
300.	*Revenue*	Is the gross inflow of economic benefits during the period arising in the course of the ordinary activities of an entity when those inflows result in increases in equity, other than increases relating to contributions from equity participants.	Ind AS 18
301.	*Risk premium*	Compensation sought by risk-averse market participants for bearing the uncertainty inherent in the cash flows of an asset or a liability. Also referred to as a 'risk adjustment'.	Ind AS 113
302.	*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.	Ind AS 27
303.	*Separate financial statements*	Are those presented by a parent, an investor in an associate or a venturer in a jointly controlled entity, in which the investments are accounted for on the basis of the direct equity interest rather than on the basis of the reported results and net assets of the investees.	Ind AS 31
304.	*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.	Ind AS 111
305.	*Service cost In relation to defined benefit cost*	Comprises: (a) *Current service cost,* which is the increase in the present value of the defined benefit obligation resulting from employee service in the current period; (b) *Past service cost,* which is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting from a plan amendment (the introduction or withdrawal of, or changes to, a defined benefit plan) or a curtailment (a significant reduction by the entity in the number of employees covered by a plan); and	Ind AS 19

	Terms	Definitions	Standard
		(c) Any gain or loss on settlement.	
306.	*Settlement in relation to defined benefit plan*	is a transaction that eliminates all further legal or constructive obligations for part or all of the benefits provided under a defined benefit plan, other than a payment of benefits to, or on behalf of, employees that is set out in the terms of the plan and included in the actuarial assumptions	Ind AS 19
307.	*Share option*	A contract that gives the holder the right, but not the obligation, to subscribe to the entity's shares at a fixed or determinable price for a specified period of time.	Ind AS 102
308.	*Share-based payment arrangement*	An agreement between the entity (or another group entity or any shareholder of any group entity) and another party (including an employee) 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** (including shares or **share options**) of the entity or another group entity, or (b) **Equity instruments** (including shares or **share options**) of the entity or another group entity, provided the specified vesting conditions, if any, are met	Ind AS 102
309.	*Share-based payment transaction*	A transaction in which the entity (a) Receives goods or services from the supplier of those goods or services (including an employee) in a **share-based payment arrangement,** or (b) Incurs an obligation to settle the transaction with the supplier in a **share-based payment arrangement** when another group entity receives those goods or services.	Ind AS 102
310.	*Short-term employee benefits*	Are employee benefits (other than termination benefits) that are expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related service	Ind AS 19

	Terms	Definitions	Standard
311.	*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.	Ind AS 28
312.	*Significant influence*	Is the power to participate in the financial and operating policy decisions of an economic activity but is not control or joint control over those policies.	Ind AS 31
313.	*Spot exchange rate*	Is the exchange rate for immediate delivery.	Ind AS 21
314.	*Structured entity*	An entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements.	Ind AS 112
315.	*Subsidiary*	An entity that is controlled by another entity.	Ind AS 110
316.	*Tax Base of an asset or liability*	Is the amount attributed to that asset or liability for tax purposes.	Ind AS 12
317.	*Tax expense (tax income)*	Is the aggregate amount included in the determination of profit or loss for the period in respect of current tax and deferred tax.	Ind AS 12
318.	*Taxable profit (tax loss)*	Is the profit (loss) for a period, determined in accordance with the rules established by the taxation authorities, upon which income taxes are payable (recoverable).	Ind AS 12
319.	*Temporary differences*	Are differences between the carrying amount of an asset or liability in the balance sheet and its tax base. Temporary differences may be either: (a) Taxable temporary differences, which are temporary differences that will result in taxable amounts in determining taxable profit (tax loss) of future periods when the carrying amount of the asset or liability is recovered or settled; or (b) Deductible temporary differences, which are temporary differences that will result in amounts that are deductible in determining taxable profit (tax loss) of future periods when the carrying amount of the asset or liability is recovered or settled.	Ind AS 12

	Terms	Definitions	Standard
320.	*Termination benefits*	Are employee benefits provided in exchange for the termination of an employee's employment 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 an offer of benefits in exchange for the termination of employment.	Ind AS 19
321.	*Total comprehensive income*	Is the change in equity during a period resulting from transactions and other events, other than those changes resulting from transactions with owners in their capacity as owners.	Ind AS 1
322.	*Transaction costs*	Incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.	Ind AS 109
323.	*Transaction costs*	The costs to sell an asset or transfer a liability in the principal (or most advantageous) market for the asset or liability that are directly attributable to the disposal of the asset or the transfer of the liability and meet both of the following criteria: (a) They result directly from and are essential to that transaction. (b) They would not have been incurred by the entity had the decision to sell the asset or transfer the liability not been made	Ind AS 113
324.	*Transferee*	Means an entity in which the transferor entity is combined.	Appendix C Ind AS 103
325.	*Transferor*	Means an entity or business which is combined into another entity as a result of a business combination.	Appendix C Ind AS 103
326.	*Transport costs*	The costs that would be incurred to transport an asset from its current location to its principal (or most advantageous) market	Ind AS 113

	Terms	Definitions	Standard
327.	*Unbundle*	Account for the components of a contract as if they were separate contracts.	Ind AS 104
328.	*Unguaranteed residual value (lease)*	Is that portion of the residual value of the leased asset, the realisation of which by the lessor is not assured or is guaranteed solely by a party related to the lessor.	Ind AS 17
329.	*Unit of account*	The level at which an asset or a liability is aggregated or disaggregated in an Ind AS for recognition purposes.	Ind AS 113
330.	*Unobservable inputs*	Inputs for which market data are not available and that are developed using the best information available about the assumptions that market participants would use when pricing the asset or liability.	Ind AS 113
331.	*Useful life*	Is either: (c) The period of time over which an asset is expected to be used by the entity; or (d) The number of production or similar units expected to be obtained from the asset by the entity.	Ind AS 16, Ind AS 36, Ind AS 38
332.	*Useful life (lease)*	Is the estimated remaining period, from the commencement of the lease term, without limitation by the lease term, over which the economic benefits embodied in the asset are expected to be consumed by the entity.	Ind AS 17
333.	*Value in use*	Is the present value of the future cash flows expected to be derived from an asset or cash-generating unit.	Ind AS 36
334.	*Value in use*	The present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life.	Ind AS 105
335.	*Venturer*	Is a party to a joint venture and has joint control over that joint venture.	Ind AS 31

	Terms	Definitions	Standard
336.	*Vest*	To become an entitlement. Under a **share based payment arrangement**, a counterparty's right to receive cash, other assets or **equity instruments** of the entity vests when the counterparty's entitlement is no longer conditional on the satisfaction of any **vesting conditions**	Ind AS 102
337.	*Vesting conditions*	The conditions that determine whether the entity receives the services that entitle the counterparty to receive cash, other assets or **equity instruments** of the entity, under a **share based payment arrangement**. Vesting conditions are either service conditions or performance conditions. Service conditions require the counterparty to complete a specified period of service. Performance conditions require the counterparty to complete a specified period of service and specified performance targets to be met (such as a specified increase in the entity's profit over a specified period of time). A performance condition might include a **market condition.**	Ind AS 102
338.	*Vesting period*	The period during which all the specified **vesting conditions** of a **share-based payment arrangement** are to be satisfied.	Ind AS 102

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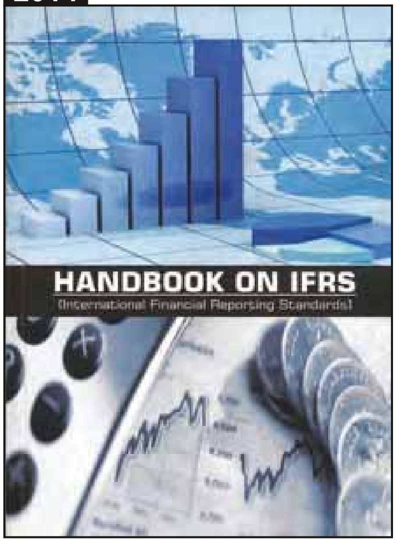

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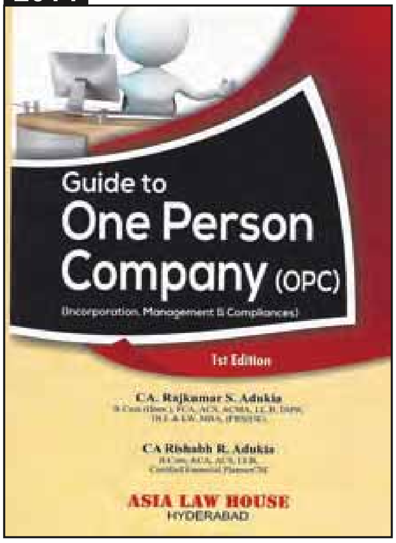

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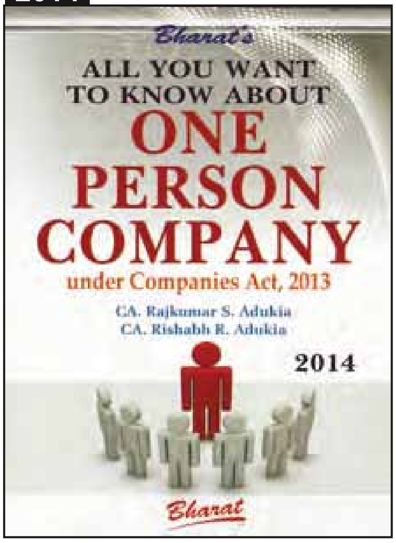

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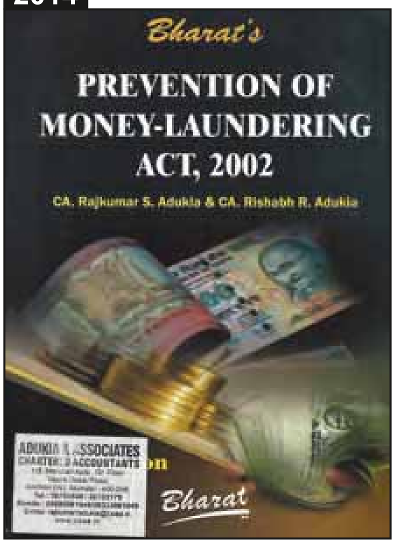

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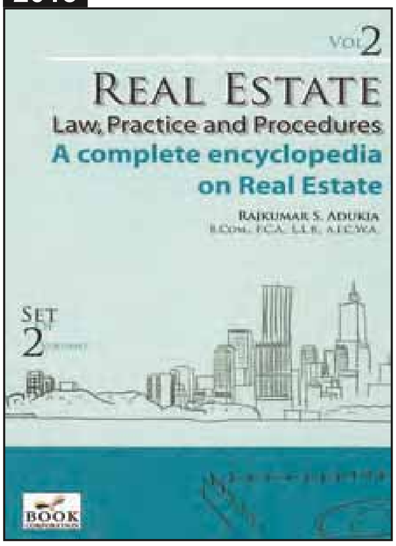

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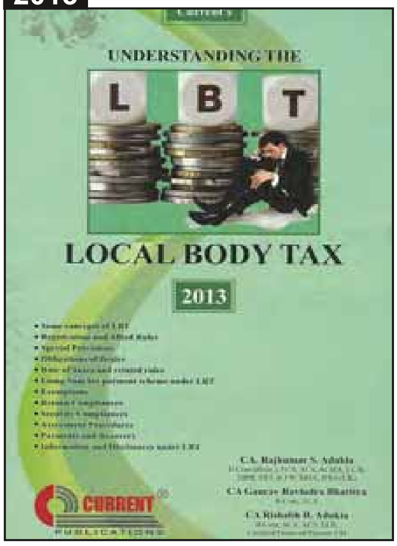

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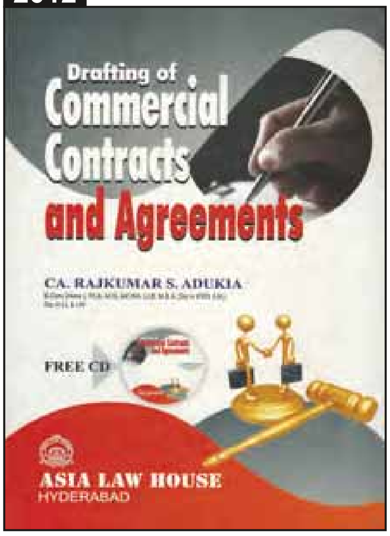

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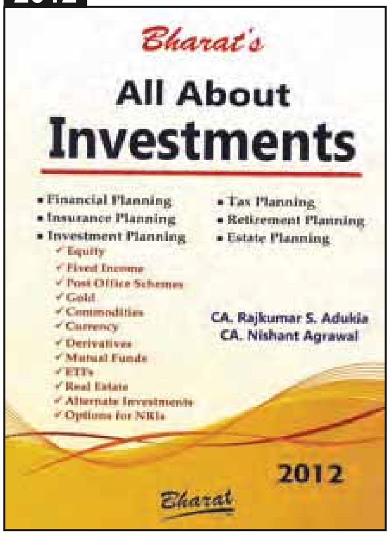

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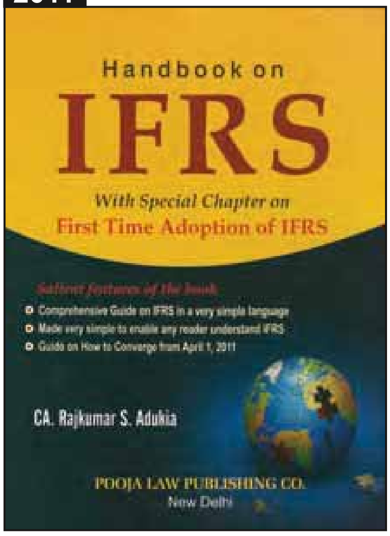

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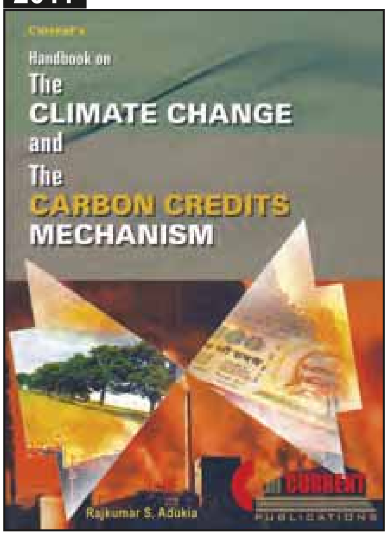

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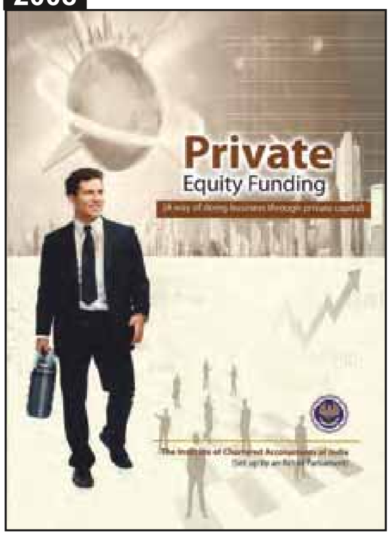

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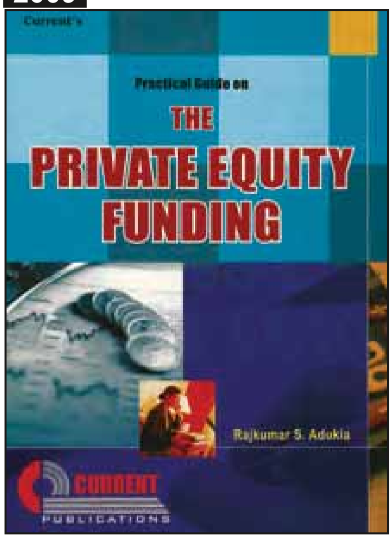

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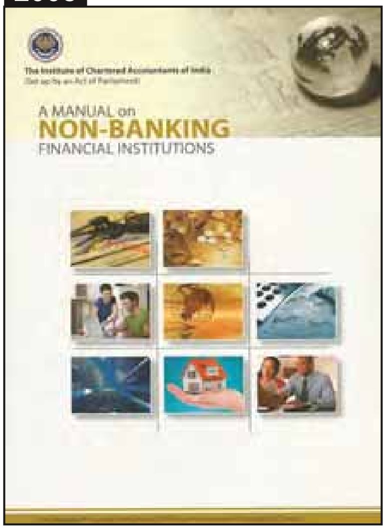

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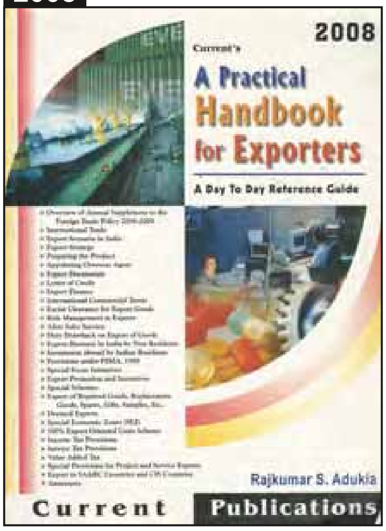

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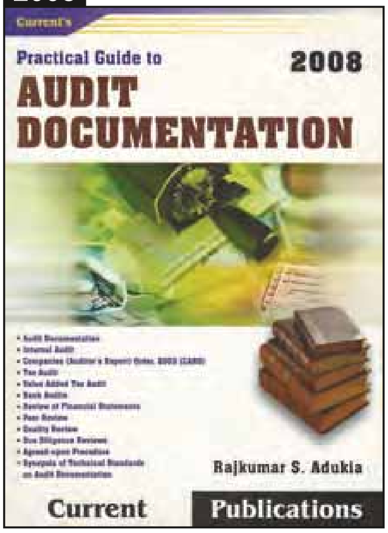

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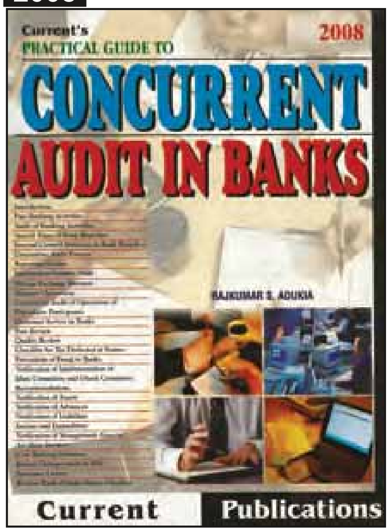

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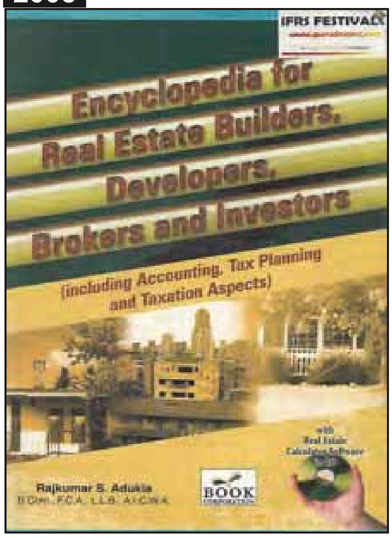

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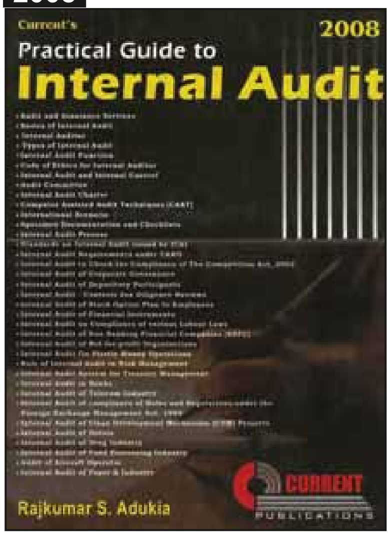

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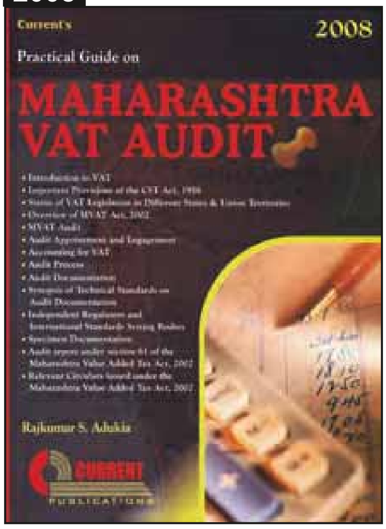

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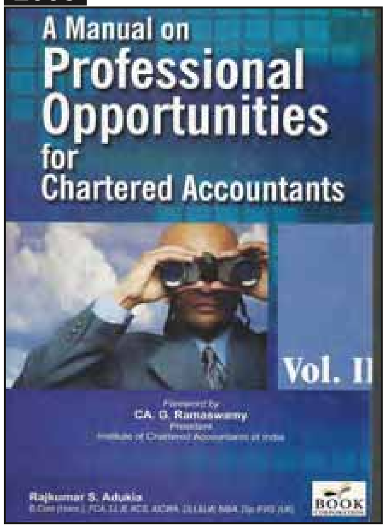

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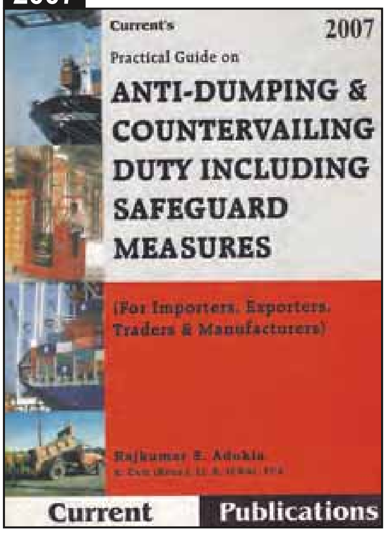

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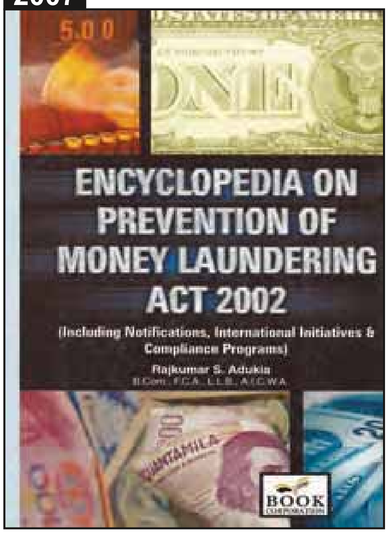

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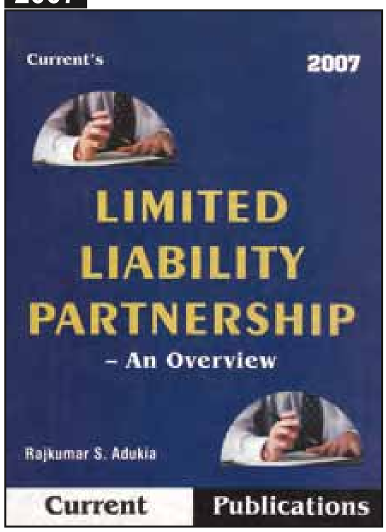

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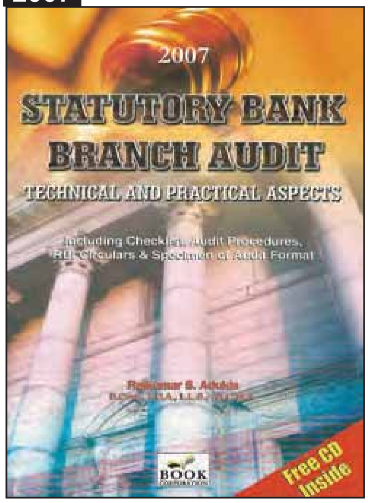

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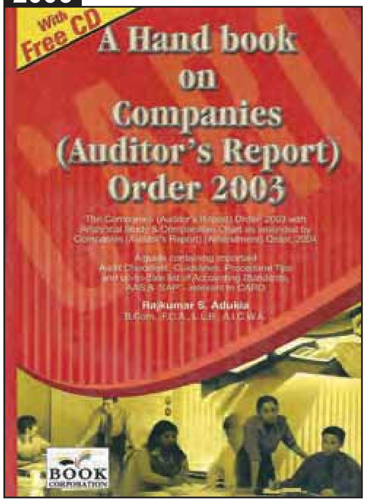

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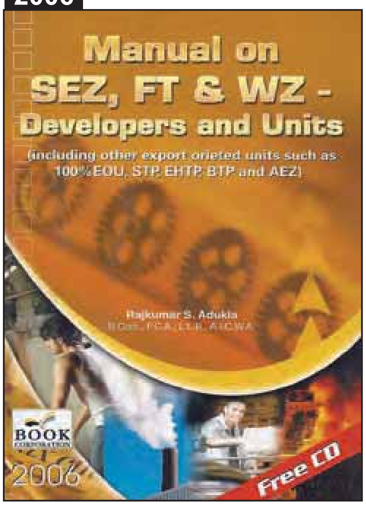

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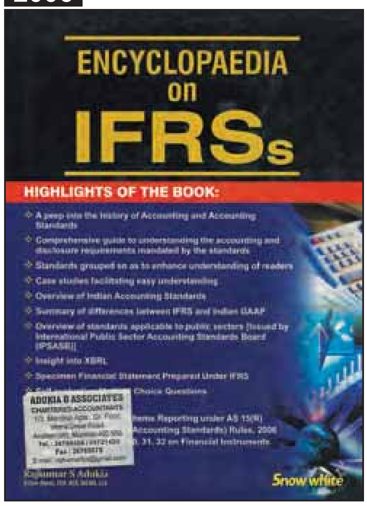

Encyclopedia on IFRSs

AUTHOR's PROFILE

Dr. (CA) Rajkumar S. Adukia is an eminent Business Advisor, Author, Speaker and an authority in Indian GAAP, IFRS and Ind-AS. He has been conducting seminars 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 been Hon. Sec. of Western India Regional Council of Institute of Chartered Accountants of India in 1991-92 and Chairman of WIRC in 1997-98, 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 Relations 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, Members 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-fourths of globe addressing international conferences and seminars 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 conceptualised in India and has been instrumental in materialising 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 Organisation of Rajasthan and many other awards as a successful leader in various fields.

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