Overview of

Indian Accounting Standards (Ind ASs)

With an insight to other GAAPs pronounced by ICAI and Companies (Accounting Standards) Rules 2006

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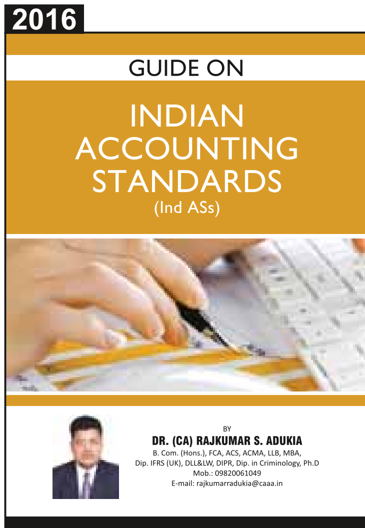

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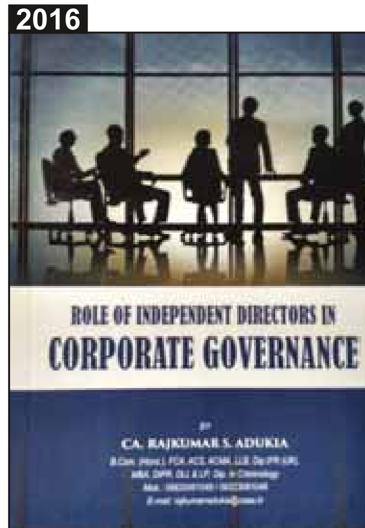

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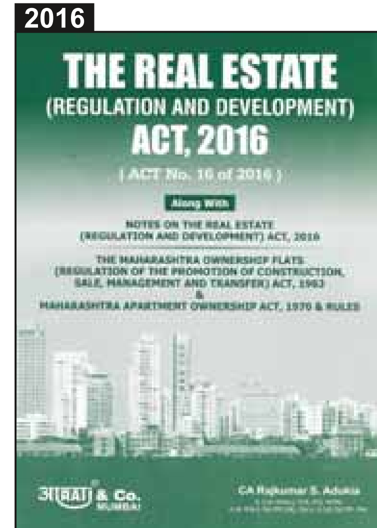

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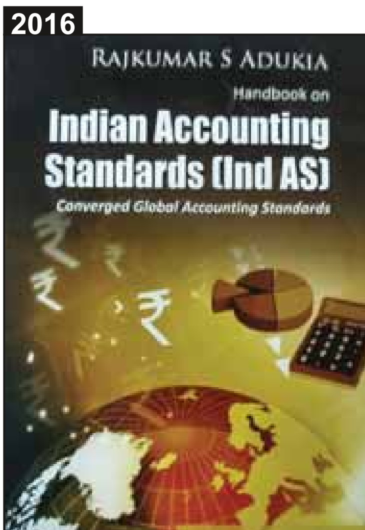

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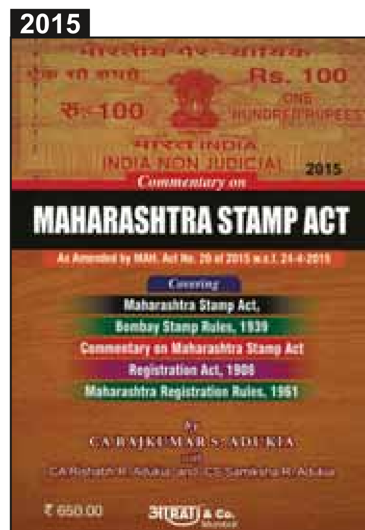

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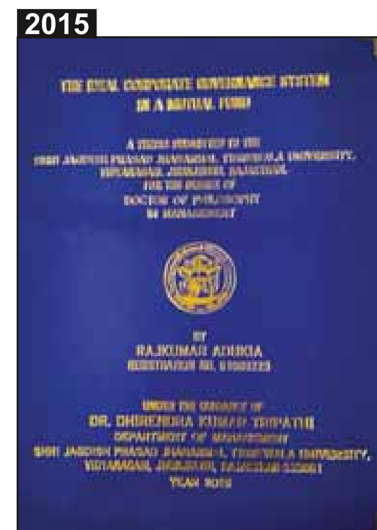

The Ideal Corporate Governance System in a Mutual Fund

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Preface

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

Analysing the benefits of IFRS, it became all the more pertinent for a country like India to adopt it as soon as possible so as to maintain investors' positive sentiments and also strengthen their faith and credibility in the Indian Market. Therefore, Ministry of Corporate Affairs (hereafter referred to as MCA) notified Company (Indian Accounting Standard) Rules 2015 *vide* its G.S.R dated 16th February, 2015. Accordingly, it notified 39 Ind ASs and laid down an Ind AS transition road map for companies other than banking companies, insurance companies and non-banking finance companies. However, on 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 NBFCs from 2018-19 onwards. Moreover, MCA also issued Companies (Indian Accounting Standards) Amendment Rules, 2016, which contains two more Standards viz.,

Ind AS 18 Revenue, and Ind AS 11 *Construction Contracts* which it proposes to make applicable in place of Ind AS 115 *Revenue from Contracts with Customers.* The implementation of Ind AS might lead to short term investments and initial challenges but the long term benefits are strong enough to justify the initial hassles of implementation and adoptability.

This book provides a brief insight on the subject and practical guide for implementing Ind AS in a very lucid manner. Special care has been taken to ensure all recent amendments have been incorporated in the book. The book also provides an insight to other Accounting norms accepted in India including Accounting Standards promulgated by ICAI, Companies (Accounting Standards) Rules, 2006, Governmental Accounting Standards and ICDS. This book would help in understanding on the various methodologies adopted by Ind AS and will be useful to corporates, auditors, accountants, academicians and students at large.

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Chapter 1
Principles of Accounting essential for understanding any GAAP

Introduction

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 form 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 summarising 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 formalised 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 the Companies (Indian Accounting Standards) Rules, 2015 more popularly known as Ind AS.

The arena of the business world and the related transactions are vast and can transient the imagination of human being. Any GAAP, be it Ind AS, AS (ICAI), IFRS, US GAAP, cannot comprehensively deal with all kinds of transaction and entities. Therefore, many GAAPs provide a *Framework* which provides as a guide whenever a transaction which has not been specifically dealt with in any particular standard has to recorded in the books of account. ICAI's *Framework for Preparation and Presentation of Financial Statements* and *Framework* by IASB (currently under revision process) are two such guiding frameworks of relevance for Indian entities. It should also be noted that, the Companies (Accounting Standards) Rules, 2006 as well as Companies (Indian Accounting Standards) Rules, 2015, do not prescribes the framework. However, various Ind AS standards refer to *Framework for Preparation and Presentation of Financial Statements* by ICAI. National Advisory Committee on Accounting Standards (NACAS) should have pronounced Framework to make the literature on the GAAP comprehensive.

Moreover, any 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 or any other GAAP, it would be prudent to revise certain basic accounting principles and the elements of financial statements.

Account

An **account** (in book-keeping) refers to assets, equity, liabilities, income, expenses, and 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, either tangible or intangible, fall under this category. Few examples of tangible real accounts are building, machinery, stock, land, etc. and

goodwill, patents, trademarks, etc. are examples of intangible real accounts.

- **Personal Accounts:** These accounts are related to individuals, firms, companies, etc. A few examples of personal accounts include debtors, creditors, 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 in the light of 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 in cash for ` 20,000.

Accounts Involved	Debit/ Credit	Amount (`)	Rule Applied
Machinery A/c	Debit	20,000	Real Account so A/c Dr. what comes in
To Cash A/c	Credit	20,000	Real Account so A/c Cr. what goes out

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

E.g.: Paid A Ltd. by cheque ` 15,000.

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 (`)	Rule Applied
Salary 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 or the *month* ended December 31, 2015 or 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 its business operations, 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 commission expenses 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 recognised 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 requires 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.

A basic understanding of Accounting Principles, Rules and Accounting Assumptions, as discussed above, are essential for effective accounting which can help the accountant achieve the very purpose of maintaining the books of account, which is to assess and convey the truthful financial performance and

position of the entity to facilitate decision making by both its internal governing body and external users.

Elements of Financial Statements and their recognition on Books of Account

Financial statements portray the financial effects of transactions and other events by grouping them into broad classes according to their economic characteristics. These broad classes are termed the elements of financial statements.

The elements directly related to balance sheet are Assets, Liabilities and Equity and those that are directly related to statement of profit and loss statements are Income and Expenses. The cash flow statement reflects all the above elements. The elements are defined as follows:

Assets: An asset is a resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity.

Liability: A 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.

Equity: Equity is the residual interest in the assets of the entity after deducting all its liabilities.

Income: Income is increase 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.

Expense: Expenses are decreases in economic benefits during the accounting period in the form of outflows or depletions of assets or incurrences of liabilities that result in decrease in equity, other than those relating to distributions to equity participants.

The definition of income encompasses both revenue and gains. Revenue arises in the course of the ordinary activities of an entity and is referred to by a variety of different names including sales, fees, interest, dividends, royalties and rent. Gains represent other items that meet the definition of income and may, or may not, arise

in the course of the ordinary activities of an entity. Gains represent increases in economic benefits and as such are no different in nature from revenue. Hence, they are not regarded as constituting a separate element.

The definition of expenses encompasses losses as well as those expenses that arise in the course of the ordinary activities of the entity. Expenses that arise in the course of the ordinary activities of the entity 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 entity. 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.

Recognition of the elements

Recognition refers to 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 items cost or value can be measured with reliability.

Based on these general criteria, the various elements are recognised in financial statements as follows:

- 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 and 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.

- 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.

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.

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, present value (discounted), etc.

Chapter 2
Applicability of Various Accounting Standards in India

Any Accounting Standards describes the accounting principles, the valuation technique, and the method of applying the principles of accountancy in preparation and presentation of financial position and performance of an entity so that they may present a true and fair view and make ample disclosure of required information in most appropriate manner. Pronouncement of accounting standards reduces/eliminates variations in accounting treatment thereby ensuring consistency and comparability of statements prepared by same entity in different periods or by different entities. Appreciating the need for uniform accounting standards, the Council of Institute of Chartered Accountants of India (ICAI), constituted Accounting Standards Board (ASB) on 21st April, 1977. Thus started the process of pronouncing Accounting Standards in India.

In India currently there are multiple sets of accounting standards that are applicable to different forms and sizes of entities. Governmental Accounting is mainly done on cash basis though of late there has been significant push towards the switch over to accrual basis. Presently, Government at tier 1 and tier 2 level follow Accounting Standards issued by Governmental Accounting Standards Advisory Board (GASAB) and those at tier 3 follow Accounting Standards for Local Bodies issued by Committee on Accounting Standards for Local Bodies (CASLB) of ICAI. These standards and their applicability are discussed in chapter pertaining to Governmental Accounting. Central Board of Direct Taxes (CBDT) has also issued Income Computation and Disclosure Standards (ICDS) for purpose of tax determination. There is separate chapter dealing with ICDS and their applicability has been dealt therein. Beside above standards, there are three sets of Accounting Standards applicable to commercial enterprises. These are:

- Accounting Standards as prescribed by the Institute of Chartered Accountants of India (ICAI);
- Accounting Standards as pronounced by the Ministry of Corporate Affairs (MCA) under ***Companies (Accounting Standards) Rules, 2006*** *[As amended on March 30, 2016];* and
- Accounting Standards as pronounced by MCA under ***Companies (Indian Accounting Standards) Rules, 2015*** *[As amended on March 30, 2016].*

Accounting Standards prescribed by MCA are applicable only to Corporate Entities (Both private limited as well as public limited) whereas those pronounced by ICAI are applicable to all other form of business entities like individuals, partnerships, etc. Besides, there are certain other levels of applicability within each of these standards depending upon the size of the entity. The applicability of various accounting standards are discussed below.

Accounting Standards as prescribed by the Institute of Chartered Accountants of India (ICAI)

The Accounting Standards by ICAI are the original accounting standards of India. However, the accounting standards prepared and issued by the ICAI were mandatory only for its members, who, while discharging their audit function, were required to examine whether the said standards of accounting were complied with. With the amendment of the Companies Act, 1956 through the Companies (Amendment) Act, 1999, accounting standards as well as the manner in which they were to be prescribed, were provided a statutory backing at least for corporate entities. Ever since pronouncement of Companies (Accounting Standards) Rules, 2006, ICAI standards are applicable only for non-corporate entities. Till date 32 standards have been issued by ICAI. However, AS 8 *Research & Development* had been withdrawn since pronouncement of AS 26 *Intangible Assets* in 2002. Moreover, ICAI had issued Accounting Standard (AS) 30, *Financial Instruments: Recognition and Measurement*, Accounting Standard (AS) 31, *Financial Instruments: Presentation* in year 2007 and Accounting Standard (AS) 32, *Financial Instruments: Disclosures* in year 2008. These Accounting Standards were based on related IFRSs and were to

come into effect in respect of accounting periods commencing on or after April 1, 2009, and were to be recommendatory in nature for an initial period of two years, thereafter, these were to become mandatory in respect of accounting periods commencing on or after April 1, 2011. However owing to financial crisis which raised issues regarding accounting treatment of financial instruments, the ICAI withdrew the recommendatory as well as mandatory status of AS 30, AS 31 and AS 32 in March 2011.

The Accounting Standards by ICAI has seen improvement time and again. One of major changes has been made recently in 2016, when ICAI decided to make changes in standards notified by it, in order to harmonise them with amendments made by the Central Government by Companies (Accounting Standards) (Amendment) Rules, 2016. In view of the above, following changes are made in **Accounting Standards issued by the ICAI for non-corporate entities:**

i. AS 6, *Depreciation Accounting* stands withdrawn.

ii. The following Accounting Standards are amended:

   a. AS 2, *Valuation of Inventories*

   b. AS 4, *Contingencies and Events Occurring After the Balance Sheet Date*

   c. AS 10, *Property, Plant and Equipment*

   d. AS 13, *Accounting for Investments*

   e. AS 14, *Accounting for Amalgamations*

   f. AS 21, *Consolidated Financial Statements*

   g. AS 29, *Provisions, Contingent Liabilities and Contingent Assets*

After these amendments 27 standards as issued by ICAI will be applicable to non-corporate entities. The above amendments will come into effect prospectively in respect of accounting periods commencing on or after April 1, 2017. However, early application of the aforementioned amendments is permitted.

The Council, at its 236th meeting, held on September 16-18, 2003, considered the matter relating to applicability of Accounting

Standards to Small and Medium Sized Enterprises (SMEs). The Council decided that for the purpose of applicability of Accounting Standards, enterprises are classified into three categories, viz., Level I, Level II and Level III. Level II and Level III enterprises are considered as SMEs. The criteria for the classification are as follows:

Level I Enterprises

Enterprises which fall in any one or more of the following categories, at any time during the accounting period, are classified as Level I enterprises:

(i) Enterprises whose equity or debt securities are listed whether in India or outside India.

(ii) Enterprises which are in the process of listing their equity or debt securities as evidenced by the board of directors' resolution in this regard.

(iii) Banks including co-operative banks.

(iv) Financial institutions.

(v) Enterprises carrying on insurance business.

(vi) All commercial, industrial and business reporting enterprises, whose turnover for the immediately preceding accounting period on the basis of audited financial statements exceeds ` 50 crore. Turnover does not include 'other income'.

(vii) All commercial, industrial and business reporting enterprises having borrowings, including public deposits, in excess of ` 10 crore at any time during the accounting period.

(viii) Holding and subsidiary enterprises of any one of the above at any time during the accounting period.

It must however, be noted that since pronouncement of Companies (Accounting Standards) Rules, 2006, corporate entities are obliged to follow them (they are in line with ICAI's standards). Therefore, these standards can be said to apply to entities mentioned in pointer (vi) & (vii) above and their holding and subsidiary enterprises, if not covered by the other accounting standards.

Level II Entities (SMEs)

Non-corporate entities which are not Level I entities but fall in any one or more of the following categories are classified as Level II entities:

(i) All commercial, industrial and business reporting entities, whose turnover (excluding other income) exceeds rupees one crore but does not exceed rupees fifty crore[1] in the immediately preceding accounting year.

(ii) All commercial, industrial and business reporting entities having borrowings (including public deposits) in excess of rupees one crore but not in excess of rupees ten crore at any time during the immediately preceding accounting year.

(iii) Holding and subsidiary entities of any one of the above.

Level III Entities

Enterprises which are not covered under Level I and Level II are considered as Level III enterprises.

Level I enterprises are required to comply fully with all the accounting standards. Further no relaxation is given to Level II and Level III enterprises in respect of recognition and measurement principles (except in case of AS 28 Impairment of Assets). Relaxations are provided with regard to disclosure requirements. Accordingly, Level II and Level III enterprises are fully exempted from certain accounting standards which primarily lay down disclosure requirements. In respect of certain other accounting standards, which lay down recognition, measurement and disclosure requirements, relaxations from certain disclosure requirements are given.

Applicability of Companies (Accounting Standards) Rules, 2006

Application of Accounting Standards to companies and to other entities was not mandatory in a true sense until 1999.

1. Revised with effect from the accounting year commencing on or after April 1, 2012. *Prior to revision All commercial, industrial and business reporting entities, whose turnover (excluding other income) exceeds rupees forty lakh but does not exceed rupees fifty crore in the immediately preceding accounting year.*

The Companies (Amendment) Act, 1999 by way of amendment dated 31-10-1998 to S. 211 of the Companies Act, 1956 made it mandatory in application to companies incorporated under the said Act to the extent 'specified' by ICAI. A National Advisory Committee on Accounting Standards was also established under S. 210A(1) of the Act to advise the Central Government about development of Accounting Standards and making them applicable to companies in India. Even after its constitution, the accounting standards as pronounced by ICAI were applicable to companies till 2006.

On 7th December, 2006 Central Government, in consultation with National Advisory Committee on Accounting Standards (NACAS) pronounced Companies (Accounting Standards) Rules, 2006. These consisted of 28 Accounting Standards (AS 1 to AS 7 & AS 9 to AS 29) applicable to corporate entities. Accounting Standard 8 was missing from this list as these standards were based on ICAI standards and AS 8 *Research and Development* had been withdrawn by ICAI pursuant to issue of AS 26 *Intangible Assets* in 2002. Ever since there pronouncement, these standards has been amended a number of times which are as follows:

- Companies (Accounting Standards) Amendment Rules, 2008
- Companies (Accounting Standards) Amendment Rules, 2009
- Companies (Accounting Standards) Amendment Rules, 2011. (Dated December 29, 2011)
- Companies (Accounting Standards) (Second Amendment) Rules, 2011. (Dated December 29, 2011)
- Companies (Accounting Standards) Amendment Rules, 2016. (Dated March 30, 2016)

Most significant changes has been brought by amendment pronounced in March 30, 2016 through Companies (Accounting Standards) (Amendment) Rules, 2016, which are ***applicable from reporting period 2016-17***. Through this amendment, AS 6 *Depreciation Accounting* and AS 10 *Accounting for Fixed Assets* have been subsumed into a single standard viz. AS 10 *Property*, Plant & Equipment. Hence from reporting period 2016-17 onwards 27 accounting standards would be applicable.

For the purpose of applicability of these standards, corporate entities are divided into two class: Small & Medium Sized Companies (SMCs) & Non SMCs. Rule 2(f) of the rules defines "Small and Medium Sized Company" (SMC) as: A company which meets the following conditions at end of the reporting period-

(i) Whose equity or debt securities are **not listed** or are not in the process of listing on any stock exchange, whether in India or outside India;

(ii) Which is not a bank, financial institution or an insurance company;

(iii) Whose turnover (excluding other income) does not exceed rupees fifty crore in the immediately preceding accounting year;

(iv) Which does not have borrowings (including public deposits) in excess of rupees ten crore at any time during the immediately preceding accounting year; and

(v) Which is not a holding or subsidiary company of a company which is not a small and medium-sized company.

Accounting Standards Applicable to all Companies (including SMCs)

AS 1 Disclosures of Accounting Policies

AS 2 Valuation of Inventories

AS 4 Contingencies and Events Occurring after Balance Sheet Date

AS 5 Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies

AS 7 Construction Contracts

AS 9 Revenue Recognition

AS 10 Property, Plant & Equipment

AS 11 Effects of Changes in Foreign Exchange Rates

AS 12 Accounting for Government Grants

AS 13 Accounting for Investments

AS 14 Accounting for Amalgamations

AS 16 Borrowing Costs

AS 18 Related Party Disclosures

AS 22 Accounting for Taxes on Income

AS 24 Discontinuing Operations

AS 26 Intangible Assets

Exemptions for SMCs

AS not Applicable to SMCs

AS 3 Cash Flow Statements

AS 17 Segmental Reporting

AS 21 Consolidated Financial Statements

AS 23 Accounting for Investments in Associates in Consolidated Financial Statements

AS 27 Financial Reporting of Interests in Joint Ventures (to extent dealing with CFS)

AS which provides partial relaxation for SMCs

AS 15 Employee Benefits

AS 19 Leases

AS 20 Earning per Share

AS 28 Impairment of Assets

AS 29 Provisions, Contingent Liabilities and Contingent Assets.

With implementation of Companies (Indian Accounting Standards) Rules, 2015, the scope of Companies (Accounting Standards) Rules, 2006 will reduce as the large and listed corporate, financial institutions and insurance companies will be required to comply with the new standards, in a phased manner, as discussed in the forth coming section.

Applicability of Ind AS for companies *other than* Banks, NBFCs, and Insurance Companies

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.*** or more.
- Companies having net worth of ` 500 crore 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:

- 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 crore; i.e. all listed entity will have to comply by second phase.
- ***Unlisted companies*** other than those covered in Phase I and Phase II whose net worth are more than ` ***250 crore*** but less than ` 500 crore; i.e. all unlisted entity with net worth of more than ` 250 crore will have to apply Ind AS by second phase

- Holding, subsidiary, joint venture or associate companies of above companies.

It should be noted that net worth 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.

Net worth will be determined based on the standalone accounts of the company as on 31st March, 2014 or the first audited period ending after that date.

Roadmap for Banks, NBFCs and Insurance Companies

In pursuance to the budget announcement by the Union Finance Minister, after consultation with the Reserve Bank of India (RBI), Insurance Regulatory and Development Authority (IRDA) and Pension Fund Regulatory and Development Authority (PFRDA), the MCA issued a press release (No. 11/10/2009 CL-V) on 18th January, 2016, announcing the Ind AS roadmap for scheduled commercial banks (excluding regional rural banks [RRBs]), insurers/insurance companies and non-banking financial companies (NBFCs).

Accordingly, under Phase I following will be mandatorily required to adopt Ind AS for accounting period beginning from 1st April, 2018 with comparative information for year ended 31st March, 2018:

- Scheduled commercial banks (excluding RRBs)
- All-India term-lending refinancing institutions (i.e. Exim Bank, NABARD, NHB and SIDBI)
- NBFCs having a net worth of ` 500 crore or more
- Insurers/insurance companies
- Notwithstanding the roadmap for companies, holding, subsidiary, joint venture or associate companies of above (except NBFCs whose holding, subsidiary, joint venture or associate companies may have already adopted Ind AS as per the MCAs roadmap)

Under Phase II, following will be mandatorily required to adopt Ind AS for accounting period beginning from 1st April 2019, with comparative information for year ended 31st March, 2019:

- NBFCs 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 a net worth less than ` 500 crore
- NBFCs that are unlisted companies, having a net worth of ` 250 crore or more but less than ` 500 crore.
- Holding, subsidiary, joint venture or associate companies of companies covered above, other than those companies already covered under the corporate roadmap announced by MCA.

IRDA's Announcement for Insurance Companies

The Insurance Regulatory and Development Authority of India (IRDA), through its order on 17th November, 2015 stated that the insurance sector in India would be converging with International Financial Reporting Standards (IFRS) and subsequently on 7th December, 2015 issued a Discussion Paper on Ind AS implementation in the insurance sector with key recommendations. The IRDA circular issued on 1st March, 2016 provides certainty on the mandate for implementation of Ind AS for all insurers.

Chapter 2A
An insight to Accounting Standards by ICAI and Companies (Accounting Standards) Rules, 2006

ICAI's Accounting Standards

Accounting Standards issued by the ICAI are oldest GAAP in India. Accounting Standards are designed to apply to the general purpose financial statements and other financial reporting, which are subject to the attest function of the members of the ICAI. Accounting Standards were to apply in respect of any enterprise (whether organised in corporate, co-operative or other forms) engaged in commercial, industrial or business activities, irrespective of whether it is profit oriented or it is established for charitable or religious purposes. However, as discussed earlier, after issuance of Companies (Accounting Standards) Rules, 2006, these GAAP are applicable only to non-corporate, non-Governmental profit-making entity. Accounting Standards will not apply to enterprises only carrying on the activities which are not of commercial, industrial or business nature, (e.g., an activity of collecting donations and giving them to flood affected people). Exclusion of an enterprise from the applicability of the Accounting Standards would be permissible only if no part of the activity of such enterprise is commercial, industrial or business in nature. Even if a very small proportion of the activities of an enterprise are considered to be commercial, industrial or business in nature, the Accounting Standards would apply to all its activities including those which are not commercial, industrial or business in nature.

The term 'General Purpose Financial Statements' includes balance sheet, statement of profit and loss, a cash flow statement (wherever applicable) and statements and explanatory notes which form part thereof, issued for the use of various stakeholders, Governments and their agencies and the public. The Accounting Standards are mandatory from the respective date(s) [except exemption

provided for SMEs] mentioned in the Accounting Standard(s). The mandatory status of an Accounting Standard implies that while discharging their attest functions, it will be the duty of the members of the Institute to examine whether the Accounting Standard is complied with in the presentation of financial statements covered by their audit. In the event of any deviation from the Accounting Standard, it will be their duty to make adequate disclosures in their audit reports so that the users of financial statements may be aware of such deviation. Ensuring compliance with the Accounting Standards while preparing the financial statements is the responsibility of the management of the enterprise. Financial Statements cannot be described as complying with the Accounting Standards unless they comply with all the requirements of each applicable Standard.

The following constitutes GAAP notified by ICAI:

- Framework for the Preparation and Presentation of financial Statements
- AS 1 Disclosure of Accounting Policies
- AS 2 Valuation of Inventories
- AS 3 Cash Flow Statements
- AS 4 Contingencies and Events Occurring after the Balance Sheet Date
- AS 5 Net Profit or Loss for the period, Prior Period Items and Changes in Accounting Policies
- AS 7 Construction Contracts (revised 2002)
- AS 9 Revenue Recognition
- AS 10 Property, Plant and Equipment
- AS 11 The Effects of Changes in Foreign Exchange Rates (revised 2003),
- AS 12 Accounting for Government Grants
- AS 13 Accounting for Investments
- AS 14 Accounting for Amalgamations

- AS 15 Employee Benefits (revised 2005)
- AS 16 Borrowing Costs
- AS 17 Segment Reporting
- AS 18 Related Party Disclosures
- AS 19 Leases
- AS 20 Earnings Per Share
- AS 21 Consolidated Financial Statements
- AS 22 Accounting for Taxes on Income.
- AS 23 Accounting for Investments in Associates in Consolidated Financial Statements
- AS 24 Discontinuing Operations
- AS 25 Interim Financial Reporting
- AS 26 Intangible Assets
- AS 27 Financial Reporting of Interests in Joint Ventures
- AS 28 Impairment of Assets
- AS 29 Provisions, Contingent Liabilities and Contingent Assets

Besides, ICAI has also issued Guidance Notes on accounting aspects to provide guidance to members and preparers of financial statements, on matters which may arise in the course of their professional work and on which they may desire assistance in resolving issues which may pose difficulty. Guidance Notes are generally recommendatory in nature. A member should ordinarily follow recommendations in a guidance note relating to an auditing matter except where he is satisfied that in the circumstances of the case, it may not be necessary to do so. Similarly, while discharging his attest function, a member should examine whether the recommendations in a guidance note relating to an accounting matter have been followed or not. If the same have not been followed, the member should consider whether keeping in view the circumstances of the case, a disclosure in his report

is necessary. There are however few guidance notes in case of which the Council has specifically stated that they should be considered as mandatory on members while discharging their attest function. Moreover, a thorough understanding of these standards are essential for preparers and auditors of financial statements as even other GAAP like paras 10 & 12 of Ind AS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* requires that in the absence of an Ind AS that specifically applies to a transaction, other event or condition, management shall use its judgment in developing and applying an accounting policy and in making is such selection management may also first consider the most recent pronouncements of International Accounting Standards Board and in absence thereof those of the other standards setting bodies that use a similar conceptual framework to develop accounting standards, other accounting literature and accepted industry practices. The list of Guidance Notes on Accounting Issued by ICAI are as follows:

- *Guidance Note on Accounting for Oil and Gas Producing Activities (Ind AS)*
- *Guidance Note on Combined and Carve–Out Financial Statements (September 2016)*
- *Guidance Note on Accounting for Real Estate Transactions (for entities to whom Ind AS is applicable)*
- *Guidance Note on Accounting for Depreciation in companies in the context of Schedule II to the Companies Act, 2013*
- *Guidance Note on Accounting for Derivative contracts (Issued 2015)*
- *Guidance Note on Accounting for Expenditure on Corporate Social Responsibility Activities (Issued May 15, 2015)*
- *Guidance Note on Accounting for Oil and Gas Producing Activities (revised 2013)*
- *Guidance Note on Accounting for Corporate Dividend Tax*
- *Guidance Note on Accounting Treatment for Excise Duty*

- *Guidance Note on Accounting for Employee Share-based Payments*
- *Guidance Note on Accounting for State-level Value Added Tax*
- *Guidance Note on Accounting by Schools*
- *Guidance Note on Accounting for Credit Available in Respect of Minimum Alternative Tax under the Income-tax Act, 1961*
- *Guidance Note on Accounting for Real Estate Transactions (Revised 2012)*
- *Guidance Note on Measurement of Income-tax for Interim Financial Reporting in the context of AS 25.*
- *Guidance Note on Accounting Treatment for MODVAT/CENVAT*
- *Guidance Note on Applicability of AS 25 to Interim Financial Results*
- *Guidance Note on Turnover in case of Contractors*
- *Guidance Note on Accounting for Rate Regulated Activities*
- *Guidance Note on Accounting for Self-generated Certified Emission Reductions (CERs) (Issued 2012)*
- *Guidance Note on Accounting and Auditing of Political Parties*
- *Guidance Note on Terms Used in Financial Statements*
- *Guidance Note on Accrual Basis of Accounting*
- *Guidance Note on Accounting by Dot-Com Companies*

Companies (Accounting Standards) Rules, 2006

Applicability of Company Accounting Standards have been dealt in the previous chapter. These standards are in harmony with the standards issued by ICAI, except for use of few terms like 'illustration' instead of 'example' or 'accounting standard' instead of statement. After Companies (Accounting Standards) (Amendment) Rules, 2016, the Council of the Institute of Chartered Accountants of India (ICAI) at its 359th meeting held on August 16-17, 2016, decided that the amendments notified by the Central Government after appropriate changes shall also be incorporated

in the Accounting Standards issued by the ICAI and accordingly the amendments were made. Hence, both the standards now are replica of each other and therefore discussed together here to avoid duplication.

For the purpose of our standing we will discuss the above standards in following broad categories:

A. Standards pertaining to presentation of financial statements

B. Standards dealing with Group Entities

C. Standards pertaining to Assets

D. Standards dealing with liabilities and expenditures

E. Standards dealing with revenue and

F. Standards dealing with disclosures in financial statements

A. Standards Pertaining to Presentation

Standards falling under this section are:

AS 3 Cash Flow Statements

AS 4 Contingencies and Events Occurring after Balance Sheet Date

AS 5 Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies

AS 11 Effects of Changes in Foreign Exchange Rates

AS 17 Segmental Reporting

AS 20 Earnings per Share

AS 25 Interim Financial Reporting

Let us discuss these standards in some details:

AS 3: Cash Flow Statements

AS 3 is not mandatory for SMCs. Other enterprises should prepare a cash flow statement and should present it for each period for which financial statements are presented. It is useful in providing users of financial statements with a basis to assess the ability

of the enterprise to generate cash and cash equivalent and also timing of cash flows are important to make economic decisions. This statement deals with the inflow and outflow of cash and cash equivalent, where cash comprises of cash in hand and demand deposits with banks and cash equivalents are short term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

For the purpose of the standard, cash flows are presented categorised as those derived from:

- *Operating activities* which are the principal revenue-producing activities of the enterprise and other activities that are not investing or financing activities;
- *Investing activities* which are the acquisition and disposal of long-term assets and other investments not included in cash equivalents; and
- *Financing activities* which are activities that result in changes in the size and composition of the owners' capital (including preference share capital in the case of a company) and borrowings of the enterprise.

Certain Examples of Operating, Investing and Financial activities are as follows:

Operating Activities	Investing Activities	Financing Activities
Cash receipts from the sale of goods / services, royalties, fees, commissions and other revenue	Cash payments and receipts to acquire or dispose fixed assets (including intangibles)	Cash proceeds from issuing shares or other similar instruments
Cash payments to suppliers for goods and services and to employees or on their behalf	Cash payments/ receipt to acquire/ dispose shares, warrants or debt instruments of other enterprises and interests in joint ventures (other	Cash proceeds from issuing debentures, loans, notes, bonds, and other short or long-term borrowings

Operating Activities	Investing Activities	Financing Activities
	than payments for those instruments considered to be cash equivalents and those held for dealing or trading purposes)	
Cash receipts and cash payments of an insurance enterprise for premiums and claims, annuities and other policy benefits	Cash advances and loans made to third parties and receipt thereof from repayment of such loans / advances (other than advances and loans made by a financial enterprise)	Cash repayments of amounts borrowed
Cash payments or refunds of income taxes unless they can be specifically identified with financing and investing activities	Cash payments/ receipts for futures contracts, forward contracts, option contracts and swap contracts except when the contracts are held for dealing or trading purposes, or the payments are classified as financing activities	Cash flows from interest and dividends received in case on non financial enterprises
Cash receipts and payments relating to futures contracts, forward contracts, option contracts and swap contracts when the contracts are held for dealing or trading purposes	Dividends paid.	

Operating Activities	Investing Activities	Financing Activities
Cash flows arising from interest paid and interest and dividends received in the case of a **financial enterprise**	Cash flows arising from interest paid in case of non financial enterprises	
Cash flows arising from taxes on income unless they can be specifically identified with financing and investing activities	The aggregate cash flows arising from acquisitions and from disposals of subsidiaries or other business units	

Reporting of Cash Flows

An enterprise should report cash flows from **operating activities** using either:

(a) The ***direct method***, whereby major classes of gross cash receipts and gross cash payments are disclosed; or

(b) The ***indirect method***, whereby net profit or loss is adjusted for the effects of transactions of a non-cash nature, any deferrals or accruals of past or future operating cash receipts or payments, and items of income or expense associated with investing or financing cash flows.

An enterprise should report separately major classes of gross cash receipts and gross cash payments arising from investing and financing activities. However, the cash flows arising from the following operating, investing or financing activities may be reported on a net basis:

(a) Cash receipts and payments on behalf of customers when the cash flows reflect the activities of the customer rather than those of the enterprise for instance the acceptance and repayment of demand deposits by a bank or rents collected on behalf of, and paid over to, the owners of properties; and

(b) Cash receipts and payments for items in which the turnover is quick, the amounts are large, and the maturities are short

for instance cash receipts and payments for the acceptance and repayment of deposits with a fixed maturity date or cash advances and loans made to customers and the repayment of those advances and loans.

The cash flows associated with extraordinary items should be classified as arising from operating, investing or financing activities as appropriate and separately disclosed.

Cash flows from interest and dividends received and paid and from taxes on income should each be disclosed separately.

Reporting of Foreign Currency Cash Flows

Cash flows arising from transactions in a foreign currency should be recorded in an enterprise's reporting currency by applying to the foreign currency amount the exchange rate between the reporting currency and the foreign currency at the date of the cash flow. A rate that approximates the actual rate may be used if the result is substantially the same as would arise if the rates at the dates of the cash flows were used. The effect of changes in exchange rates on cash and cash equivalents held in a foreign currency should be reported as a separate part of the reconciliation of the changes in cash and cash equivalents during the period.

Reporting for Investments in Subsidiaries, Associates and Joint Ventures

When accounting for an investment in an associate or a subsidiary or a joint venture, an investor restricts its reporting in the cash flow statement to the cash flows between itself and the investee/ joint venture, for example, cash flows relating to dividends and advances.

The aggregate cash flows arising from acquisitions and from disposals of subsidiaries or other business units should be presented separately and classified as investing activities. An enterprise should disclose, in aggregate, in respect of both acquisition and disposal of subsidiaries or other business units during the period each of the following:

- The total purchase or disposal consideration; and
- The portion of the purchase or disposal consideration discharged by means of cash and cash equivalents.

Other Disclosures

- An enterprise should disclose the components of cash and cash equivalents and should present a reconciliation of the amounts in its cash flow statement with the equivalent items reported in the balance sheet
- An enterprise should disclose, together with a commentary by management, the amount of significant cash and cash equivalent balances held by the enterprise that are not available for use by it.

AS 4 Contingencies and Events Occurring after Balance Sheet Date

This standard deals with

- Contingencies which is a condition or situation, the ultimate outcome of which, gain or loss, will be known or determined only on the occurrence, or non-occurrence, of one or more uncertain future events, and
- Events occurring after the balance sheet date which are those significant events, both favourable and unfavourable, that occur between the balance sheet date and the date on which the financial statements are approved by the Board of Directors in the case of a company. Two types of events can be identified:
    - o Those which provide further evidence of conditions that existed at the balance sheet date; and
    - o Those which are indicative of conditions that arose subsequent to the balance sheet date.

Treatment of Contingencies and related Disclosure

The amount of a **contingent loss** should be provided for by a charge in the statement of profit and loss in following circumstances only:

(a) If it is probable that future events will confirm that, after taking into account any related probable recovery, an asset has been impaired or a liability has been incurred as at the balance sheet date, and

(b) A reasonable estimate of the amount of the resulting loss can be made.

The existence of a contingent loss should be disclosed in the financial statements if either of the conditions mentioned above is not met, unless the possibility of a loss is remote. **Contingent gains *should not*** be recognised in the financial statements.

The following information should be disclosed where the above conditions are met:

(a) The nature of the contingency;

(b) The uncertainties which may affect the future outcome;

(c) An estimate of the financial effect, or a statement that such an estimate cannot be made.

Treatment of Events occurring after the Balance Sheet Date

Assets and liabilities should be adjusted for events occurring after the balance sheet date that provide additional evidence to assist the estimation of amounts relating to conditions existing at the balance sheet date or that indicate that the fundamental accounting assumption of going concern (i.e., the continuance of existence or sub-stratum of the enterprise) is not appropriate.

After the amendment in 2016[1], if an enterprise declares dividends to shareholders after the balance sheet date, the enterprise should not recognise those dividends as a liability at the balance sheet date unless a statute requires otherwise. Such dividends should be disclosed in notes.

Disclosure should be made in the report of the approving authority of those events occurring after the balance sheet date that represent material changes and commitments affecting the financial position of the enterprise. If disclosure of events occurring after the balance sheet date in the report of the approving authority, the following information should be provided:

1 The amended accounting standards are applicable from Financial Year 2016-17 onwards.

(a) The nature of the event;

(b) An estimate of the financial effect, or a statement that such an estimate cannot be made.

AS 5: Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies

The objective of this Standard is to prescribe the classification and disclosure of certain items in the statement of profit and loss so that all enterprises prepare and present such a statement on a uniform basis. It is applied by an enterprise in presenting profit or loss from ordinary activities, extraordinary items and prior period items in the statement of profit and loss, in accounting for changes in accounting estimates, and in disclosure of changes in accounting policies.

Important Terms

Ordinary activities are any activities which are undertaken by an enterprise as part of its business and such related activities in which the enterprise engages in furtherance of, incidental to, or arising from, these activities.

Extraordinary items are income or expenses that arise from events or transactions that are clearly distinct from the ordinary activities of the enterprise and, therefore, are not expected to recur frequently or regularly.

Prior period items are income or expenses which arise in the current period as a result of errors or omissions in the preparation of the financial statements of one or more prior periods.

Accounting policies are the specific accounting principles and the methods of applying those principles adopted by an enterprise in the preparation and presentation of financial statements.

Key Points

- The net profit or loss for the period comprises of profit or loss from ordinary activities and extraordinary items that forms components, each of which should be disclosed on the face of the statement of profit and loss.

- Extraordinary items should be disclosed in the statement of profit and loss as a part of net profit or loss for the period. The nature and the amount of each extraordinary item should be separately disclosed in the statement of profit and loss in a manner that its impact on current profit or loss can be perceived.
- When items of income and expense within profit or loss from ordinary activities are of such size, nature or incidence that their disclosure is relevant to explain the performance of the enterprise for the period, the nature and amount of such items should be disclosed separately.
- The nature and amount of prior period items should be separately disclosed in the statement of profit and loss in a manner that their impact on the current profit or loss can be perceived.
- The effect of a change in an accounting estimate should be included in the determination of net profit or loss in the period of the change, if the change affects the period only or the period of the change and future periods, if the change affects both.
- The effect of a change in an accounting estimate should be classified using the same classification in the statement of profit and loss as was used previously for the estimate.
- The nature and amount of a change in an accounting estimate which has a material effect in the current period, or which is expected to have a material effect in subsequent periods, should be disclosed. If it is impracticable to quantify the amount, this fact should be disclosed.
- A change in an accounting policy should be made only if the adoption of a different accounting policy is required by statute or for compliance with an accounting standard or if it is considered that the change would result in a more appropriate presentation of the financial statements of the enterprise.
- Any change in an accounting policy which has a material effect should be disclosed. The impact of, and the

adjustments resulting from, such change, if material, should be shown in the financial statements of the period in which such change is made, to reflect the effect of such change. Where the effect of such change is not ascertainable, wholly or in part, the fact should be indicated.

AS 11: The Effects of Changes in Foreign Exchange Rates

This Standard should be applied in accounting for transactions in foreign currencies; and in translating the financial statements of foreign operations.

Key Definitions

Exchange difference is the difference resulting from reporting the same number of units of a foreign currency in the reporting currency at different exchange rates.

Foreign operation is a subsidiary, associate, joint venture or branch of the reporting enterprise, the activities of which are based or conducted in a country other than the country of the reporting enterprise.

Forward exchange contract means an agreement to exchange different currencies at a forward rate.

Integral foreign operation is a foreign operation, the activities of which are an integral part of those of the reporting enterprise.

Non-integral foreign operation is a foreign operation that is not an integral foreign operation.

Monetary items are money held and assets and liabilities to be received or paid in fixed or determinable amounts of money.

Non-monetary items are assets and liabilities other than monetary items

Net investment in a non-integral foreign operation is the reporting enterprise's share in the net assets of that operation.

Reporting currency is the currency used in presenting the financial statements.

Key Points

- A foreign currency transaction should be recorded, on initial recognition in the reporting currency, by applying to the foreign currency amount the exchange rate between the reporting currency and the foreign currency at the date of the transaction.
- On subsequent date:
  - o Foreign currency monetary items should be reported using the closing rate;
  - o Non-monetary items which are carried in terms of historical cost denominated in a foreign currency should be reported using the exchange rate at the date of the transaction; and
  - o Non-monetary items which are carried at fair value or other similar valuation denominated in a foreign currency should be reported using the exchange rates that existed when the values were determined.
- Exchange differences arising on the settlement of monetary items or on reporting an enterprise's monetary items at rates different from those at which they were initially recorded during the period, or reported in previous financial statements, should be recognised as income or as expenses in the period in which they arise.
- Exchange differences arising on a monetary item that, in substance, forms part of an enterprise's net investment in a non-integral foreign operation should be accumulated in a foreign currency translation reserve in the enterprise's financial statements until the disposal of the net investment, at which time they should be recognised as income or as expenses.
- The financial statements of an integral foreign operation should be translated using the principles and procedures as if the transactions of the foreign operation had been those of the reporting enterprise itself.
- In translating the financial statements of a non-integral foreign operation for incorporation in its financial statements, the reporting enterprise should use the following procedures:

(a) The assets and liabilities, both monetary and non-monetary, of the non-integral foreign operation should be translated at the closing rate;

(b) Income and expense items of the non-integral foreign operation should be translated at exchange rates at the dates of the transactions; and

(c) all resulting exchange differences should be accumulated in a foreign currency translation reserve until the disposal of the net investment.

- On the disposal of a non-integral foreign operation, the cumulative amount of the exchange differences which have been deferred and which relate to that operation should be recognised as income or as expenses

- When there is a change in the classification of a foreign operation, the translation procedures applicable to the revised classification should be applied from the date of the change in the classification.

- The premium or discount arising at the inception of a forward exchange contract should be amortised as expense or income over the life of the contract. Exchange differences on such a contract should be recognised in the statement of profit and loss in the reporting period in which the exchange rates change. Any profit or loss arising on cancellation or renewal of such a forward exchange contract should be recognised as income or as expense for the period.

- An enterprise should disclose the amount of exchange differences included in the net profit or loss for the period; and net exchange differences accumulated in foreign currency translation reserve as a separate component of shareholders' funds, and a reconciliation of the amount of such exchange differences at the beginning and end of the period.

AS 17 Segmental Reporting

The objective of this Standard is to establish principles for reporting financial information, about the different types of products and services an enterprise produces and the different geographical areas in which it operates. This Standard should be

applied in presenting general purpose financial statements. Though this Standard is not mandatory for Small and Medium Sized Companies, they should be encouraged to follow it.

If a single financial report contains both consolidated financial statements and the separate financial statements of the parent, segment information need be presented only on the basis of the consolidated financial statements.

Important Terms

A ***business segment*** is a distinguishable component of an enterprise that is engaged in providing an individual product or service or a group of related products or services and that is subject to risks and returns that are different from those of other business segments. Factors that should be considered in determining whether products or services are related include:

(a) The nature of the products or services;

(b) The nature of the production processes;

(c) The type or class of customers for the products or services;

(d) The methods used to distribute the products or provide the services; and

(e) If applicable, the nature of the regulatory environment, for example, banking, insurance, or public utilities.

A ***geographical segment*** is a distinguishable component of an enterprise that is engaged in providing products or services within a particular economic environment and that is subject to risks and returns that are different from those of components operating in other economic environments. Factors that should be considered in identifying geographical segments include:

(a) Similarity of economic and political conditions;

(b) Relationships between operations in different geographical areas;

(c) Proximity of operations;

(d) Special risks associated with operations in a particular area;

(e) Exchange control regulations; and

(f) The underlying currency risks.

A ***reportable segment*** is a business segment or a geographical segment identified on the basis of foregoing definitions for which segment information is required to be disclosed by this Standard.

Key Points

- The dominant source and nature of risks and returns of an enterprise should govern whether its primary segment reporting format will be business segments or geographical segments. If the risks and returns of an enterprise are affected predominantly by differences in the products and services it produces, its primary format for reporting segment information should be business segments, with secondary information reported geographically. Similarly, if the risks and returns of the enterprise are by the fact that it operates in different countries or other geographical areas, its primary format for reporting segment information should be geographical segments, with secondary information reported for groups of related products and services.
- Internal organisation and management structure of an enterprise and its system of internal financial reporting to the board of directors and the chief executive officer should normally be the basis for identifying the predominant source and nature of risks and differing rates of return facing the enterprise.
- Business and geographical segments of an enterprise for external reporting purposes should be those organisational units for which information is reported to the board of directors and to the chief executive officer for the purpose of evaluating the unit's performance and for making decisions about future allocations of resources.
- A business segment or geographical segment should be identified as a reportable segment if:

  (a) Its revenue from sales to external customers and from transactions with other segments is 10 per cent or more of the total revenue, external and internal, of all segments; or

(b) Its segment result, whether profit or loss, is 10 per cent or more of –

   (i) The combined result of all segments in profit, or

   (ii) The combined result of all segments in loss, whichever is greater in absolute amount; or

(c) Its segment assets are 10 per cent or more of the total assets of all segments.

- Other segments may also be reported separately if desired by the management.
- If total external revenue attributable to reportable segments constitutes less than 75 per cent of the total enterprise revenue, additional segments should be identified as reportable segments, even if they do not meet the 10 per cent thresholds in paragraph 27, until at least 75 per cent.
- Segment information should be prepared in conformity with the accounting policies adopted for preparing and presenting the financial statements of the enterprise as a whole.
- Assets and liabilities that relate jointly to two or more segments should be allocated to segments if, and only if, their related revenues and expenses also are allocated to those segments.
- An enterprise should disclose the following for each reportable segment:

  (a) Segment revenue, classified into segment revenue from sales to external customers and segment revenue from transactions with other segments;

  (b) Segment result;

  (c) Total carrying amount of segment assets;

  (d) Total amount of segment liabilities;

  (e) Total cost incurred during the period to acquire segment assets that are expected to be used during more than one period (tangible and intangible fixed assets);

(f) Total amount of expense included in the segment result for depreciation and amortisation in respect of segment assets for the period; and

(g) Total amount of significant non-cash expenses, other than depreciation and amortisation in respect of segment assets, that were included in segment expense and, therefore, deducted in measuring segment result.

- An enterprise should present a reconciliation between the information disclosed for reportable segments and the aggregated information in the enterprise financial statements. In presenting the reconciliation, segment revenue should be reconciled to enterprise revenue; segment result should be reconciled to enterprise net profit or loss; segment assets should be reconciled to enterprise assets; and segment liabilities should be reconciled to enterprise liabilities.
- Changes in accounting policies adopted for segment reporting that have a material effect on segment information should be disclosed. Such disclosure should include a description of the nature of the change, and the financial effect of the change if it is reasonably determinable.

AS 20 Earnings Per Share

The objective of this Standard is to prescribe principles for the determination and presentation of earnings per share which will improve comparison of performance among different enterprises for the same period and among different accounting periods for the same enterprise. This Standard should be applied by all companies. However, a Small and Medium Sized Company, may not disclose diluted earnings per share. In consolidated financial statements, the information required by this Statement should be presented on the basis of consolidated information.

Important Terms

An ***equity share*** is a share other than a preference share.

A ***preference share*** is a share carrying preferential rights to dividends and repayment of capital.

A ***potential equity share*** is a financial instrument or other contract that entitles, or may entitle, its holder to equity shares.

Share warrants or options are financial instruments that give the holder the right to acquire equity shares.

Key Points

- An enterprise should present basic and diluted earnings per share on the face of the statement of profit and loss for each class of equity shares that has a different right to share in the net profit for the period. An enterprise should present basic and diluted earnings per share with equal prominence for all periods presented.
- Basic earnings per share should be calculated by dividing the net profit or loss for the period attributable to equity shareholders by the weighted average number of equity shares outstanding during the period
- For the purpose of calculating basic earnings per share, the net profit or loss for the period attributable to equity shareholders should be the net profit or loss for the period after deducting preference dividends and any attributable tax thereto for the period.
- For the purpose of calculating basic earnings per share, the number of equity shares should be the weighted average number of equity shares outstanding during the period.
- The weighted average number of equity shares outstanding during the period and for all periods presented should be adjusted for events, other than the conversion of potential equity shares, that have changed the number of equity shares outstanding, without a corresponding change in resources.
- For the purpose of calculating diluted earnings per share, the net profit or loss for the period attributable to equity shareholders and the weighted average number of shares outstanding during the period should be adjusted for the effects of all dilutive potential equity shares.
- For the purpose of calculating diluted earnings per share, the amount of net profit or loss for the period attributable

to equity shareholders, should be adjusted by the following, after taking into account any attributable change in tax expense for the period:

(a) Any dividends on dilutive potential equity shares which have been deducted in arriving at the net profit attributable to equity shareholders

(b) Interest recognised in the period for the dilutive potential equity shares; and

(c) Any other changes in expenses or income that would result from the conversion of the dilutive potential equity shares.

- For the purpose of calculating diluted earnings per share, the number of equity shares should be the aggregate of the weighted average number of equity, and the weighted average number of equity shares which would be issued on the conversion of all the dilutive potential equity shares into equity shares. Dilutive potential equity shares should be deemed to have been converted into equity shares at the beginning of the period or, if issued later, the date of the issue of the potential equity shares.
- For the purpose of calculating diluted earnings per share, an enterprise should assume the exercise of dilutive options and other dilutive potential equity shares of the enterprise. The assumed proceeds from these issues should be considered to have been received from the issue of shares at fair value. The difference between the number of shares issuable and the number of shares that would have been issued at fair value should be treated as an issue of equity shares for no consideration.
- Potential equity shares should be treated as dilutive when, and only when, their conversion to equity shares would decrease net profit per share from continuing ordinary operations.
- If the number of equity or potential equity shares outstanding increases as a result of a bonus issue or share split or decreases as a result of a reverse share split (consolidation

of shares), the calculation of basic and diluted earnings per share should be adjusted for all the periods presented. If these changes occur after the balance sheet date but before the date on which the financial statements are approved by the board of directors, the per share calculations for those financial statements and any prior period financial statements presented should be based on the new number of shares. When per share calculations reflect such changes in the number of shares, that fact should be disclosed.

AS 25 Interim Financial Reporting

The objective of this Standard is to prescribe the minimum content of an interim financial report and to prescribe the principles for recognition and measurement in a complete or condensed financial statements for an interim period. This Standard does not mandate which enterprises should be required to present interim financial reports, how frequently, or how soon after the end of an interim period. If an enterprise is required or elects to prepare and present an interim financial report, it should comply with this Standard.

Important Terms

Interim period is a financial reporting period shorter than a full financial year.

Interim financial report means a financial report containing either a complete set of financial statements or a set of condensed financial statements (as described in this Standard) for an interim period.

Important Points

- An interim financial report should include, at a minimum, the following components:

  (a) Condensed balance sheet;

  (b) Condensed statement of profit and loss;

  (c) Condensed cash flow statement; and

  (d) Selected explanatory notes.

- If an enterprise prepares and presents a complete set of financial statements in its interim financial report, the form and content of those statements should conform to the requirements as applicable to annual complete set of financial statements.
- An enterprise should include the following information, as a minimum, in the notes to its interim financial statements, if material and if not disclosed elsewhere in the interim financial report:
  - (a) A statement that the same accounting policies are followed in the interim financial statements as those followed in the most recent annual financial statements or, if those policies have been changed, a description of the nature and effect of the change;
  - (b) Explanatory comments about the seasonality of interim operations;
  - (c) The nature and amount of items affecting assets, liabilities, equity, net income, or cash flows that are unusual because of their nature, size, or incidence
  - (d) The nature and amount of changes in estimates of amounts reported in prior interim periods of the current financial year or changes in estimates of amounts reported in prior financial years, if those changes have a material effect in the current interim period;
  - (e) Issuances, buy-backs, repayments and restructuring of debt, equity and potential equity shares;
  - (f) Dividends, aggregate or per share (in absolute or percentage terms), separately for equity shares and other shares;
  - (g) Segment revenue, segment capital employed (segment assets minus segment liabilities) and segment result
  - (h) Material events subsequent to the end of the interim period that have not been reflected in the financial statements for the interim period;

(i) The effect of changes in the composition of the enterprise during the interim period, such as amalgamations, acquisition or disposal of subsidiaries and long-term investments, restructurings, and discontinuing operations; and

(j) Material changes in contingent liabilities since the last annual balance sheet date.

- Interim reports should include interim financial statements (condensed or complete) for periods as follows:

  (a) Balance sheet as of the end of the current interim period and a comparative balance sheet as of the end of the immediately preceding financial year;

  (b) Statements of profit and loss for the current interim period and cumulatively for the current financial year to date, with comparative statements of profit and loss for the comparable interim periods (current and year-to-date) of the immediately preceding financial year;

  (c) Cash flow statement cumulatively for the current financial year to date, with a comparative statement for the comparable year to-date period of the immediately preceding financial year.

- In deciding how to recognise, measure, classify, or disclose an item for interim financial reporting purposes, materiality should be assessed in relation to the interim period financial data.

- If an estimate of an amount reported in an interim period is changed significantly during the final interim period of the financial year but a separate financial report is not prepared and presented for that final interim period, the nature and amount of that change in estimate should be disclosed in a note to the annual financial statements for that financial year.

- Revenues that are received seasonally or occasionally within a financial year should not be anticipated or deferred as of an interim date if anticipation or deferral would not be appropriate at the end of the enterprise's financial year.

- Costs that are incurred unevenly during an enterprise's financial year should be anticipated or deferred for interim reporting purposes if, and only if, it is also appropriate to anticipate or defer that type of cost at the end of the financial year.

B. Standards dealing with Group Entities

Standards in this category are:

AS 14 Accounting for Amalgamations

AS 21 Consolidated Financial Statements

AS 23 Accounting for Investments in Associates in Consolidated Financial Statements

AS 27 Financial Reporting in Interests in Joint Ventures

AS 14 Accounting for Amalgamations

This standard deals with accounting for amalgamations and the treatment of any resultant goodwill or reserves.

Important Terms

Amalgamation means an amalgamation pursuant to the provisions of the Companies Act, 2013 or any other statute which may be applicable to companies.

Pooling of interests is a method of accounting for amalgamations the object of which is to account for the amalgamation as if the separate businesses of the amalgamating companies were intended to be continued by the transferee company. Accordingly, only minimal changes are made in aggregating the individual financial statements of the amalgamating companies.

Amalgamation in the nature of merger is an amalgamation which satisfies all the following conditions.

(i) All the assets and liabilities of the transferor company become, after amalgamation, the assets and liabilities of the transferee company.

(ii) Shareholders holding not less than 90% of the face value of the equity shares of the transferor company (other than the

equity shares already held therein, immediately before the amalgamation, by the transferee company or its subsidiaries or their nominees) become equity shareholders of the transferee company by virtue of the amalgamation.

(iii) The consideration for the amalgamation receivable by those equity shareholders of the transferor company who agree to become equity shareholders of the transferee company is discharged by the transferee company wholly by the issue of equity shares in the transferee company, except that cash may be paid in respect of any fractional shares.

(iv) The business of the transferor company is intended to be carried on, after the amalgamation, by the transferee company.

(v) No adjustment is intended to be made to the book values of the assets and liabilities of the transferor company when they are incorporated in the financial statements of the transferee company except to ensure uniformity of accounting policies.

Amalgamation in the nature of purchase is an amalgamation which does not satisfy any one or more of the conditions of amalgamation in nature of merger.

Consideration for the amalgamation means the aggregate of the shares and other securities issued and the payment made in the form of cash or other assets by the transferee company to the shareholders of the transferor company.

Key points

- An amalgamation may be either an amalgamation in the nature of merger, or an amalgamation in the nature of purchase
- When an amalgamation is considered to be an amalgamation in the nature of merger, it should be accounted for under the pooling of interests method.
- In pooling of interest method:
  - o The assets, liabilities and reserves (whether capital or revenue or arising on revaluation) of the transferor company should be recorded at their existing carrying

amounts and in the same form as at the date of the amalgamation. The balance of the Profit and Loss Account of the transferor company should be aggregated with the corresponding balance of the transferee company or transferred to the General Reserve, if any

- o A uniform set of accounting policies should be adopted following the amalgamation. The effects on the financial statements of any changes in accounting policies should be reported in accordance with AS 5
- o The difference between the amount recorded as share capital issued (plus any additional consideration in the form of cash or other assets) and the amount of share capital of the transferor company should be adjusted in reserves.

- When an amalgamation is considered to be an amalgamation in the nature of purchase, it should be accounted for under the purchase method.
- In purchase method:
  - o The assets and liabilities of the transferor company should be incorporated at their existing carrying amounts or, alternatively, the consideration should be allocated to individual identifiable assets and liabilities on the basis of their fair values at the date of amalgamation. The reserves (whether capital or revenue or arising on revaluation) of the transferor company, other than the statutory reserves, should not be included.
  - o Any excess of the amount of the consideration over the value of the net assets of the transferor company acquired by the transferee company should be recognised in the transferee company's financial statements as goodwill arising on amalgamation. If the amount of the consideration is lower than the value of the net assets acquired, the difference should be treated as Capital Reserve.

- The consideration for the amalgamation should include any non-cash element at fair value. In case of issue of securities, the value fixed by the statutory authorities may be taken to be the fair value. In case of other assets, the fair value may be determined by reference to the market value of the assets given up. Where the market value of the assets given up cannot be reliably assessed, such assets may be valued at their respective net book values.
- Where the scheme of amalgamation provides for an adjustment to the consideration contingent on one or more future events, the amount of the additional payment should be included in the consideration if payment is probable and a reasonable estimate of the amount can be made. In all other cases, the adjustment should be recognised as soon as the amount is determinable.
- For all amalgamations, the following disclosures should be made in the first financial statements following the amalgamation:
  (a) Names and general nature of business of the amalgamating companies;
  (b) Effective date of amalgamation for accounting purposes;
  (c) The method of accounting used to reflect the amalgamation; and
  (d) Particulars of the scheme sanctioned under a statute.

AS 21 Consolidated Financial Statements

This Standard should be applied in the preparation and presentation of consolidated financial statements for a group of enterprises under the control of a parent. This Standard should also be applied in accounting for investments in subsidiaries in the separate financial statements of a parent.

Important Terms

Control is:

(a) The ownership, directly or indirectly through subsidiary(ies), of more than one-half of the voting power of an enterprise; or

(b) Control of the composition of the board of directors in the case of a company or of the composition of the corresponding governing body in case of any other enterprise so as to obtain economic benefits from its activities.

A ***subsidiary*** is an enterprise that is controlled by another enterprise (known as the parent).

A ***parent*** is an enterprise that has one or more subsidiaries.

A ***group*** is a parent and all its subsidiaries.

Consolidated financial statements are the financial statements of a group presented as those of a single enterprise.

Equity is the residual interest in the assets of an enterprise after deducting all its liabilities.

Minority interest is that part of the net results of operations and of the net assets of a subsidiary attributable to interests which are not owned, directly or indirectly through subsidiary(ies), by the parent.

Key Points

- A parent which presents consolidated financial statements should present these statements in addition to its separate financial statements.
- A parent which presents consolidated financial statements should consolidate all subsidiaries, domestic as well as foreign, except when
  - o Control is intended to be temporary because the subsidiary is acquired and held exclusively with a view to its subsequent disposal in the near future; or
  - o It operates under severe long-term restrictions which significantly impair its ability to transfer funds to the parent.
- In preparing consolidated financial statements, the financial statements of the parent and its subsidiaries should be combined on a line by line basis by adding together like items of assets, liabilities, income and expenses. In order that the consolidated financial statements present financial information about the group as that of a single enterprise.

- Where the carrying amount of the investment in the subsidiary is different from its cost, the carrying amount is considered for the purpose of above computations.
- Intragroup balances and intragroup transactions and resulting unrealised profits should be eliminated in full. Unrealised losses resulting from intragroup transactions should also be eliminated unless cost cannot be recovered.
- Minority interests should be presented in the consolidated balance sheet separately from liabilities and the equity of the parent's shareholders. Minority interests in the income of the group should also be separately presented.
- In a parent's separate financial statements, investments in subsidiaries should be accounted for in accordance with Accounting Standard (AS) 13, Accounting for Investments.

AS 23 Accounting for Investments in Associates in Consolidated Financial Statements

The objective of this Standard is to set out principles and procedures for recognising, in the consolidated financial statements, the effects of the investments in associates on the financial position and operating results of a group. It should be applied in accounting for investments in associates in the preparation and presentation of consolidated financial statements by an investor.

Important terms

An ***associate*** is an enterprise in which the investor has significant influence and which is neither a subsidiary nor a joint venture of the investor.

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

A ***subsidiary*** is an enterprise that is controlled by another enterprise (known as the parent).

A ***parent*** is an enterprise that has one or more subsidiaries. A group is a parent and all its subsidiaries.

Consolidated financial statements are the financial statements of a group presented as those of a single enterprise.

The ***equity method*** is a method of accounting whereby the investment is initially recorded at cost, identifying any goodwill/ capital reserve arising at the time of acquisition. The carrying amount of the investment is adjusted thereafter for the post acquisition change in the investor's share of net assets of the investee. The consolidated statement of profit and loss reflects the investor's share of the results of operations of the investee.

Key Points

- An investment in an associate should be accounted for in consolidated financial statements under the equity method except when the investment is acquired and held exclusively with a view to its subsequent disposal in the near future or the associate operates under severe long-term restrictions that significantly impair its ability to transfer funds to the investor.

- An investor should discontinue the use of the equity method from the date that it ceases to have significant influence in an associate but retains, either in whole or in part, its investment; or if the associate operates under severe long-term restrictions that significantly impair its ability to transfer funds to the investor.

- Goodwill/capital reserve arising on the acquisition of an associate by an investor should be included in the carrying amount of investment in the associate but should be disclosed separately.

- In using equity method, unrealised profits and losses resulting from transactions between the investor and the associate should be eliminated to the extent of the investor's interest in the associate. Unrealised losses should not be eliminated if and to the extent the cost of the transferred asset cannot be recovered.

- The carrying amount of investment in an associate should be reduced to recognise a decline, other than temporary, in the value of the investment, such reduction being determined and made for each investment individually.

- An appropriate listing and description of associates including the proportion of ownership interest and, if different, the proportion of voting power held should be disclosed in the consolidated financial statements.
- Investments in associates accounted for using the equity method should be classified as long-term investments and disclosed separately in the consolidated balance sheet. The investor's share of the profits or losses of such investments should be disclosed separately in the consolidated statement of profit and loss. The investor's share of any extraordinary or prior period items should also be separately disclosed.

AS 27 Financial Reporting of Interests in Joint Ventures

The objective of this Standard is to set out principles and procedures for accounting for interests in joint ventures and reporting of joint venture assets, liabilities, income and expenses in the financial statements of venturers and investors. It is to be applied in accounting for interests in joint ventures and the reporting of joint venture assets, liabilities, income and expenses in the financial statements of venturers and investors.

Important Terms

A ***joint venture*** is a contractual arrangement whereby two or more parties undertake an economic activity, which is subject to joint control.

Joint control is the contractually agreed sharing of control over an economic activity.

Control is the power to govern the financial and operating policies of an economic activity so as to obtain benefits from it.

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

An ***investor*** in a joint venture is a party to a joint venture and does not have joint control over that joint venture.

Proportionate consolidation is a method of accounting and reporting whereby a venturer's share of each of the assets, liabilities, income and expenses of a jointly controlled entity is reported as separate line items in the venturer's financial statements.

Key Points

- Joint ventures take many different forms and structures. The AS 27 applies to three broad types – jointly controlled operations, jointly controlled assets and jointly controlled entities.
- In jointly controlled operations, a venturer should recognise in its separate financial statements and consequently in its consolidated financial statements the assets controlled, income earned and the liabilities and expenses incurred by it in joint venture.
- In respect of its interest in jointly controlled assets, a venturer should recognise, in its separate financial statements, and consequently in its consolidated financial statements:
  - (a) Its share of the jointly controlled assets, classified according to the nature of the assets;
  - (b) Any liabilities which it has incurred;
  - (c) Its share of any liabilities incurred jointly with the other venturers in relation to the joint venture;
  - (d) Any income from the sale or use of its share of the output of the joint venture, together with its share of any expenses incurred by the joint venture; and
  - (e) Any expenses which it has incurred in respect of its interest in the joint venture.
- In a venturer's separate financial statements, interest in a jointly controlled entity should be accounted for as an investment.
- In its consolidated financial statements, a venturer should report its interest in a jointly controlled entity using proportionate consolidation.
- In SFS as well as CFS, a venturer should disclose the aggregate amount of the following contingent liabilities, unless the probability of loss is remote, separately from the amount of other contingent liabilities:

(a) Any contingent liabilities that the venturer has incurred in relation to its interests in joint ventures and its share in each of the contingent liabilities which have been incurred jointly with other venturers;

(b) Its share of the contingent liabilities of the joint ventures themselves for which it is contingently liable; and

(c) Those contingent liabilities that arise because the venturer is contingently liable for the liabilities of the other venturers of a joint venture.

- In SFC as well as CFS, a venturer should disclose the aggregate amount of the following commitments in respect of its interests in joint ventures separately from other commitments:

  (a) Any capital commitments of the venturer in relation to its interests in joint ventures and its share in the capital commitments that have been incurred jointly with other venturers; and

  (b) Its share of the capital commitments of the joint ventures themselves.

- A venturer should disclose a list of all joint ventures and description of interests in significant joint ventures. In respect of jointly controlled entities, the venturer should also disclose the proportion of ownership interest, name and country of incorporation or residence.

- A venturer should disclose, in its separate financial statements, the aggregate amounts of each of the assets, liabilities, income and expenses related to its interests in the jointly controlled entities.

C. Standards pertaining to Assets

The standards dealing mainly with the assets are as follows:

- AS 2 Valuation of Inventories

- AS 10 Property, Plant and Equipment

- AS 13 Accounting for Investments
- AS 16 Borrowing Costs
- AS 19 Leases
- AS 24 Discontinued Operations
- AS 26 Intangible Assets
- AS 28 Impairment of Assets

AS 2 Valuation of Inventories

This Standard should be applied in accounting for inventories other than:

(a) Work-in-progress arising under construction contracts, including directly related service contracts (see Accounting Standard (AS) 7, Construction Contracts);

(b) Work-in-progress arising in the ordinary course of business of service providers;

(c) Shares, debentures and other financial instruments held as stock-in-trade; and

(d) Producers' inventories of livestock, agricultural and forest products, and mineral oils, ores and gases to the extent that they are measured at net realisable value in accordance with well established practices in those industries.

Important Terms

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.

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.

Key Points

- Inventories should be valued at the lower of cost and net realisable value.
- The cost of inventories should comprise all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.
- The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects should be assigned by specific identification of their individual costs.
- The cost of inventories, in other cases, should be assigned by using the first-in, first-out (FIFO), or weighted average cost formula. The formula used should reflect the fairest possible approximation to the cost incurred in bringing the items of inventory to their present location and condition.
- The financial statements should disclose the accounting policies adopted in measuring inventories, including the cost formula used; and the total carrying amount of inventories and its classification appropriate to the enterprise.

AS 10 Property, Plant and Equipment

This Standard should be applied in accounting for property, plant and equipment except when another Accounting Standard requires or permits a different accounting treatment. However, this Standard does not apply to:

(a) Biological assets related to agricultural activity other than bearer plants. This Standard applies to bearer plants but it does not apply to the produce on bearer plants; and

(b) Wasting assets including mineral rights, expenditure on the exploration for and extraction of minerals, oil, natural gas and similar non-regenerative resources.

Key Terms

Property, plant and equipment are tangible items that:

- Are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and

- Are expected to be used during more than a period of twelve months.

Carrying amount is the amount at which an asset is recognised after deducting any accumulated depreciation and accumulated impairment losses.

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 Accounting Standards.

Depreciable amount is the cost of an asset, or other amount substituted for cost, less its residual value.

Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life.

Useful life is:

- The period over which an asset is expected to be available for use by an enterprise; or
- The number of production or similar units expected to be obtained from the asset by an enterprise.

Key Points

- The cost of an item of property, plant and equipment should be recognised as an asset if, and only if:
  - (a) It is probable that future economic benefits associated with the item will flow to the enterprise; and
  - (b) The cost of the item can be measured reliably.
- An item of property, plant and equipment that qualifies for recognition as an asset should be measured at its cost.
- An enterprise should choose either the cost model or the revaluation model as its accounting policy and should apply that policy to an entire class of property, plant and equipment.

- Under cost model, after recognition as an asset, an item of property, plant and equipment should be carried at its cost less any accumulated depreciation and any accumulated impairment losses.
- Under revaluation model, after recognition as an asset, an item of property, plant and equipment whose fair value can be measured reliably should be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations should be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the balance sheet date.
- If an item of property, plant and equipment is revalued, the entire class of property, plant and equipment to which that asset belongs should be revalued.
- An increase in the carrying amount of an asset arising on revaluation should be credited directly to owners' interests under the heading of Revaluation surplus. However, the increase should be recognised in the statement of profit and loss to the extent that it reverses a revaluation decrease of the same asset previously recognised in the statement of profit and loss.
- A decrease in the carrying amount of an asset arising on revaluation should be charged to the statement of profit and loss. However, the decrease should be debited directly to owners' interests under the heading of revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.
- 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 should be depreciated separately.
- The depreciation charge for each period should be recognised in the statement of profit and loss unless it is included in the carrying amount of another asset.

- The depreciable amount of an asset should be allocated on a systematic basis over its 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, the change(s) should be accounted for as a change in an accounting estimate.
- The depreciation method used should reflect the pattern in which the future economic benefits of the asset are expected to be consumed by the enterprise.
- The depreciation method applied to an asset should be reviewed at least at each financial year-end and, if there has been a significant change in the expected pattern of consumption of the future economic benefits embodied in the asset, the method should be changed to reflect the changed pattern. Such a change should be accounted for as a change in an accounting estimate.
- The cost of property, plant and equipment may undergo changes subsequent to its acquisition or construction on account of changes in liabilities, price adjustments, changes in duties, changes in initial estimates of amounts provided for dismantling, removing, restoration and similar factors and included in the cost of the asset.
- Compensation from third parties for items of property, plant and equipment that were impaired, lost or given up should be included in the statement of profit and loss when the compensation becomes receivable.
- Items of property, plant and equipment retired from active use and held for disposal should be stated at the lower of their carrying amount and net realisable value. Any write-down in this regard should be recognised immediately in the statement of profit and loss.
- The carrying amount of an item of property, plant and equipment should be derecognised on disposal; or when no future economic benefits are expected from its use or disposal.

- The gain or loss arising from the derecognition of an item of property, plant and equipment should be determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.
- The gain or loss arising from the derecognition of an item of property, plant and equipment should be included in the statement of profit and loss when the item is derecognised. Gains should not be classified as revenue.

AS 13 Accounting for Investments

This Standard deals with accounting for investments in the financial statements of enterprises and related disclosure requirements. However, this does not deal with:

- The bases for recognition of interest, dividends and rentals earned on investments which are covered by Accounting Standard 9 on Revenue Recognition;
- Operating or finance leases;
- Investments of retirement benefit plans and life insurance enterprises; and
- Mutual funds and venture capital funds and/or the related asset management companies, banks and public financial institutions formed under a Central or State Government Act or so declared under the Companies Act, 2013.

Important Terms

Investments are assets held by an enterprise for earning income by way of dividends, interest, and rentals, for capital appreciation, or for other benefits to the investing enterprise. Assets held as stock-in-trade are not 'investments'.

A ***current investment*** is an investment that is by its nature readily realisable and is intended to be held for not more than one year from the date on which such investment is made.

A ***long term investment*** is an investment other than a current investment.

An ***investment property*** is an investment in land or buildings that are not intended to be occupied substantially for use by, or in the operations of, the investing enterprise.

Market value is the amount obtainable from the sale of an investment in an open market, net of expenses necessarily to be incurred on or before disposal.

Key Points

Investments are classified as long-term investments and current investments. Current investments are in the nature of current assets, although the common practice may be to include them in investments.

Further classification of current and long-term investments should be as specified in the statute governing the enterprise. In the absence of a statutory requirement, such further classification should disclose, where applicable, investments in:

(a) Government or Trust securities

(b) Shares, debentures or bonds

(c) Investment properties

(d) Others—specifying nature

- The cost of an investment should include acquisition charges such as brokerage, fees and duties.

- If an investment is acquired, or partly acquired, by the issue of shares or other securities, the acquisition cost should be the fair value of the securities issued (which in appropriate cases may be indicated by the issue price as determined by statutory authorities). The fair value may not necessarily be equal to the nominal or par value of the securities issued. If an investment is acquired in exchange for another asset, the acquisition cost of the investment should be determined by reference to the fair value of the asset given up. Alternatively, the acquisition cost of the investment may be determined with reference to the fair value of the investment acquired if it is more clearly evident.

- An enterprise holding investment properties should account for them in accordance with cost model used in AS 10 *Property, Plant and Equipment.*
- Investments classified as current investments should be carried in the financial statements at the lower of cost and fair value determined either on an individual investment basis or by category of investment, but not on an overall (or global) basis.
- Investments classified as long-term investments should be carried in the financial statements at cost. However, provision for diminution shall be made to recognise a decline, other than temporary, in the value of the investments, such reduction being determined and made for each investment individually.
- Any reduction in the carrying amount and any reversals of such reductions should be charged or credited to the profit and loss statement.
- On disposal of an investment, the difference between the carrying amount and net disposal proceeds should be charged or credited to the profit and loss statement.

AS 16 Borrowing Costs

The objective of this Standard is to prescribe the accounting treatment for borrowing costs.

Important Terms

Borrowing costs are interest and other costs incurred by an enterprise in connection with the borrowing of funds.

A ***qualifying asset*** is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale.

Key Points

- Ordinarily, a period of twelve months is considered as substantial period of time unless a shorter or longer period can be justified on the basis of facts and circumstances of the case.

- Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset should be capitalised as part of the cost of that asset. The amount of borrowing costs eligible for capitalisation should be determined in accordance with this Standard. Other borrowing costs should be recognised as an expense in the period in which they are incurred.
- To the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation on that asset should be determined as the actual borrowing costs incurred on that borrowing during the period less any income on the temporary investment of those borrowings.
- To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation should be determined by applying a capitalisation rate to the expenditure on that asset. The capitalisation rate should be the weighted average of the borrowing costs applicable to the borrowings of the enterprise that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. The amount of borrowing costs capitalised during a period should not exceed the amount of borrowing costs incurred during that period.
- The capitalisation of borrowing costs as part of the cost of a qualifying asset should commence when all the following conditions are satisfied:

  (a) Expenditure for the acquisition, construction or production of a qualifying asset is being incurred;

  (b) Borrowing costs are being incurred; and

  (c) Activities that are necessary to prepare the asset for its intended use or sale are in progress.
- Capitalisation of borrowing costs should be suspended during extended periods in which active development is interrupted.

- Capitalisation of borrowing costs should cease when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.
- When the construction of a qualifying asset is completed in parts and a completed part is capable of being used while construction continues for the other parts, capitalisation of borrowing costs in relation to a part should cease when substantially all the activities necessary to prepare that part for its intended use or sale are complete.
- The financial statements should disclose:
  - (a) The accounting policy adopted for borrowing costs; and
  - (b) The amount of borrowing costs capitalised during the period.

AS 19 Leases

The objective of this Standard is to prescribe, for lessees and lessors, the appropriate accounting policies and disclosures in relation to finance leases and operating leases. However, it should not be applied in accounting for all leases other than:

- Lease agreements to explore for or use natural resources, such as oil, gas, timber, metals and other mineral rights; and
- Licensing agreements for items such as motion picture films, video recordings, plays, manuscripts, patents and copyrights; and
- Lease agreements to use lands.

Important Terms

A ***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.

A ***finance lease*** is a lease that transfers substantially all the risks and rewards incident to ownership of an asset.

An ***operating lease*** is a lease other than a finance lease.

A ***non-cancellable lease*** is a lease that is cancellable only:

(a) Upon the occurrence of some remote contingency; or

(b) With the permission of the lessor; or

(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 an additional amount such that, at inception, continuation of the lease is reasonably certain.

The ***inception of the lease*** is the earlier of the date of the lease agreement and the date of a commitment by the parties to the principal provisions of the lease.

The ***lease term*** is the non-cancellable period for which the lessee has agreed to take on lease the asset together with any further periods for which the lessee has the option to continue the lease of the asset, with or without further payment, which option at the inception of the lease it is reasonably certain that the lessee will exercise.

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:

(a) In the case of the lessee, any residual value guaranteed by or on behalf of the lessee; or

(b) In the case of the lessor, any residual value guaranteed to the lessor:

- By or on behalf of the lessee; or
- By an independent third party financially capable of meeting this guarantee.

Guaranteed residual value is:

(a) In the case of the lessee, that part of the residual value which is guaranteed by the lessee or by a party on behalf of the lessee (the amount of the guarantee being the maximum amount that could, in any event, become payable); and

(b) in the case of the lessor, that part of the residual value which is guaranteed by or on behalf of the lessee, or by an independent third party who is financially capable of discharging the obligations under the guarantee

Net investment in the lease is the gross investment in the lease less unearned finance income.

The ***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 under a finance lease from the standpoint of the lessor; and

(b) Any unguaranteed residual value accruing to the lessor, to be equal to the fair value of the leased asset.

The ***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.

Contingent rent is that portion of the lease payments that is not fixed in amount but is based on a factor other than just the passage of time (e.g., percentage of sales, amount of usage, price indices, market rates of interest).

Key Points

Finance Lease

- At the inception of a finance lease, the lessee should recognise the lease as an asset and a liability. Such recognition should be at an amount equal to the fair value of the leased asset at the inception of the lease. However, if the fair value of the leased asset exceeds the present value of the minimum lease payments from the standpoint of the lessee, the amount recorded as an asset and a liability should be the present value of the minimum lease payments from the standpoint of the lessee. In calculating the present value of the minimum lease payments the discount rate is the interest rate implicit in the lease, if this is practicable to determine; if not, the lessee's incremental borrowing rate should be used.

- Lease payments should be apportioned between the finance charge and the reduction of the outstanding liability. The finance charge should be allocated to periods during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.
- A finance lease gives rise to a depreciation expense for the asset as well as a finance expense for each accounting period. The depreciation policy for a leased asset should be consistent with that for depreciable assets which are owned. If there is no reasonable certainty that the lessee will obtain ownership by the end of the lease term, the asset should be fully depreciated over the lease term or its useful life, whichever is shorter.
- The lessor should recognise assets given under a finance lease in its balance sheet as a receivable at an amount equal to the net investment in the lease.
- The recognition of finance income should be based on a pattern reflecting a constant periodic rate of return on the net investment of the lessor outstanding in respect of the finance lease.
- The manufacturer or dealer lessor should recognise the transaction of sale in the statement of profit and loss for the period, in accordance with the policy followed by the enterprise for outright sales. If artificially low rates of interest are quoted, profit on sale should be restricted to that which would apply if a commercial rate of interest were charged. Initial direct costs should be recognised as an expense in the statement of profit and loss at the inception of the lease.
- The lessee and lessor should make appropriate disclosures for finance leases as prescribed in standards. Note certain exemption have been prescribed for smaller enterprises.

Operating Leases

- Lease payments under an operating lease should be recognised as an expense in the statement of profit and loss 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.

- The lessor should present an asset given under operating lease in its balance sheet under fixed assets.
- Lease income from operating leases should be recognised in the statement of profit and loss on a straight line basis over the lease term, unless another systematic basis is more representative of the time pattern in which benefit derived from the use of the leased asset is diminished.
- The depreciation of leased assets should be on a basis consistent with the normal depreciation policy of the lessor for similar assets.
- The lessee and the leasor should make appropriate disclosures as prescribed for operating leases after giving due consideration for exemptions provided to smaller entities.
- If a sale and leaseback transaction results in a finance lease, any excess or deficiency of sales proceeds over the carrying amount should not be immediately recognised as income or loss in the financial statements of a seller-lessee. Instead, it should be deferred and amortised over the lease term in proportion to the depreciation of the leased asset.
- If a sale and leaseback transaction results in an operating lease, and it is clear that the transaction is established at fair value, any profit or loss should be recognised immediately. If the sale price is below fair value, any profit or loss should be recognised immediately except that, if the loss is compensated by future lease payments at below market price, it should be deferred and amortised in proportion to the lease payments over the period for which the asset is expected to be used. If the sale price is above fair value, the excess over fair value should be deferred and amortised over the period for which the asset is expected to be used.
- For operating leases, if the fair value at the time of a sale and leaseback transaction is less than the carrying amount of the asset, a loss equal to the amount of the difference between the carrying amount and fair value should be recognised immediately.

AS 24 Discontinued Operations

This Standard applies to all discontinuing operations of an enterprise.

Important Terms

A ***discontinuing operation*** is a component of an enterprise:

(a) That the enterprise, pursuant to a single plan, is:

   i. Disposing of substantially in its entirety, such as by selling the component in a single transaction or by demerger or spin-off of ownership of the component to the enterprise's shareholders; or

   ii. Disposing of piecemeal, such as by selling off the component's assets and settling its liabilities individually; or

   iii. Terminating through abandonment; and

(b) That represents a separate major line of business or geographical area of operations; and

(c) That can be distinguished operationally and for financial reporting purposes.

Key Points

- With respect to a discontinuing operation, the initial disclosure event is the occurrence of one of the following, whichever occurs earlier:

   (a) the enterprise has entered into a binding sale agreement for substantially all of the assets attributable to the discontinuing operation; or

   (b) the enterprise's board of directors or similar governing body has both approved a detailed, formal plan for the discontinuance and made an announcement of the plan

- An enterprise should apply the principles of recognition and measurement that are set out in other Accounting Standards for the purpose of deciding as to when and how to recognise and measure the changes in assets and liabilities and the

revenue, expenses, gains, losses and cash flows relating to a discontinuing operation.

- An enterprise should include the following information relating to a discontinuing operation in its financial statements beginning with the financial statements for the period in which the initial disclosure event occurs:

  (a) A description of the discontinuing operation(s);

  (b) The business or geographical segment(s) in which it is reported

  (c) The date and nature of the initial disclosure event;

  (d) The date or period in which the discontinuance is expected to be completed if known or determinable;

  (e) The carrying amounts, as of the balance sheet date, of the total assets to be disposed of and the total liabilities to be settled;

  (f) The amounts of revenue and expenses in respect of the ordinary activities attributable to the discontinuing operation during the current financial reporting period;

  (g) The amount of pre-tax profit or loss from ordinary activities attributable to the discontinuing operation during the current financial reporting period, and the income tax expense related thereto; and

  (h) The amounts of net cash flows attributable to the operating, investing, and financing activities of the discontinuing operation during the current financial reporting period.

- When an enterprise disposes of assets or settles liabilities attributable to a discontinuing operation or enters into binding agreements for the sale of such assets or the settlement of such liabilities, it should include, in its financial statements, the following information when the events occur:

  (a) For any gain or loss that is recognised on the disposal of assets or settlement of liabilities attributable to the discontinuing operation,

    - The amount of the pre-tax gain or loss and
    - Income tax expense relating to the gain or loss; and

(b) The net selling price or range of prices (which is after deducting expected disposal costs) of those net assets for which the enterprise has entered into one or more binding sale agreements, the expected timing of receipt of those cash flows and the carrying amount of those net assets on the balance sheet date.

- An enterprise should also include, in its financial statements, for periods subsequent to the one in which the initial disclosure event occurs, a description of any significant changes in the amount or timing of cash flows relating to the assets to be disposed or liabilities to be settled and the events causing those changes.
- A discontinuance is completed when the plan is substantially completed or abandoned, though full payments from the buyer(s) may not yet have been received. Till then all disclosures should continue.
- If an enterprise abandons or withdraws from a plan that was previously reported as a discontinuing operation, that fact, reasons therefor and its effect should be disclosed.
- All disclosures required by this Standard should be presented separately for each discontinuing operation.

AS 26 Intangible Assets

The objective of this Standard is to prescribe the accounting treatment for intangible assets that are not dealt with specifically in another Accounting Standard. This Standard is not to be applied in following cases:

- Financial assets,
- Mineral rights and expenditure on the exploration for, or development and extraction of, minerals, oil, natural gas and similar non-regenerative resources;

- Intangible assets arising in insurance enterprises from contracts with policyholders,
- Termination benefits, and
- Where such termination have dealt in other standards

Important Terms

An ***intangible asset*** is an identifiable non-monetary asset, without physical substance, held for use in the production or supply of goods or services, for rental to others, or for administrative purposes.

Research is original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding.

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 prior to the commencement of commercial production or use.

Amortisation is the systematic allocation of the depreciable amount of an intangible asset over its useful life.

An ***impairment loss*** is the amount by which the carrying amount of an asset exceeds its recoverable amount.

Key Points

- An intangible asset should be recognised if, and only if:
  - (a) It is probable that the future economic benefits that are attributable to the asset will flow to the enterprise; and
  - (b) The cost of the asset can be measured reliably.
- An enterprise should assess the probability of future economic benefits using reasonable and supportable assumptions that represent best estimate of the set of economic conditions that will exist over the useful life of the asset.

- An intangible asset should be measured initially at cost.
- Internally generated goodwill should not be recognised as an asset.
- No intangible asset arising from research (or from the research phase of an internal project) should be recognised. Expenditure on research (or on the research phase of an internal project) should be recognised as an expense when it is incurred.
- An intangible asset arising from development (or from the development phase of an internal project) should be recognised if, and only if, an enterprise 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 enterprise should 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; and
  - (f) Its ability to measure the expenditure attributable to the intangible asset during its development reliably.
- Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance should not be recognised as intangible assets.
- Expenditure on an intangible item should 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 an amalgamation in the nature of purchase and cannot be recognised as an intangible asset. If this is the case, this expenditure (included in the cost of acquisition) should form part of the amount attributed to goodwill (capital reserve) at the date of acquisition.

- Expenditure on an intangible item that was initially recognised as an expense by a reporting enterprise in previous annual financial statements or interim financial reports should not be recognised as part of the cost of an intangible asset at a later date.

- Subsequent expenditure on an intangible asset after its purchase or its completion should be recognised as an expense when it is incurred unless:

  (a) It is probable that the expenditure will enable the asset to generate future economic benefits in excess of its originally assessed standard of performance; and

  (b) The expenditure can be measured and attributed to the asset reliably. If these conditions are met, the subsequent expenditure should be added to the cost of the intangible asset.

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

- The depreciable amount of an intangible asset should be allocated on a systematic basis over the best estimate of its useful life. There is a rebuttable presumption that the useful life of an intangible asset will not exceed ten years from the date when the asset is available for use. Amortisation should commence when the asset is available for use.

- If control over the future economic benefits from an intangible asset is achieved through legal rights that have been granted for a finite period, the useful life of the

intangible asset should not exceed the period of the legal rights unless:

(a) The legal rights are renewable; and

(b) Renewal is virtually certain.

- The amortisation method used should reflect the pattern in which the asset's economic benefits are consumed by the enterprise. If that pattern cannot be determined reliably, the straightline method should be used. The amortisation charge for each period should be recognised as an expense unless another Accounting Standard permits or requires it to be included in the carrying amount of another asset.

- The residual value of an intangible asset should be assumed to be zero unless:

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

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

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

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

- The amortisation period and the amortisation method should be reviewed at least at each financial year end. If the expected useful life of the asset is significantly different from previous estimates, the amortisation period should be changed accordingly. If there has been a significant change in the expected pattern of economic benefits from the asset, the amortisation method should be changed to reflect the changed pattern. Such changes should be accounted for in accordance with AS 5, *Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies.*

- In addition to the requirements of Accounting Standard on Impairment of Assets, an enterprise should estimate the recoverable amount of the following intangible assets at least at each financial year end even if there is no indication that the asset is impaired:

(a) an intangible asset that is not yet available for use; and

(b) an intangible asset that is amortised over a period exceeding ten years from the date when the asset is available for use. The recoverable amount should be determined under Accounting Standard on Impairment of Assets and impairment losses recognised accordingly.

- An intangible asset should be derecognised (eliminated from the balance sheet) on disposal or when no future economic benefits are expected from its use and subsequent disposal.
- Gains or losses arising from the retirement or disposal of an intangible asset should be determined as the difference between the net disposal proceeds and the carrying amount of the asset and should be recognised as income or expense in the statement of profit and loss.
- Adequate disclosures as prescribed in the standards should be made.

AS 28 Impairment of Assets

This Standard should be applied in accounting for the impairment of all assets, other than inventories, assets arising from construction contracts, financial assets, and deferred tax assets.

Important Terms

Recoverable amount is the higher of an asset's net selling price and its value in use.

Value in use is 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.

Net selling price is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

An ***impairment loss*** is the amount by which the carrying amount of an asset exceeds its recoverable amount.

A ***cash generating unit*** is the smallest identifiable group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

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.

Key Points

- An enterprise should assess at each balance sheet date whether there is any indication that an asset may be impaired. If any such indication exists, the enterprise should estimate the recoverable amount of the asset.
- In assessing whether there is any indication that an asset may be impaired, an enterprise should consider, as a minimum, the following indications:

External sources of information

(a) During the period, an asset's market value has declined significantly more than would be expected as a result of the passage of time or normal use;

(b) Significant changes with an adverse effect on the enterprise have taken place during the period, or will take place in the near future, in the technological, market, economic or legal environment in which the enterprise operates or in the market to which an asset is dedicated;

(c) Market interest rates or other market rates of return on investments have increased during the period, and those increases are likely to affect the discount rate used in calculating an asset's value in use and decrease the asset's recoverable amount materially;

(d) The carrying amount of the net assets of the reporting enterprise is more than its market capitalisation.

Internal sources of information

(e) evidence is available of obsolescence or physical damage of an asset:

- Significant changes with an adverse effect on the enterprise have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, an asset is used or is expected to be used. These changes include plans to discontinue or restructure the operation to which an asset belongs or to dispose of an asset before the previously expected date; and

(f) Evidence is available from internal reporting that indicates that the economic performance of an asset is, or will be, worse than expected.

- If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset should be reduced to its recoverable amount. That reduction is an impairment loss.
- An impairment loss should be recognised as an expense in the statement of profit and loss immediately, unless the asset is carried at revalued amount in accordance with another Accounting Standard, in which case any impairment loss of a revalued asset should be treated as a revaluation decrease under that Accounting Standard.
- When the amount estimated for an impairment loss is greater than the carrying amount of the asset to which it relates, an enterprise should recognise a liability if, and only if, that is required by another Accounting Standard.
- After the recognition of an impairment loss, the depreciation (amortisation) charge for the asset should 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.
- If there is any indication that an asset may be impaired, the recoverable amount should be estimated for the individual asset. If it is not possible to estimate the recoverable amount

of the individual asset, an enterprise should determine the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

- If an active market exists for the output produced by an asset or a group of assets, this asset or group of assets should be identified as a separate cash-generating unit, even if some or all of the output is used internally. If this is the case, management's best estimate of future market prices for the output should be used:

  (a) In determining the value in use of this cash-generating unit, when estimating the future cash inflows that relate to the internal use of the output; and

  (b) In determining the value in use of other cash-generating units of the reporting enterprise, when estimating the future cash outflows that relate to the internal use of the output.

- Cash-generating units should be identified consistently from period to period for the same asset or types of assets, unless a change is justified.

- The carrying amount of a cash-generating unit should be determined consistently with the way the recoverable amount of the cash-generating unit is determined.

- In testing a cash-generating unit for impairment, an enterprise should identify whether goodwill that relates to this cash-generating unit is recognised in the financial statements.

- In testing a cash-generating unit for impairment, an enterprise should identify all the corporate assets that relate to the cash-generating unit under review.

- An impairment loss should be recognised for a cash-generating unit if, and only if, its recoverable amount is less than its carrying amount. The impairment loss should be allocated to reduce the carrying amount of the assets of the unit in the following order:

  (a) First, to goodwill allocated to the cash-generating unit (if any); and

(b) Then, to the other assets of the unit on a *pro rata* basis based on the carrying amount of each asset in the unit.

These reductions in carrying amounts should be treated as impairment losses on individual assets.

- In allocating an impairment loss, the carrying amount of an asset should not be reduced below the highest of:

  (a) Its net selling price (if determinable);

  (b) Its value in use (if determinable); and

  (c) Zero.

The amount of the impairment loss that would otherwise have been allocated to the asset should be allocated to the other assets of the unit on a *pro rata* basis.

- A liability should be recognised for any remaining amount of an impairment loss for a cash-generating unit if that is required by another Accounting Standard.

- An enterprise should assess at each balance sheet date whether there is any indication that an impairment loss recognised for an asset in prior accounting periods may no longer exist or may have decreased. If any such indication exists, the enterprise should estimate the recoverable amount of that asset.

- In assessing whether there is any indication that an impairment loss recognised for an asset in prior accounting periods may no longer exist or may have decreased, an enterprise should consider, as a minimum, the following indications:

- An impairment loss recognised for an asset in prior accounting periods should be reversed if there has been a change in the estimates of cash inflows, cash outflows or discount rates used to determine the asset's recoverable amount since the last impairment loss was recognised. If this is the case, the carrying amount of the asset should be increased to its recoverable amount. That increase is a reversal of an impairment loss.

- The increased carrying amount of an asset due to a reversal of an impairment loss should not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior accounting periods.
- A reversal of an impairment loss for an asset should be recognised as income immediately in the statement of profit and loss, unless the asset is carried at revalued amount in accordance with another Accounting Standard in which case any reversal of an impairment loss on a revalued asset should be treated as a revaluation increase under that Accounting Standard.
- After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the asset should 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.
- Appropriate disclosures as prescribed should be made.

Standards dealing with liabilities and expenditures

The Accounting Standards falling in this category are:

AS 15 Employee Benefits

AS 29 Provisions, Contingent Liabilities and Contingent Assets.

AS 15 Employee Benefits

The objective of this Standard is to prescribe the accounting and disclosure for employee benefits. This Standard should be applied by an employer in accounting for all employee benefits, except employee share-based payments.

Important Terms

Employee benefits are all forms of consideration given by an enterprise in exchange for service rendered by employees.

Short-term employee benefits are employee benefits (other than termination benefits) which fall due wholly within twelve months after the end of the period in which the employees render the related service.

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 enterprise provides post-employment benefits for one or more employees.

Defined contribution plans are post-employment benefit plans under which an enterprise pays fixed contributions into a separate entity (a fund) and will have no 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.

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

Multi-employer plans are defined contribution plans (other than state plans) or defined benefit plans (other than State plans) that:

- Pool the assets contributed by various enterprises that are not under common control; and
- Use those assets to provide benefits to employees of more than one enterprise, on the basis that contribution and benefit levels are determined without regard to the identity of the enterprise that employs the employees concerned.

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) which do not fall due wholly within twelve months after the end of the period in which the employees render the related service.

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

- An enterprise's decision to terminate an employee's employment before the normal retirement date; or
- An employee's decision to accept voluntary redundancy in exchange for those benefits (voluntary retirement).

Vested employee benefits are employee benefits that are not conditional on future employment.

The ***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.

Current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

Interest cost is the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.

Plan assets comprise assets held by a long-term employee benefit fund; and qualifying insurance policies.

Assets held by a long-term employee benefit fund are assets (other than non-transferable financial instruments issued by the reporting enterprise) that:

- Are held by an entity (a fund) that is legally separate from the reporting enterprise and exists solely to pay or fund employee benefits; and
- Are available to be used only to pay or fund employee benefits, are not available to the reporting enterprise's own creditors (even in bankruptcy), and cannot be returned to the reporting enterprise, unless either:
  - (a) The remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the reporting enterprise; or
  - (b) The assets are returned to the reporting enterprise to reimburse it for employee benefits already paid.

The ***return on plan assets*** is interest, dividends and other revenue derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less any costs of administering the plan and less any tax payable by the plan itself.

Actuarial gains and losses comprise: (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.

Past service cost is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (where benefits are introduced or improved) or negative (where existing benefits are reduced).

Key Points

- When an employee has rendered service to an enterprise during an accounting period, the enterprise should recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

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

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

- An enterprise should recognise the expected cost of short-term employee benefits in the form of compensated absences as follows:

    (a) In the case of accumulating compensated absences, when the employees render service that increases their entitlement to future compensated absences; and

    (b) In the case of non-accumulating compensated absences, when the absences occur.

- An enterprise should measure the expected cost of accumulating compensated absences as the additional amount that the enterprise expects to pay as a result of the unused entitlement that has accumulated at the balance sheet date.

- An enterprise should recognise the expected cost of profit-sharing and bonus payments only when:

(a) The enterprise has a present obligation to make such payments as a result of past events; and

(b) A reliable estimate of the obligation can be made.

- A present obligation exists when, and only when, the enterprise has no realistic alternative but to make the payments.

- 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.

- An enterprise should classify a multi-employer plan as a defined contribution plan or a defined benefit plan under the terms of the plan (including any obligation that goes beyond the formal terms). Where a multi-employer plan is a defined benefit plan, an enterprise should account for its proportionate share of the defined benefit obligation, plan assets and cost associated with the plan in the same way as for any other defined benefit plan; and make appropriate disclosure.

- An enterprise should account for a state plan in the same way as for a multi-employer plan.

- An enterprise may pay insurance premiums to fund a postemployment benefit plan. The enterprise should treat such a plan as a defined contribution plan unless the enterprise will have (either directly, or indirectly through the plan) an obligation to either:

  (a) Pay the employee benefits directly when they fall due; or

  (b) Pay further amounts if the insurer does not pay all future employee benefits relating to employee service in the current and prior periods. If the enterprise retains such an obligation, the enterprise should treat the plan as a defined benefit plan.

- When an employee has rendered service to an enterprise during a period, the enterprise should recognise the

contribution payable to a defined contribution plan in exchange for that service:

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

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

- Where contributions to a defined contribution plan do not fall due wholly within twelve months after the end of the period in which the employees render the related service, they should be discounted using the discount rate determined by reference to market yields at the balance sheet date on Government bonds.
- An enterprise should disclose the amount recognised as an expense for defined contribution plans.
- An enterprise should account not only for its legal obligation under the formal terms of a defined benefit plan, but also for any other obligation that arises from the enterprise's informal practices. Informal practices give rise to an obligation where the enterprise has no realistic alternative but to pay employee benefits. An example of such an obligation is where a change in the enterprise's informal practices would cause unacceptable damage to its relationship with employees.
- The amount recognised as a defined benefit liability should be the net total of the following amounts:

(a) The present value of the defined benefit obligation at the balance sheet date

(b) Minus any past service cost not yet recognised

(c) Minus the fair value at the balance sheet date of plan assets (if any) out of which the obligations are to be settled directly.

- An enterprise should determine the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity that the amounts recognised in the financial statements do not differ materially from the amounts that would be determined at the balance sheet date.

- The amount of defined benefit liability may be negative (an asset). An enterprise should measure the resulting asset at the lower of:

  (a) The amount determined and

  (b) The present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits should be determined using the discount rate determined by reference to market yields at the balance sheet date on Government bonds.

- An enterprise should recognise the net total of the following amounts in the statement of profit and loss, except to the extent that another Accounting Standard requires or permits their inclusion in the cost of an asset:

  (a) Current service cost

  (b) Interest cost

  (c) The expected return on any plan assets and on any reimbursement rights

  (d) Actuarial gains and losses

  (e) Past service cost

  (f) The effect of any curtailments or settlements and

  (g) The effect of the limit, i.e., the extent to which defined benefit liability exceeds the the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

- An enterprise should use the Projected Unit Credit Method to determine the present value of its defined benefit obligations

and the related current service cost and, where applicable, past service cost.

- In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, an enterprise should attribute benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, an enterprise should attribute benefit on a straightline basis from:

  (a) The date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until

  (b) The date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

- Actuarial assumptions comprising demographic assumptions and financial assumptions should be unbiased and mutually compatible. Financial assumptions should be based on market expectations, at the balance sheet date, for the period over which the obligations are to be settled.

- Post-employment benefit obligations should be measured on a basis that reflects:

  (a) Estimated future salary increases;

  (b) The benefits set out in the terms of the plan (or resulting from any obligation that goes beyond those terms) at the balance sheet date; and

  (c) Estimated future changes in the level of any State benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:

    (i) Those changes were enacted before the balance sheet date; or

    (ii) Past history, or other reliable evidence, indicates that those State benefits will change in some predictable manner, for example, in line with

future changes in general price levels or general salary levels.

- Assumptions about medical costs should take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.
- Actuarial gains and losses should be recognised immediately in the statement of profit and loss as income or expense
- In measuring its defined benefit liability under paragraph 55, an enterprise should recognise past service cost as an expense on a straight line basis over the average period until the benefits become vested. To the extent that the benefits are already vested immediately following the introduction of, or changes to, a defined benefit plan, an enterprise should recognise past service cost immediately.
- When, and only when, it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, an enterprise should recognise its right to reimbursement as a separate asset. The enterprise should measure the asset at fair value. In all other respects, an enterprise should treat that asset in the same way as plan assets. In the statement of profit and loss, the expense relating to a defined benefit plan may be presented net of the amount recognised for a reimbursement.
- The expected return on plan assets is a component of the expense recognised in the statement of profit and loss. The difference between the expected return on plan assets and the actual return on plan assets is an actuarial gain or loss.
- An enterprise should recognise gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement should comprise:

  (a) Any resulting change in the present value of the defined benefit obligation;

  (b) Any resulting change in the fair value of the plan assets;

(c) Any related past service cost that had not previously been recognised.

- Before determining the effect of a curtailment or settlement, an enterprise should remeasure the obligation (and the related plan assets, if any) using current actuarial assumptions (including current market interest rates and other current market prices).

- An enterprise should disclose information that enables users of financial statements to evaluate the nature of its defined benefit plans and the financial effects of changes in those plans during the period.

AS 29 Provisions, Contingent Liabilities and Contingent Assets

The objective of this Standard is to ensure that appropriate recognition criteria and measurement bases are applied to provisions and contingent liabilities and that sufficient information is disclosed in the notes to the financial statements to enable users to understand their nature, timing and amount. This Standard should be applied in accounting for provisions and contingent liabilities and in dealing with 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;

(c) Those arising in insurance enterprises from contracts with policy-holders; and

(d) Those covered by another Accounting Standard.

Important Terms

A ***provision*** is a liability which can be measured only by using a substantial degree of estimation.

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.

An ***obligating event*** is an event that creates an obligation that results in an enterprise having no realistic alternative to settling that obligation.

A ***contingent liability*** is:

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

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

- It is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or
- A reliable estimate of the amount of the obligation cannot be made.

A ***contingent asset*** is a possible asset that arises from past events the existence of which will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the enterprise.

Present obligation - an obligation is a present obligation if, based on the evidence available, its existence at the balance sheet date is considered probable, i.e., more likely than not.

Possible obligation - an obligation is a possible obligation if, based on the evidence available, its existence at the balance sheet date is considered not probable.

A ***restructuring*** is a programme that is planned and controlled by management, and materially changes either:

- The scope of a business undertaken by an enterprise; or
- The manner in which that business is conducted.

Key Points

- A provision should be recognised when:
  - o An enterprise has a present obligation as a result of a past event;

- o It is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- o A reliable estimate can be made of the amount of the obligation.

If these conditions are not met, no provision should be recognised.

- The amount recognised as a provision should be the best estimate of the expenditure required to settle the present obligation at the balance sheet date. The amount of a provision should not be discounted to its present value.
- The risks and uncertainties that inevitably surround many events and circumstances should be taken into account in reaching the best estimate of a provision.
- Future events that may affect the amount required to settle an obligation should be reflected in the amount of a provision where there is sufficient objective evidence that they will occur.
- Gains from the expected disposal of assets should not be taken into account in measuring a provision.
- Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement should be recognised when, and only when, it is virtually certain that reimbursement will be received if the enterprise settles the obligation. The reimbursement should be treated as a separate asset. The amount recognised for the reimbursement should not exceed the amount of the provision.

In the statement of profit and loss, the expense relating to a provision may be presented net of the amount recognised for a reimbursement.

Provisions should be reviewed at each balance sheet date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision should be reversed.

- A provision should be used only for expenditures for which the provision was originally recognised.
- Provisions should not be recognised for future operating losses.
- No obligation arises for the sale of an operation until the enterprise is committed to the sale, i.e., there is a binding sale agreement
- A restructuring provision should include only the direct expenditures arising from the restructuring which are those that are both:
  - (a) Necessarily entailed by the restructuring; and
  - (b) Not associated with the ongoing activities of the enterprise
- An enterprise should not recognise a contingent liability.
- Unless the possibility of any outflow in settlement is remote, an enterprise should disclose for each class of contingent liability at the balance sheet date a brief description of the nature of the contingent liability and, where practicable:
  - (a) An estimate of its financial effect
  - (b) An indication of the uncertainties relating to any outflow; and
  - (c) The possibility of any reimbursement.
- An enterprise should not recognise a contingent asset.

Standards dealing with revenue

The following Standards deal with Revenue:

AS 7 Construction Contracts

AS 9 Revenue Recognition

These Standards are discussed hereafter.

AS 7 Construction Contracts

The objective of this Standard is to prescribe the accounting treatment of revenue and costs associated with construction contracts.

Important Terms

A ***construction contract*** is a contract specifically negotiated for the construction of an asset or a combination of assets that are closely interrelated or interdependent in terms of their design, technology and function or their ultimate purpose or use.

A ***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.

A ***cost plus contract*** is a construction contract in which the contractor is reimbursed for allowable or otherwise defined costs, plus percentage of these costs or a fixed fee.

Key Points

- Contract revenue should 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 comprise:
- Costs that relate directly to the specific contract;
- Costs that are attributable to contract activity in general and can be allocated to the contract; and
- Such other costs as are specifically chargeable to the customer under the terms of the contract.
- When the outcome of a construction contract can be estimated reliably, contract revenue and contract costs

associated with the construction contract should be recognised as revenue and expenses respectively by reference to the stage of completion of the contract activity at the reporting date. An expected loss on the construction contract should be recognised as an expense immediately.

- In the case of a fixed price contract, the outcome of a construction contract can be estimated reliably when all the following conditions are satisfied:

  (a) Total contract revenue can be measured reliably;

  (b) It is probable that the economic benefits associated with the contract will flow to the enterprise;

  (c) Both the contract costs to complete the contract and the stage of contract completion at the reporting date can be measured reliably; and

  (d) The contract costs attributable to the contract can be clearly identified and measured reliably so that actual contract costs incurred can be compared with prior estimates.

- In the case of a cost plus contract, the outcome of a construction contract can be estimated reliably when all the following conditions are satisfied:

  (a) It is probable that the economic benefits associated with the contract will flow to the enterprise; and

  (b) The contract costs attributable to the contract, whether or not specifically reimbursable, can be clearly identified and measured reliably.

- When the outcome of a construction contract cannot be estimated reliably revenue should be recognised only to the extent of contract costs incurred of which recovery is probable; and contract costs should be recognised as an expense in the period in which they are incurred.

- When the uncertainties that prevented the outcome of the contract being estimated reliably no longer exist, revenue and expenses associated with the construction contract should be recognised.

- When it is probable that total contract costs will exceed total contract revenue, the expected loss should be recognised as an expense immediately.
- An enterprise should disclose:
  (a) The amount of contract revenue recognised as revenue in the period;
  (b) The methods used to determine the contract revenue recognised in the period; and
  (c) The methods used to determine the stage of completion of contracts in progress.
- An enterprise should disclose the following for contracts in progress at the reporting date:
  (a) The aggregate amount of costs incurred and recognised profits (less recognised losses) up to the reporting date;
  (b) The amount of advances received; and
  (c) The amount of retentions.
- An enterprise should present:
  (a) The gross amount due from customers for contract work as an asset; and
  (b) The gross amount due to customers for contract work as a liability.

AS 9 Revenue Recognition

This Standard deals with the bases for recognition of revenue in the statement of profit and loss of an enterprise. The Standard is concerned with the recognition of revenue arising in the course of the ordinary activities of the enterprise from

(a) The sale of goods,

(b) The rendering of services, and

(c) The use by others of enterprise resources yielding interest, royalties and dividends.

Important Terms

Revenue is the gross inflow of cash, receivables or other consideration arising in the course of the ordinary activities of an enterprise from the sale of goods, from the rendering of services, and from the use by others of enterprise resources yielding interest, royalties and dividends. Revenue is measured by the charges made to customers or clients for goods supplied and services rendered to them and by the charges and rewards arising from the use of resources by them. In an agency relationship, the revenue is the amount of commission and not the gross inflow of cash, receivables or other consideration.

Completed service contract method is a method of accounting which recognises revenue in the statement of profit and loss only when the rendering of services under a contract is completed or substantially completed.

Proportionate completion method is a method of accounting which recognises revenue in the statement of profit and loss proportionately with the degree of completion of services under a contract.

Key Points

- Revenue from sales or service transactions should be recognised when the requirements as to performance set out in paragraphs 11 and 12 are satisfied, provided that at the time of performance it is not unreasonable to expect ultimate collection. If at the time of raising of any claim it is unreasonable to expect ultimate collection, revenue recognition should be postponed.
- In a transaction involving the sale of goods, performance should be regarded as being achieved when the following conditions have been fulfilled:

    (a) The seller of goods has transferred to the buyer the property in the goods for a price or all significant risks and rewards of ownership have been transferred to the buyer and the seller retains no effective control of the goods transferred to a degree usually associated with ownership; and

(b) No significant uncertainty exists regarding the amount of the consideration that will be derived from the sale of the goods.

- In a transaction involving the rendering of services, performance should be measured either under the completed service contract method or under the proportionate completion method, whichever relates the revenue to the work accomplished. Such performance should be regarded as being achieved when no significant uncertainty exists regarding the amount of the consideration that will be derived from rendering the service.
- Revenue arising from the use by others of enterprise resources yielding interest, royalties and dividends should only be recognised when no significant uncertainty as to measurability or collectability exists.
- Interest should be recognised on a time proportion basis taking into account the amount outstanding and the rate applicable.
- Royalties should be recognised: on an accrual basis in accordance with the terms of the relevant agreement.
- Dividends from shares should be recognised when the owner's right to receive payment investments in is established.
- An enterprise should also disclose the circumstances in which revenue recognition has been postponed pending the resolution of significant uncertainties.

Standards Dealing with Disclosures

Though most standards contain disclosure requirements for elements they deal with, this one Standard deals specifically with the disclosure requirement is AS 18 Related Party Disclosures, which is discussed below.

AS 18 Related Party Disclosures

The objective of this Standard is to establish requirements for disclosure of related party relationships; and transactions between a reporting enterprise and its related parties. This Standard

should be applied in reporting related party relationships and transactions between a reporting enterprise and its related parties. The requirements of this Standard apply to the financial statements of each reporting enterprise as also to consolidated financial statements presented by a holding company.

Important Terms

Related party - Parties are considered to be related if at any time during the reporting period one party has the ability to control the other party or exercise significant influence over the other party in making financial and/or operating decisions.

Related party transaction - A transfer of resources or obligations between related parties, regardless of whether or not a price is charged.

Key management personnel - Those persons who have the authority and responsibility for planning, directing and controlling the activities of the reporting enterprise.

Relative – in relation to an individual, means the spouse, son, daughter, brother, sister, father and mother who may be expected to influence, or be influenced by, that individual in his/her dealings with the reporting enterprise.

Fellow subsidiary - a company is considered to be a fellow subsidiary of another company if both are subsidiaries of the same holding company.

State-controlled enterprise - an enterprise which is under the control of the Central Government and/or any State Government.

Key Points

- Name of the related party and nature of the related party relationship where control exists should be disclosed irrespective of whether or not there have been transactions between the related parties.
- If there have been transactions between related parties, during the existence of a related party relationship, the reporting enterprise should disclose the following:

  (a) The name of the transacting related party;

(b) a description of the relationship between the parties;

(c) a description of the nature of transactions;

(d) volume of the transactions either as an amount or as an appropriate proportion;

(e) any other elements of the related party transactions necessary for an understanding of the financial statements;

(f) the amounts or appropriate proportions of outstanding items pertaining to related parties at the balance sheet date and provisions for doubtful debts due from such parties at that date; and

(g) amounts written off or written back in the period in respect of debts due from or to related parties

- Related party disclosure requirements as laid down in this Standard do not apply in circumstances where providing such disclosures would conflict with the reporting enterprise's duties of confidentiality as specifically required in terms of a statute or by any regulator or similar competent authority.
- No disclosure is required in consolidated financial statements in respect of intra-group transactions
- No disclosure is required in the financial statements of state-controlled enterprises as regards related party relationships with other state-controlled enterprises and transactions with such enterprises.
- Items of a similar nature may be disclosed in aggregate by type of related party except when separate disclosure is necessary for an understanding of the effects of related party transactions on the financial statements of the reporting enterprise.

Chapter 2B
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 Standards) Rules, 2015

(i) These Rules state the applicability of Ind ASs.

(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, performance, and cash flows.

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

(vii) Ind ASs apply to both separate and consolidated financial statements.

(viii) A complete set of financial statements includes a balance sheet including a statement of changes in equity, a statement of profit and loss including a statement of other comprehensive income, a statement of cash flows, notes consisting of a summary of accounting policies and other explanatory notes and a comparative information of the preceding period.

(ix) Ind AS will present fundamental principles in bold face type and other guidance in non-bold type (the 'black-letter'/'grey-letter' distinction). Paragraphs of both types have equal authority.

The Conceptual Framework for Financial Reporting

Ind ASs refers to the *Framework for Preparation and Presentation of Financial Statements* issued by Institute of Chartered Accountants of India (ICAI). 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 AS and in its review of existing Ind AS;

(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 AS;

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

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

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

Scope of Framework

The Framework deals with:

(a) The objective of financial reporting *which is*:

- 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.
- To assess how efficiently and effectively the entity's management and governing board have discharged their responsibilities to use the entities resources.
- To provide information regarding the liquidity of the entity. However, the financial statements need not provide all information, as they contain only financial information and not the non-financial information.

(b) The qualitative characteristics of useful financial information

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

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

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

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

Measurement of the Elements of Financial Statements involves assigning monetary amounts at which the elements of the financial statements are to be recognised and reported. Measurement may be initial measurement or subsequent measurement. The Framework acknowledges that a variety of

measurement bases are used today to different degrees and in varying combinations in financial statements, including: Historical cost; Current cost; Fair Value; Net realisable (settlement) value and Present value (discounted).

(d) Concepts of capital and capital maintenance

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

Users of financial statement and their information needs

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

Responsibility for Financial Statements

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

The Cost Constraint on useful Financial Reporting

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

LIST OF STANDARDS

1	Ind AS 101	First-Time Adoption of Indian Accounting Standards
2	Ind AS 102	Share-Based Payment
3	Ind AS 103	Business Combinations
4	Ind AS 104	Insurance Contracts
5	Ind AS 105	Non-current Assets Held for Sale and Discontinued Operations
6	Ind AS 106	Exploration for and Evaluation of Mineral Resources
7	Ind AS 107	Financial Instruments: Disclosures
8	Ind AS 108	Operating Segments
9	Ind AS 109	Financial Instruments
10	Ind AS 110	Consolidated Financial Statements
11	Ind AS 111	Joint Arrangements
12	Ind AS 112	Disclosure of Interests in Other Entities
13	Ind AS 113	Fair Value Measurement
14	Ind AS 114	Regulatory Deferral Accounts
15	Ind AS 1	Presentation of Financial Statements
16	Ind AS 2	Inventories
17	Ind AS 7	Statement of Cash Flows
18	Ind AS 8	Accounting Policies, Changes in Accounting Estimates and Errors
19	Ind AS 10	Events After the Reporting Period
20	Ind AS 11	Construction Contracts
21	Ind AS 12	Income Taxes
22	Ind AS 16	Property, Plant and Equipment
23	Ind AS 17	Leases
24	Ind AS 18	Revenue
25	Ind AS 19	Employee Benefits
26	Ind AS 20	Accounting for Government Grants and Disclosure of Government Assistance

27	Ind AS 21	The Effects of Changes in Foreign Exchange Rates
28	Ind AS 23	Borrowing Costs
29	Ind AS 24	Related Party Disclosures
30	Ind AS 27	Separate Financial Statements
31	Ind AS 28	Investments in Associates and Joint Ventures
32	Ind AS 29	Financial Reporting in Hyperinflationary Economies
33	Ind AS 32	Financial Instruments: Presentation
34	Ind AS 33	Earnings Per Share
35	Ind AS 34	Interim Financial Reporting
36	Ind AS 36	Impairment of Assets
37	Ind AS 37	Provisions, Contingent Liabilities and Contingent Assets
38	Ind AS 38	Intangible Assets
39	Ind AS 40	Investment Property
40	Ind AS 41	Agriculture

Chapter 2C
Overview of Governmental Accounting in India

Article 150 of the Constitution states that, *'The accounts of the Union and of the States shall be kept in such form as the President may, on the advice of the Comptroller and Auditor General of India, prescribe'*. Therefore, on 12th August, 2002, the Comptroller General of India (CAG), with support of Government of India, constituted Government Accounting Standards Advisory Board (GASAB) with an objective to formulate Standards relating to accounting and financial reporting by the Union, the States and Union Territories with Legislature. GASAB considers the existing practices in Governmental accounting and international best practices while formulating these standards

The responsibilities of GASAB include the following:

- To establish and improve Standards of Government accounting and financial reporting in order to enhance accountability mechanisms;
- To formulate and propose Standards that improves the usefulness of financial reports based on the needs of the users;
- To keep the Standards current and reflect change in the Governmental environment;
- To provide guidance on implementation of Standards;
- To consider significant areas of accounting and financial reporting that can be improved through the standard setting process; and
- To improve the common understanding of the nature and purpose of information contained in the financial reports.

From Cash to Accrual

Twelfth Finance Commission was appointed by President on 1st November 2002 under the Chairmanship of Dr. C. Rangarajan. This Commission recommended introduction of accrual basis of accounting in Government. Government of India accepted the proposal and GASAB was entrusted with task of formulating the accrual based standards. Therefore GASAB now formulates two set of accounting norms for Governmental accounting viz:

- Indian Government Accounting Standards (IGASs) – the Standards formulated on cash basis of accounting; and
- Indian Government Financial Reporting Standards (IGFRSs) – the Standards formulated on accrual basis of accounting.

A Preface IGASs and IGFRSs has also been prepared by the GASAB which sets out the objectives and standard-setting procedure of the GASAB and explains the scope and authority of the IGASs for cash system of accounting and IGFRSs for accrual system of accounting.

Main Features of IGAS and IGFRS

- The provisions of the Standards do not override the provisions of any existing or future Acts or Rules made there under by the Union or State Governments.
- The Standards would be prospective in their application.
- Standards by their very nature are meant to apply to material items. Any other limitation on their applicability or otherwise is made clear by GASAB in the respective Standards.
- The Standards have standard portions set in bold italic type which should be read in the context of explanatory paragraphs in the respective Standards set in plain type. Both have equal authority
- The format of the IGASs and IGFRSs ordinarily includes the following:
    - o Introduction
    - o Objective
    - o Scope

- o Definition of the terms used in the Standard
- o Accounting and Presentation requirements
- o Disclosure requirements for complying with the Standard, including format of disclosure, etc., if necessary
- o Explanatory paragraphs
- o Transitional Provisions, if any
- o Effective Date

- All the Standards are mandatory from the effective date(s) mentioned therein after notification of the Standards by Government.
- Financial Statements cannot be described as complying with IGASs and IGFRSs unless they comply with all the requirements of each applicable IGAS and IGFRS.
- Where the accounting authorities of the Union and State Governments have deviated from the applicable notified Standards, a disclosure shall be made with reasons for such deviations as well as the effect of the deviations on the Financial Statements.

Indian Government Accounting Standards (IGAS)

So far three IGASs have been notified by the Government of India and another three IGASs that have been approved by the GASAB but are under consideration of Government of India for approval. These are:

Notified IGASs:

IGAS 1: Guarantees given by Governments: Disclosure Requirements

IGAS 2: Accounting and Classification of Grants-in-aid

IGAS 3: Loans and Advances made by Governments

IGAS not yet notified

IGAS 7: Foreign Currency transactions and loss or gain by Exchange Rate variations

IGAS 9: Government Investments in Equity

IGAS 10: Public Debt and Other Liabilities of Governments: Disclosure Requirements.

Indian Governmental Financial Reporting Standards (IGFRS)

As stated earlier, Cash Basis of accounting is being largely followed in Governmental Accounting. However, the focus is gradually shifting towards accrual basis of accounting. GASAB has been working on migration to accrual basis of accounting in Union and States. Any decision to change the basis of accounting from cash to accrual would essentially be based on a decision of the President of India on the advice of Comptroller and Auditor General of India under Constitutional provisions. However, there is a much felt need for accounting framework and accounting standards on accrual basis to facilitate pilot studies and research efforts on migration to accrual accounting at Union and State level. To facilitate pilot studies and for scale up of activities, GASAB has taken a decision to develop accrual basis accounting standards alongside cash basis standards. The accrual basis standards are issued under the title 'Indian Government Financial Reporting Standards (IGFRSs)'. There are 5 IGFRSs approved by GASAB but still under consideration of Government of India. These are:

IGFRS 1: Presentation of Financial Statements

IGFRS 2: Property, Plant and Equipment

IGFRS 3: Revenue from Governmental Exchange Transactions

IGFRS 4: Inventories

IGFRS 5: Contingent Liabilities (other than guarantees) and Contingent Assets: Disclosure Requirements

Accounting Standards for Local Bodies (ASLBs)

Besides the standards issued by GASAB, there are another set of accounting standards known as Accounting Standards for Local Bodies (ASLB). It is issued by Committee on Accounting Standards for Local Bodies (CASLB), constituted by the Institute of Chartered Accountants of India (ICAI), in March 2005. The term 'Local Body' may be defined as a local self-government at the *third tier of governance* in an administrative and geographical vicinity, e.g.,

a municipal corporation, a municipality or a panchayat. In many cases, the Local Bodies delegate their functions such as building of schools, city roads, parks, running transport services, providing water supply etc., to some other bodies that may or may not be controlled by the Local Bodies, e.g. development authorities, boards, parastatals. Such bodies may be constituted, in partnership with private sector or otherwise, directly or indirectly by or on behalf of a Local Body to promote or carry out some specific objective(s) or function(s) of the Local Bodies. Such bodies may be constituted under a statute. The term 'Local Body' would also encompass such bodies.

Of late, many Local Bodies in the country are shifting to accrual basis of accounting, particularly, after the issuance of the National Municipal Accounts Manual (NMAM) by the Ministry of Urban Development, Government of India, supported by the Comptroller & Auditor General of India, National Institute of Urban Affairs and Indo-USAID FIRE-D Project and the inputs provided by the Institute of Chartered Accountants of India. The NMAM provides guidance to ULBs in preparation of their accounts on accrual basis. Another reason for ULBs adopting accrual basis is that these bodies are also approaching capital markets for raising funds. However, these bodies are following diverse accounting policies and practices in preparation of their financial statements. Hence, a need is felt for formulation of a single set of high quality financial reporting standards for Local Bodies which will set out recognition, measurement, presentation and disclosure requirements dealing with transactions and events in general purpose financial statements of Local Bodies.

ASLBs are being issued in line with the International Public Sector Accounting Standards (IPSASs) issued by the International Public Sector Accounting Standards Board of IFAC after integrating it, to the extent possible, in the light of the conditions and practices prevailing in India. ASLBs are designed to apply to the general purpose financial statements and other financial reporting by Local Bodies. The term 'General Purpose Financial Statements' of Local Bodies includes balance sheet, income and expenditure account, a cash flow statement and other statements and explanatory notes which form part thereof, issued for the use of various stakeholders, Governments and their agencies and the public.

Ensuring compliance with the Accounting Standards for Local Bodies is the responsibility of the appropriate authority which approves the financial statements of the Local Body for the purpose of issuance thereof. Having issued the Accounting Standard for Local Bodies, various State Governments may require Local Bodies to follow the Accounting Standards for Local Bodies issued by the Institute of Chartered Accountants of India. Thus, an Accounting Standard for Local Bodies becomes mandatory for Local Bodies in a State from the date specified in this regard by the State Government concerned.

The following ASLBs has been issued by the CASLB:

- Accounting Standard for Local Bodies (ASLB) 1, *'Presentation of Financial Statements'*
- Accounting Standards for Local Bodies (ASLB) 3, *'Accounting Policies, Changes in Accounting Estimates and Errors"*
- Accounting Standard for Local Bodies (ASLB) 5, *'Borrowing Costs'*
- Accounting Standard for Local Bodies (ASLB 9), *'Revenue from Exchange Transactions'*
- Accounting standard for Local Bodies (ASLB) 11, *"Construction Contracts"*
- Accounting Standard for Local Bodies (ASLB) 12, *'Inventories'*
- Accounting Standard for Local Bodies (ASLB) 14, *'Events After the Reporting Date'*
- Accounting Standard for Local Bodies (ASLB) 17, *'Property, Plant and Equipment'*
- Accounting Standards for Local Bodies (ASLB) 19, *'Provision, Contingent Liabilities and Contingent Assets'*
- Accounting Standards for Local Bodies (ASLB) 31, *'Intangible Assets'*
- Accounting Standards for Local Bodies (ASLB), *'Financial Reporting under Cash Basis of Accounting'*
- Accounting Standard for Local Bodies (ASLB) 24, *'Presentation of Budget Information in Financial Statements'*

Chapter 2D
Income Computation and Disclosure Standards (ICDS)

Section-145(2) of Income-tax Act, 1961 empowers Central Government to issue Accounting Standards for computation of Income. In 1996, Central Government had notified only two accounting standards i.e. 'Disclosure of Accounting Policies' &'Disclosure of Prior Period Items and Extraordinary Items and Changes in Accounting Policies'. However, during December 2010, Central Government constituted a committee to draft Income Computation and Disclosure Standards (ICDS). In August, 2012 the committee provided draft of 14 tax accounting standards which were issued for public comments. However, Central Government in consultation with Central Board of Direct Taxes (CBDT), *vide* CBDT *vide* its Notification No: 32/2015 dated 31-3-2015, notified 10 ICDS which were to be effective from FY: 2015-16 & AY: 2016-17 for all income tax assessees following mercantile system of accounting. As per the notification, these standards were to be followed by all assesses at the time of computation of income chargeable to income tax under the head "Profit and Gains of business or profession" or "Income from other sources" from 1st April, 2015 and were to apply to the Assessment Year 2016-17 and subsequent assessment years. However, later the Finance Ministry has issued a Press Release dated 6 July 2016, deferring implementation of Income Computation and Disclosure Standards (ICDS) by one year to Assessment Year (AY) 2017-18 (Financial Year (FY) 2016-17). CBDT Notification No. 87/2016 dated 29th September, 2016 F.No.133/23/2015-TPL followed this press release. Hereby Central Government issued revised ICDS. As per the revised notification ICDS would apply to all assessees (other than an individual or a Hindu Undivided Family who is not required to get his accounts of the previous year audited in accordance with the provisions of section 44AB of the said Act) following the mercantile system of accounting, for the purposes of

computation of income chargeable to income-tax under the head "Profits and gains of business or profession" or "Income from other sources". The new ICDS would be applicable from Assessment Year 2017-18 [i.e. Financial Year 2016-17]. CBDT also through Notification No. 88 /2016 [F. No. 133/23/2015-TPL]/ SO 3080(E) prescribed amendment to tax audit report.

The 10 ICDS issued are as follows:

ICDS NO	NAME	Equivalent IND AS	Equivalent AS
I	Accounting Policies	1 & 8	1
II	Valuation of Inventories	2	2
III	Construction Contract	11	7
IV	Revenue Recognition	18	9
V	Tangible Fixed Asset	16	10
VI	Effects of changes in foreign exchange rates	21	11
VII	Government Grants	20	12
VIII	Securities	32	-
IX	Borrowing Costs	23	16
X	Provisions, contingent liabilities and contingent assets	37	29

Purpose of ICDS: ICDS were developed with a view to minimising tax related disputes by bringing greater consistency in the application of accounting principles governing the computation of income.

Applicability of ICDS: ICDS would now apply to all assessees (other than individuals and HUF not subject to tax audit under section 44 AB of Income Tax Act).

Other Requirements

- No separate accounts are required to be maintained. ICDS only to be used for tax computation purposes
- In case of conflict between Income-tax Act, 1961 and the provisions of ICDS, the Act would prevail.

- In case of non-compliance, income tax authorities may make best judgment assessment of the income.
- Potential impact of ICDS must be considered for estimating advance tax liability.

Important Provisions of ICDS

ICDS I: Accounting Policies

- Unlike AS 1 *Disclosure of Accounting Policies,* ICDS do not have concept of materiality and prudence in selection of accounting policies.
- To represent a true and fair view of the state of affairs and income of the business, profession or vocation, the treatment and presentation of transactions and events should be governed by their substance and not merely by the legal form.
- There is a specific provision that marked to market loss or an expected loss should not be recognised unless the recognition of such loss is in accordance with the provisions of any other ICDS. For example, ICDS II provides for valuation of inventories at cost or net realisable value, whichever is lower. However, no guidance is included on expected or marked to market gains.
- Changes in accounting policy will not be done unless for a 'reasonable cause'. (The term 'reasonable cause' is not defined).
- **Transitional Provisions:** All contract or transaction existing on the 1st day of April, 2016 or entered into on or after the 1st day of April, 2016 shall be dealt with in accordance with the provisions of this standard after taking into account the income, expense or loss, if any, recognised in respect of the said contract or transaction for the previous year ending on or before the 31st March, 2016.

ICDS II: Valuation of Inventories

- ICDS II would be applied for valuation of inventories, except for the following:

- o Work-in-progress arising under 'construction contract' including directly related service contract which is dealt with by the ICDS relating to construction contracts;
- o Work-in-progress which is dealt with by other ICDS;
- o Shares, debentures and other financial instruments held as stock-in-trade which are dealt with by the ICDS relating to securities;
- o Producers' inventories of livestock, agriculture and forest products, mineral oils, ores and gases to the extent that they are measured at net realisable value;
- o Machinery spares, which can be used only in connection with a tangible fixed asset and their use is expected to be irregular, should be dealt with in accordance with the ICDS relating to tangible fixed assets.

- Value of opening inventory should be same as closing inventory of the preceding year and in case of new enterprise cost of the inventories should be considered.
- The following cost formula would apply to valuation of inventories:
  - o Cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects should be assigned by specific identification of their individual costs.
  - o Cost of other inventories should be assigned by using the First-in First-out (FIFO), or weighted average cost formula. The formula used should reflect the fairest possible approximation to the cost incurred in bringing the items of inventory to their present location and condition.
  - o Revised ICDS permits standard costing method for convenience if the results approximate the actual cost. However, the same needs to be reviewed regularly and detailed disclosure giving details of inventories for which standard costing is used and confirmation that

standard cost approximates actual cost needs to be provided.

- o In case of inventories of large number of rapidly changing items that have similar margins, *Retail Method* is permitted as technique for measurement of cost if it is impracticable to use 'FIFO' or 'Weighted Average Cost Formula'. The cost of the inventory is determined by reducing from the sales value of the inventory, the appropriate percentage gross margin. Revised ICDS II requires an average percentage for each retail department is to be used.

- When materials held for use in production are written down to net realisable value because there has been a decline in the price of materials and it is estimated that the cost of the finished products will exceed net realisable value, replacement cost of such materials should be treated as their net realisable value.
- Allocation of fixed production overheads is based on normal capacity of production facilities. The actual level of production should be used, if it approximates normal capacity.
- Method of valuation should not be changed without reasonable cause.
- In case of dissolution of partnership, Association of Persons, Body of Individuals irrespective of dissolution of business, inventory will be valued at net realisable value.
- While determining cost of purchase, purchase price includes duties and taxes. Under ICDS, duties and taxes, even if subsequently recoverable from taxing authorities, will form part of costs of purchase, and hence, will be included in the cost of inventories.
- **Transitional Provisions:** Interest and other borrowing costs, which do not meet the criteria for recognition of interest as a component of the cost, but included in the cost of the opening inventory as on the 1st day of April, 2016, shall be taken into account for determining cost of such inventory for

valuation as on the close of the previous year beginning on or after 1st day of April, 2016 if such inventory continue to remain part of inventory as on the close of the previous year beginning on or after 1st day of April, 2016.

ICDS III: Construction Contracts

- ICDS III relating to Construction Contracts would be applicable in determining income for a construction contract of a contractor which commenced on or after 1st April 2016. The revised ICDS provides relief to the persons engaged in construction contract as they should be allowed to follow their regular accounting practice for the construction contracts which commenced before 1 April 2016.
- A construction contract is a contract which is specifically negotiated for the construction of the asset or a combination of assets that are closely interrelated or interdependent in terms of design, technology, and function of their ultimate purpose or use.
- A group of contracts (whether with a single customer or group of customers) are treated as a single construction contract when these are negotiated together, contracts are closely interrelated and contracts are performed concurrently or in a continuous sequence.
- Construction of an additional asset is treated as a separate contract if the asset differs significantly in design, technology, or function, or the price of the asset is negotiated without regard to the original contract price.
- Contract revenue and contract costs are required to be recognised on Percentage of Completion Method (POCM). The manner of determining the stage of completion for recognition of contract revenue/contract costs is also provided. Once a contract crosses 25% of the completion stage, the profit in respect of such contract is required to be recognised.
- During early stages (up to 25% completion) where outcome of the contract cannot be reliably estimated, revenue is recognised to the extent of costs incurred

- Contract costs are to be recognised as an expense in the period in which they are incurred. Expected loss should be recognised in proportion of work completed.
- Contract revenue should be recognised when there is reasonable certainty of its ultimate collection.
- Contract revenue should comprise of variations in contract work, claims and incentive payments to the extent that it is probable that they will result in revenue and their capable of being reliably measured. Thus, revenue accrues as soon as there is a probability unlike in case of AS where acceptance by customer is established.
- Retention money is considered as part of contract revenues and hence, should be recognised on POCM basis.
- ICDS also provides as to what constitutes contract costs which even includes allocated borrowing costs. Pre-construction income in the nature of interest, dividend and capital gains is specifically not allowed to be reduced from the cost of construction.
- Losses incurred on a contract are allowed only in proportion to the stage of completion. Further, any future or anticipated losses are not considered allowable, unless actually incurred.
- Interest should accrue on time basis. Discount or premium on debt securities held should be accrued over the period to maturity. Thus, interest and discount or premium on debt securities will be taxed annually in the hands of the holder before maturity.

ICDS IV: Revenue Recognition

- ICDS IV applies to income from Ordinary activities like:
  - o From sale of goods & services,
  - o From Interest, royalties & dividend.
- It does not cover those incomes which are covered by other ICDS

- Revenue means gross inflow of cash, receivables or other consideration. In case of agency relationship, revenue means commission received.
- In the case of sale of goods, revenue should be recognised when goods have transferred to the buyer for a price or all significant risk & rewards of ownership have been transferred. Also there should be reasonably certainty of the ultimate collection.
- In the case of escalation of price and export incentives, income should be recognised only when there is reasonable certainty of the ultimate collection.
- In the case of Services, revenue should be recognised by the percentage completion method, in manner similar to provided in ICDS III.
- When service is provided by an indeterminate number of acts over a specific period of time, revenue may be recognised on straight line basis over the specific period.
- Revised ICDS IV provides that the revenue from service contracts with duration of not more than 90 days may be recognized under completed contract method.
- Interest is calculated on time basis determined by the amount outstanding and the rate applicable. However, revised ICDS IV provides that the interest on refund of any tax, duty or cess will be taxable on receipt basis
- Revenue from discount or premium on debt securities is assumed to accrue over the period of maturity, and accordingly recognised.
- Revenue from royalties should accrue and recognised with the terms of relevant agreement. However, ICDS IV permits that considering substance of transaction if it is necessary, revenue can be recognised on some other systematic & rational basis.
- Appropriate disclosures should be made for revenue not recognised due to lack of certainty of collection with nature of uncertainty, Revenue recognised from services, Method used to determine the stage of completion of services in

progress with amount of cost incurred & recognised profits, advance received and amount of retentions.

- **Transitional Provisions:** Revenue for a transaction, other than dividend, undertaken on or before the 31st day of March, 2016 but not completed by the said date shall be recognised in accordance with the provisions of this standard for the previous year commencing on the 1st day of April, 2016 and subsequent previous year. The amount of revenue, if any, recognised for the said transaction for any previous year commencing on or before the 1st day of April, 2015 shall be taken into account for recognising revenue for the said transaction for the previous year commencing on the 1st day of April, 2016 and subsequent previous years.

ICDS V - Tangible Fixed Assets

- The tangible fixed asset is any asset being land, building, machinery, plant or furniture held with the intention of being used for the purpose of producing goods or services and is not held for sale in the normal course of business. There is no option of expensing off of immaterial assets resulting in onerous compliances and record keeping.

- Machinery spares which can be used only in connection with a Tangible fixed asset and where use is irregular, have to be capitalised.

- Where a person owns tangible fixed assets jointly with others, the proportion in the actual cost, accumulated depreciation and written down value is grouped together with similar fully owned tangible fixed assets. Requirement of identifying such assets in fixed asset register has been done away with in revised ICDS.

- The expenditure incurred on start-up and commissioning of the project, including the expenditure incurred on test runs and experimental production, should be capitalised as an indirect element of the construction cost.

- Unlike AS 10 *Property, Plant and Equipment*, capitalised Similar to Indian GAAP. However, expenses incurred in the interval when the project is ready to commence commercial

production and when it actually commences production may also be required to be capitalised.

- When a tangible fixed asset is acquired in exchange for another asset, the fair value of the tangible fixed asset so acquired will be its actual cost.
- In case a tangible fixed asset is acquired in exchange for shares or other securities, the fair value of the tangible fixed asset so acquired will be its actual cost.
- Replacement cost of an item of property, plant and equipment is generally expensed when incurred. Only expenditure that increases the future benefits from the existing asset beyond its previously assessed standard of performance is capitalised.
- Any addition or extension, which has a separate identity and is capable of being used, after the existing tangible fixed asset is disposed of, should be treated as separate asset
- Where several assets are purchased for a consolidated price the consideration should be apportioned to the various assets on a fair basis.
- Depreciation is to be calculated as per section 32 of the Income-tax Act, 1961 r.w. Rule 5 of the Income tax Rules, 1962.
- Long term / short term gains on transfer of a fixed asset should be computed in accordance with the provisions of the Income-tax Act, 1961.
- Following disclosures should be made:
    - o Description of asset or block of assets
    - o Rate of depreciation
    - o Actual cost or Written Down Value (WDV) as the case may be
    - o Additions or deductions during the year with dates. The addition to a fixed asset should indicate the date on which it was put to use including adjustment of CENVAT claimed and allowed under CENVAT Credit

Rules, change in rate of exchange or currency, subsidy or grant or imbursement, by whatever named called

- o Depreciation allowable; and
- o WDV at the year end

- ***Transitional Provisions:*** The actual cost of tangible fixed assets, acquisition or construction of which commenced on or before the 31st day of March, 2016 but not completed by the said date, shall be recognised in accordance with the provisions of this standard. The amount of actual cost, if any, recognised for the said assets for any previous year commencing on or before the 1st day of April, 2015 shall be taken into account for recognising actual cost of the said assets for the previous year commencing on the 1st day of April, 2016 and subsequent previous years.

ICDS VI: Effects of Changes in Foreign Exchange Rates

- This ICDS deals with the treatment of transactions in foreign currencies, translations of the financial statements of foreign operations and treatment of foreign currency transactions in the nature of forward exchange contracts.
- "Foreign currency" is a currency other than the reporting currency. "Reporting currency" means Indian currency except for foreign operations where it should mean currency of the country where the operations are carried out.
- Foreign operation is a branch, by whatever name called, the activities of which are based or conducted in a country other than India.
- A foreign currency transaction should be recorded on initial recognition in the reporting currency, by applying to the foreign currency amount the exchange rate between the reporting currency and foreign currency at the date of transaction. An average rate for a week or month that approximates the actual rate at the date of transaction may be used for all transaction in each foreign currency accruing during the period if there are limited fluctuations.

- Non-monetary foreign currency items should be converted into reporting currency by using the exchange rate at the date of the transaction. Revised ICDS VI clarifies that non-monetary items being inventory carried at WDV should be converted at rate prevailing on date when such NRV is determined. Exchange differences arising thereof should not be recognised as income or expense in that year. Such exchange difference should be recognised on the basis of provisions of section 43A of the Income-tax Act, 1961 read with Rule 115.
- Monetary items like cash, receivables, etc should be converted into reporting currency by applying the closing rate and exchange differences arising on the settlement of monetary items or on conversion thereof at last day of the year should be recognised as income or as expense in that year.
- The financial statements of Foreign Operations should be translated using the principles and procedures as if the transactions of the Foreign Operation had been those of the person himself. All resulting exchange differences should be recognised as income or as expenses in that year. Above provisions are subject to Section 43A of the Act read with rule 115 of the Rules.
- "Forward exchange contract" are agreement to exchange different currencies at a forward rate and includes a foreign currency option contract or another financial instrument of a similar nature.
- In case of forward contracts entered for trading and speculative purposes, any premium or discount arising at the inception of a forward exchange contract is amortised as expense or income over the life of the contract.
- Exchange difference on a forward exchange contract is the difference between (a) the foreign currency amount of the contract translated at the exchange rate at the reporting date, or the settlement date where the transaction is settled during the reporting period, and (b) the same foreign currency amount translated at the latter of the date of inception of the forward exchange contract and the last reporting date.

Exchange differences on such a contract are recognised in the statement of profit and loss in the reporting period in which the exchange rates change.

- For other forward exchange contracts that are intended for trading or speculation purposes or that are entered into to hedge the foreign currency risk of a firm commitment or a highly probable forecast transaction, premium, discount or exchange difference, should be recognised at the time of settlement.
- *Transitional Provisions*

  a. All foreign currency transactions undertaken on or after 1st day of April, 2016 shall be recognised in accordance with the provisions of this standard.

  b. Exchange differences arising in respect of monetary items or non-monetary items, on the settlement thereof during the previous year commencing on the 1st day of April, 2016 or on conversion thereof at the last day of the previous year commencing on the 1st day of April, 2016, shall be recognised in accordance with the provisions of this standard after taking into account the amount recognised on the last day of the previous year ending on the 31st March, 2016 for an item, if any, which is carried forward from said previous year.

  c. The financial statements of foreign operations for the previous year commencing on the 1st day of April, 2016 shall be translated using the principles and procedures specified in this standard after taking into account the amount recognised on the last day of the previous year ending on the 31st March, 2016 for an item, if any, which is carried forward from said previous year.

  d. All forward exchange contracts existing on the 1st day of April, 2016 or entered on or after 1st day of April, 2016 shall be dealt with in accordance with the provisions of this standard after taking into account the income or expenses, if any, recognised in respect of said contracts for the previous year ending on or before the 31st March, 2016.

ICDS VII - Government Grants

- ICDS VII deals with Government grants like subsidies, duty drawbacks, etc. However, Government assistance other than in the form of Government grants and Government participation in the ownership of the enterprise are not covered under this ICDS.
- Government grants should not be recognised until there is reasonable assurance that the entity should comply with the conditions attached to them, and the grants should be received. However, recognition of Government grant should not be postponed beyond the date of actual receipt.
- Government grants other than those mentioned below should be recognised as income over the periods necessary to match them with the related costs which they are intended to compensate.
- Where the Government grant relates to a depreciable fixed asset, the grant should be deducted from the actual cost of the asset/written down value of block of assets to which concerned asset belonged to.
- Where the Government grant is of such a nature that it cannot be directly relatable to the asset acquired, so much of the amount which bears to the total Government grant, the same proportion as such asset bears to all the assets in respect of or with reference to which the Government grant is so received, should be deducted from the actual cost of the asset or should be reduced from the written down value of block of assets to which the asset or assets belonged to.
- Where the Government grant relates to a non-depreciable asset or assets requiring fulfilment of certain obligations, the grant should be recognised as income over the same period over which the cost of meeting such obligations is charged to income.
- If the asset is given by the Government at a discounted price, the asset and the grant is accounted at the discounted purchase price.
- The amount refundable in respect of a Government grant related to a fixed asset or assets should be recorded by

increasing the actual cost or written down value of block of assets by the amount refundable. Where the actual cost of the asset is increased, depreciation on the revised actual cost or written down value should be provided prospectively at the prescribed rate.

- The amount refundable in respect of other Government grants should be applied first against any unamortised deferred credit remaining in respect of the Government grant. To the extent that the amount refundable exceeds any such deferred credit, or where no deferred credit exists, the amount should be charged to profit and loss statement.
- ***Transitional Provisions:*** All the Government grants which meet the recognition criteria on or after 1st day of April, 2016 shall be recognised for the previous year commencing on or after 1st day of April, 2016 in accordance with the provisions of this standard after taking into account the amount, if any, of the said Government grant recognised for any previous year ending on or before 31st day of March, 2016.

ICDS VIII - Securities

- ICDS deals only with securities held as stock-in-trade. This ICDS does not deal with securities held by an entity engaged in the business of insurance and securities held by mutual funds, venture capital funds, banks and public financial institutions formed under a Central or a State Act or so declared under the Companies Act, 1956 or the Companies Act, 2013.
- A security on acquisition should be recognised at actual cost which would consist of its purchase price including acquisition charges such as brokerage, fees, tax, duty or cess. Where a security is acquired in exchange for other securities or for another asset, the fair value of the security so acquired should be its actual cost.
- Where unpaid interest has accrued before the acquisition of an interest-bearing security and is included in the price paid for the security.
- At the end of the year, securities not listed on a recognised stock exchange, or listed but not quoted on a recognised stock

exchange with regularity from time-to-time, should be valued at initial cost.

- At the end of the year, securities other than those considered above should be valued at lower of initial cost or net realisable value.
- The comparison of cost and net realisable value should be done category wise and not for each individual security. For this purpose, securities should be classified as shares, debt securities, convertible securities, and any other securities.
- In case where initial cost cannot be specifically identified (for securities other than unlisted securities or listed but not regularly quoted securities), cost should be determined on first-in-first-out basis.

ICDS IX: Borrowing Costs

- This ICDS deals with treatment of borrowing costs. However, it does not deal with actual cost or imputed cost of owners' equity and preference shares capital.
- ***"Borrowing costs"*** are defined as interest and other costs incurred and include:
  - o Commitment charges on borrowings.
  - o Amortised amount of discounts or premiums relating to borrowings.
  - o Amortised amount of ancillary costs incurred in connection with the arrangement of borrowings.
  - o Finance charges in respect of assets acquired under finance leases or other similar arrangements.
- ***"Qualifying asset"*** means:
  - o Land, building, machinery, plant or furniture, being tangible assets;
  - o Know-how, patents, copyrights, trademarks, licences, franchises or any other business or commercial rights of similar nature, being intangible assets;

  - o Inventories that require a period of twelve months or more to bring them to a saleable condition.

- To the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation on that asset should be determined as the actual borrowing costs incurred on that borrowing during the period.
- Borrowings costs not eligible for capitalisation are recognised in accordance with the provisions of the Income Tax Act.
- To the extent the funds are borrowed generally and utilised for the purposes of acquisition, construction or production of a qualifying asset, the amount of borrowing costs to be capitalised should be computed in accordance with the following formula i.e.

  Borrowing cost * Average cost of qualifying assets/Average of total assets.

  Here, Borrowing costs are interest on borrowings other than those that are directly relatable to specific purposes and average of total assets is computed after ignoring the specifically funded assets. The "average cost" is defined as:

  (i) The average of cost of the qualifying asset as appearing in the balance sheet on the first and last day of the year;

  (ii) In case the qualifying asset does not appear in the balance sheet on the first day or both on the first day and the last day of year, half of the cost of qualifying asset;

  (iii) In case the qualifying asset does not appear in the balance sheet on the last day of year, the average of the costs of qualifying asset as appearing in the balance sheet on the first day of the year and on the date of put to use or completion, as the case may be, other than those qualifying assets which are directly funded out of specific borrowing.

- The capitalisation of borrowing costs commences in a case where there are specific borrowings for qualifying asset, from

the date on which funds were borrowed and in a case where there are general borrowings, from the date on which funds were utilised.

- Capitalisation of borrowing costs ceases in case of inventory, when substantially all the activities necessary to prepare such inventory for its intended sale are complete; and in case of other qualifying assets, when such asset is first put to use.
- ***Transitional Provisions:*** All the borrowing costs incurred on or after 1st day of April, 2016 shall be capitalised for the previous year commencing on or after 1st day of April, 2016 in accordance with the provisions of this standard after taking into account the amount of borrowing costs capitalised, if any, for the same borrowing for any previous year ending on or before 31st day of March,2016

ICDS X: Provisions, Contingent Liabilities and Contingent Assets

- ICDS X deals with provisions, contingent liabilities and contingent assets, except those:
  - o Resulting from financial instruments;
  - o Resulting from executory contracts;
  - o Arising in insurance business from contracts with policyholders; and
  - o Covered by another ICDS.
- A provision should be recognised when all of the following conditions are met:
  - o There is a present obligation as a result of a past event;
  - o It is reasonably certain that an outflow of resources embodying economic benefits will be required to settle the obligation; and
  - o A reliable estimate can be made of the amount of the obligation.
- Contingent assets are assessed continually and when it becomes ***reasonably*** certain that inflow of economic benefit

will arise, the asset and related income are recognised in the year in which the change occurs.

- The amount recognised as asset and related income should be the best estimate of the value of economic benefit arising at the end of the year.
- Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement should be recognised when it is ***reasonably*** certain that reimbursement will be received if the entity settles the obligation.
- ***Transitional Provisions:*** All the provisions or assets and related income shall be recognised for the previous year commencing on or after 1st day of April, 2016 in accordance with the provisions of this standard after taking into account the amount recognised, if any, for the same for any previous year ending on or before 31st day of March, 2016.

Chapter 3
Comparison of Ind AS and Indian GAAP

As discussed in chapter 2, hence forth two sets of Accounting Standards are applied in the financial reporting by the Indian Corporate entities, which have been prescribed by the Companies (Accounting Standards) Rules, 2006 and Companies (Indian Accounting Standards) Rules, 2015. Prior to introduction of Ind ASs, which are based on IFRS, all companies in India were required to adhere to Companies (Accounting Standards) Rules, 2006. Though these ASs are also to an extent based on IFRS, they have not been able to keep pace with the changes and expansion of IFRS and as a result many differences between the two remains. The major discrepancies between the two standards are important to comprehend and also are essential for determining the process of convergence exercise. These differences are discussed below:

AS	Ind AS
AS 14 Accounting for Amalgamations	**Ind AS 103 Business Combinations**
Deals only with amalgamation	Deals will all types of Business combinations
The pooling of interest method and the purchase methods are both prescribed	Only acquisition method of accounting is permitted
The acquired assets and liabilities are recognised at their existing book values or at fair values under the purchase method	Requires the acquired identifiable assets liabilities and non-controlling interest to be recognised at fair value under acquisition method

AS	Ind AS
Requires the minority interest to be measured at the amount of equity attributable to minorities at the date on which investment in a subsidiary is made and it is presented outside shareholders' equity	Requires the acquirer shall measure any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets
Does not deals with reverse acquisitions	Deals with reverse acquisitions
The goodwill arising on amalgamation in the nature of purchase is amortised over a period not exceeding five years	The goodwill arising in business combination is not amortised but tested for impairment on annual basis
The excess amount is treated as capital reserve	Requires bargain purchase gain arising on business combination to be recognised in other comprehensive income and accumulated in equity as capital reserve, unless there is no clear evidence for the underlying reason for classification of the business combination as a bargain purchase, in which case, it shall be recognised directly in equity as capital reserve
No such provision	Deals with accounting for business combination of entities under common control
AS 24 Discontinuing Operations	**Ind AS 105 Non-Current assets held for sale and Discontinued Operations**
Prescribes principles only for reporting information about discontinuing operations.	Deals with the accounting for non-current assets held for sale, and the presentation and disclosure of discontinued operations

AS	Ind AS
A discontinuing operation is a component of an entity that represents the major line of business or geographical area of operations and that can be distinguished operationally and for financial reporting purposes	A discontinued operation is a component of an entity that represents a separate major line of business or geographical area, or is a subsidiary acquired exclusively with a view to resale
Requirements related to cash flow statement are applicable when the enterprise presents a cash flow statement	No requirements related to cash flow statement are specified
Discontinued Operations are not dealt with. Only deals with discontinuing operations	A discontinued operation is a component of an entity that either has been disposed of or is classified as held for sale.
No time limit specified	The sale should be expected to qualify for recognition as a completed sale within one year from the date of classification with certain exceptions
AS 10 requires that the fixed assets retired from active use and held for disposal should be stated at the lower of their net book value and net realisable value and shown separately in the financial statements	Non-current assets (disposal groups) held for sale are measured at the lower of carrying amount and fair value less costs to sell, and are presented separately in the balance sheet
Abandonment of assets is classified as a discontinuing operation	Specifically mentions that abandonment of assets should not be classified as held for sale
No such guidance	Provides guidance regarding measurement of changes to a plan of sale

AS	Ind AS
AS 21 Consolidated Financial Statements	**Ind AS 110 Consolidated Financial Statements (See also Ind AS 27 and Ind AS 112)**
Does not specifically provide as to which entity should prepare CFS. The statement is to be followed whenever entity presents a CFS	Consolidation is required for all subsidiaries except investment entities, subject to certain conditions
Requires the use of uniform accounting policies for preparation of CFS with an exception where it is impracticable	Requires the use of uniform accounting policies for preparation of CFS
Allows a six-month gap for subsidiaries and jointly-controlled entities. For associates, there is no time gap prescribed	Allows a three-month gap between financial statements of a parent or investor and its subsidiary, associate or jointly-controlled entity
Excess losses attributable to minority shareholders over the minority interest are adjusted against the majority interest, unless the minority has a binding obligation to, and is able to, make good the losses	Requires losses incurred by the subsidiary to be allocated between the controlling (parent) and non-controlling interests, even if the losses exceed the non-controlling equity investment in the subsidiary
Provides for exclusion from consolidation where if the subsidiary or the interest in entity was acquired for disposal in near future or if it is under severe long term restrictions which impair its ability to transfer funds to the parent	No exemptions for temporary control or for long term restrictions to transfer funds
No guidance provided	Provides guidance on loss of control

AS	Ind AS
Definition of accounting policies restricted to specific accounting principles and the methods of applying those principles	Broader definition to include bases, conventions, rules and practices (in addition to principles) applied by an entity in the preparation and presentation of financial statements
No such requirement	Accounting policies should be consistent for similar transaction, events and circumstances unless otherwise required by some Ind AS
Prospective application with impact of change in policy to be stated in notes. However, change in depreciation to be dealt with retrospectively	Accounting Policy changes to be dealt with retrospectively
prior period items are incomes or expenses which arise in the current period as a result of errors or omissions in the preparation of financial statements of one or more prior periods	Uses the term errors and relates it to errors or omissions arising from a failure to use or misuse of reliable information (in addition to mathematical mistakes, mistakes in application of accounting policies etc.) that was available when the financial statements of the prior periods were approved for issuance and could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements
Fraud not covered	Errors include frauds

AS	Ind AS
The rectification of prior period items to be done with prospective effect.	Rectification of material prior period errors with retrospective effect by restating opening Balance Sheet subject to limited exceptions viz., where it is impracticable to determine the period specific effects or the cumulative effect
No such requirement	Impact of any new accounting pronouncement that have been issued but not yet effective to be disclosed
No such specification	While formulating accounting policies on issues where no standard has been pronounced, recent IASB or other standard setting body with similar framework to be used
AS 4 Contingencies and Events Occurring after Balance Sheet Date	**Ind AS 10: Events after the reporting period**
To be disclosed in report of approving authority like director's report	Material non-adjusting events are required to be disclosed in the financial statements
No such specifications	Where there is breach of long term loan arrangement which makes it payable on demand on the reporting date but the lender agrees no demand payment on breach before approval of financial statement would be considered as adjusting event

AS	Ind AS
AS 22 Accounting for Taxes on Income	**Ind AS 12 Income Taxes**
Based on elements of profit & loss & timing difference	Based on items in Balance Sheet & tax base method with focus on temporary difference
Business combinations (other than amalgamation) will not give rise to such deferred tax adjustment	Requires the recognition of deferred taxes in case of business combinations
Where an entity has a history of tax losses, the entity recognizes a deferred tax asset arising from unused tax losses or tax credits only to the extent that it has sufficient taxable temporary differences, or there is other convincing evidence that sufficient taxable profit will be available	Where an entity has a history of tax losses, the entity recognizes a deferred tax asset arising from unused tax losses or tax credits only to the extent that it has sufficient taxable temporary differences, or there is other convincing evidence that sufficient taxable profit will be available. No requirement for consideration of virtual certainty
Deferred tax is not recognized on such differences	Entity should recognize a deferred tax liability in consolidated financial statements for all taxable temporary differences associated with investments in subsidiaries, branches and associates, and interests in joint ventures, except to the extent that the parent, investor or venturer is able to control the timing of the reversal of the temporary difference, and it is probable that the temporary difference will not reverse in the foreseeable future

AS	Ind AS
Deferred tax is not recognised on such eliminations	Deferred taxes are recognized on temporary differences that arise from the elimination of profits and losses resulting from intra-group transactions
No such guidance	Deferred tax to computed based tax deduction on share based payments under tax laws
Specifically provides guidance regarding recognition of deferred tax in the situations of Tax Holiday under Sections 80-IA and 80-IB and Tax Holiday under Sections 10A and 10B of the Income Tax Act, 1961	No such guidance
Provides guidance regarding recognition of deferred tax asset in case of loss under the head 'capital gains'	NO such specific guidance
No such guidance	Provides guidance as to how an entity should account for the tax consequences of a change in its tax status or that of its shareholders
Requires disclosure of deferred tax assets and liabilities in the balance sheet	Does not deal with this aspect except that it requires that income tax relating to each component of other comprehensive income shall be disclosed as current or non-current asset/liability in accordance with the requirements of Ind AS 1.

AS	Ind AS
No such guidance	Current and deferred tax are recognised as income or an expense and included in profit or loss for the period, except to the extent that the tax arises from a transaction or event which is recognised outside profit or loss, either in other comprehensive income or directly in equity, in those cases tax is also recognised in other comprehensive income or in equity, as appropriate
AS 10 Accounting for fixed assets & AS 6 Depreciation Accounting (As used by entities till accounting period 2015-16)	**IAS 16 Property, Plant & Equipment**
Specifically excludes accounting for real estate developers from its scope	No such exclusion
Recommends, but does not require it.	Mandates 'part of item' accounting
Major repairs and overhaul expenditure are capitalized as replacement costs, if they satisfy the recognition criteria	Mostly charged off to the profit and loss account as incurred.
No such guidance	For assets purchased on deferred scheme, the difference between the purchase price under normal credit terms and the total amount incurred would be recognized as interest expense over the period of the financing

AS	Ind AS
There is no specific guidance under Indian GAAP on whether the cost of an asset includes costs of its dismantlement, removal or restoration, the obligation for which an entity incurs as a consequence of installing the item	The cost of an asset would specifically include dismantling charges and such cost and would have to be added to the purchase price at initial recognition
All foreign exchange differences shall generally be charged to profit and loss account	An entity has an option to recognize unrealized exchange differences on translation of certain long-term monetary assets/liabilities as adjustment to cost of an asset. Such an amount shall be depreciated over the balance useful life of the asset
Estimates of useful lives, depreciation method and residual values to be reviewed at least at the end of each financial year	No such requirement. Only useful life to be reviewed periodically
It is treated as change in estimate	Any change in depreciation method is treated as an accounting policy change
No such requirement	In case of revaluation, evaluation to be done for the entire class of property, plant and equipment to which that asset belongs, and the revaluation to be updated periodically
AS 19 Leases	**Ind AS 17 Leases**
Leasehold land to be classified as fixed asset	Recorded as operating or finance lease

AS	Ind AS
No such guidance	Based on the substance of the arrangement requires an entity to determine whether 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 in return for a payment or series of payments, is a lease
are either deferred or allocated over lease term or recognised in period in which incurred	In case of operating lease, initial direct cost incurred by lessor are added to carrying amount of lease asset and recognised over lease term in same proportion as lease income
No such guidance	Lease incentives are treated as reduction of lease income or expense for both parties under operating lease
AS 15 Employee Benefits	**Ind AS 19 Employee Benefits**
Detailed actuarial valuation to determine present value of the benefit obligation is to be done at least once every three years	Detailed actuarial valuation to determine present value of the benefit obligation is to be done with sufficient regularity
Such impacts are taken to profit and loss account	Requires the impact of re-measurement in net defined benefit liability (asset) to be recognised in OCI. These include actuarial gains or losses, return on plan assets (excluding interest on net asset/ liability) and any change in effect of asset ceiling

AS	Ind AS
It is based on legal obligation	The liability for termination benefits has to be recognised based on constructive obligation
	Employee share-based payments should be accounted for using the fair value method
No such guidance is provided	Provides detailed guidance on accounting for group and treasury share transactions
No such guidance	Provides guidance on employees or third party contribution to defined benefit plans which are linked to service
No such guidance	Deals with situations where there is a contractual agreement between a multi-employer plan and its participants that determines how the surplus/ deficit in the plan will be distributed to the participants
Less guidance	More guidance has been given for timing of recognition of termination benefits, including that with voluntary redundancy
No such guidance	Gives guidance on the interaction of ceiling of asset recognition and minimum funding requirement in the case of defined benefit obligations
AS 11 The Effects of changes in Foreign Exchange Rates	**Ind AS 21 The Effects of changes in Foreign Exchange Rates**
Based on concept of integral foreign operations and non-integral foreign operations. No concept of functional currency	Based on concept of Functional Currency

AS	Ind AS
No such exclusion	Forward exchange contracts and other similar financial instruments are excluded from the scope as they are part of Ind AS 109
No such situation is discussed	Presentation currency can be different from local currency
No such permission	Permits an option to recognise exchange differences arising on translation of certain long-term monetary items from foreign currency to functional currency directly in equity and accumulated exchange differences being transferred to profit or loss
Change in reporting currency not dealt with. Only reason for change should be disclosed	Change in functional currency should be accounted prospectively. The date and reason for change should also be disclosed
AS 16 Borrowing Costs	**Ind AS 23 Borrowing Costs**
No such exclusion	Scope exception for qualifying assets measured at fair value and inventories produced in large quantity on repetitive basis
No reference to effective interest rate.	The components of borrowings are linked to effective rate of interest
AS 18 Related Party Disclosures	**Ind AS 24 Related Party Disclosures**
More extensive and specific definition of related party	Person considered related on the basis of ability to control or significantly influence the operating or financial decision of the other party

AS	Ind AS
There is no such stipulation on substantiation of related party transactions when the same is disclosed to be on arm's length basis	An entity should disclose that the terms of related party transactions are equivalent to those that prevail in arm's length transactions, only if such terms can be substantiated
No such requirement	Requires disclosure of key management personnel's compensation in total and for certain specified categories, such as short-term employee benefits and post-employment benefits
Uses the term "relatives of an individual" and includes the spouse, son, daughter, brother, sister, father and mother who may be expected to influence, or be influenced by, that individual in his/her dealings with the reporting enterprise	Contains definition of "close member of family" to include the persons specified within the 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
Defines state-controlled enterprise as an enterprise which is under the control of the Central Government and/or any State Government	Defines a Government-related entity as an entity that is controlled, jointly controlled or significantly influenced by a government. And Government refers to government, government agencies and similar bodies whether local, national or international
Covers KMP of the entity only	Covers key management personnel (KMP) of the parent as well as related party

AS	Ind AS
Co-venturers or co-associates are not considered as related to each other.	Two entities are related to each other in both their financial statements, if they are either co-venturers or one is a venturer and the other is an associate
Not included	Specifically includes post employment benefit plans for the benefit of employees of an entity or its related entity as related parties
No such requirement	Requires an additional disclosure as to the name of the next most senior parent which produces consolidated financial statements for public use
Requires disclosure of volume of the transactions either as an amount or as an appropriate proportion	Requires disclosure of amount of transaction
No such requirement	Requires disclosures of certain information by the government related entities
AS 23 Accounting for Investments in Associates in Consolidated Financial Statements	**Ind AS 28 Investments in Associates and Joint Ventures**
No such exclusions	Excludes from its scope, investments in associates held by venture capital organisations, mutual funds, unit trusts and similar entities including investment-linked insurance funds, which are treated in accordance with Ind AS 109

AS	Ind AS
Definition of Control is rule based. It requires the ownership, directly or indirectly through subsidiary(ies), of more than half of the voting power of an enterprise; or control of the composition of the board of directors in the case of a company or of the composition of the corresponding governing body in case of any other entity so as to obtain economic benefits from its activities	Definition of Control is principle based. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities
Significant Influence' has been defined as 'power to participate in the financial and/ or operating policy decisions of the investee but is not control over those policies	Defined as 'power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies'
No such requirement	Existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether an entity has significant influence or not
Requires application of the equity method only when the entity has subsidiaries and prepares Consolidated Financial Statements	Requires application of equity method in financial statements other than separate financial statements even if the investor does not have any subsidiary
Exemption from applying equity method is provided where the associate operates under severe long-term restrictions that significantly impair its ability to transfer funds to the investee	No such exemption

AS	Ind AS
Permits the use of financial statements of the associate drawn upto a date different from the date of financial statements of the investor when it is impracticable to draw the financial statements of the associate upto the date of the financial statements of the investor. There is no limit on the length of difference in the reporting dates of the investor and the associate	Length of difference in the reporting dates of the investor and the associate should not be more than three months unless it is impracticable to draw the financial statements of the associate upto the date of the financial statements of the investor
Investor's share of losses in the associate is recognised to the extent of carrying amount of investment in the associate	Carrying amount of investment in the associate as well as its other long term interests in the associate that, in substance form part of the investor's net investment in the associate shall be considered for recognising investor's share of losses in the associate
The carrying amount of investment in an associate should be reduced to recognise a decline, other than temporary, in the value of the investment	Requires that after application of equity method, including recognising the associate's losses, the requirements of Ind AS 109 should be applied to determine whether it is necessary to recognise any additional impairment loss
AS 20 Earnings per Share	**Ind AS 33 Earnings per Share**
No such provision	Specifically deal with options held by the entity on its shares, e.g., purchased options, written put option etc.

AS	Ind AS
Requires the disclosure of EPS with and without extraordinary items	No item is presented as extraordinary item, hence no requirement to present EPS with and without extraordinary items
No such requirement	Requires presentation of basic and diluted EPS from continuing and discontinued operations separately
AS 25 Interim Financial Reporting	**Ind AS 34 Interim Financial Reporting**
No such requirements	Complete set of financial statements includes 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, or when it reclassifies items in its financial statements
No requirement of SOCIE	Requires a condensed statement of changes in equity for the period for which interim financial statement which is presented as a part of the balance sheet
If an entity's annual financial report included the consolidated financial statements in addition to the separate financial statements, the interim financial report should include both the consolidated financial statements and separate financial statements	It neither requires nor prohibits the inclusion of the parent's separate statements in the entity's interim report prepared on a consolidated basis

AS	Ind AS
Requires furnishing of information on contingent liabilities only	Requires furnishing of information on both contingent liabilities and contingent assets, if they are significant
No such requirement	Where an interim financial report has been prepared in accordance with the requirements of the revised standard, that fact should be disclosed
A change in accounting policy, other than one for which the transitional provisions are specified by a new Standard, should be reflected by restating the financial statements of prior interim periods of the current financial year	Requires restatement of the comparable interim periods of prior financial years that will be restated in annual financial statements in accordance with Ind AS 8, subject to special provisions when such restatement is impracticable
When an interim financial report is presented for the first time in accordance with that Standard, an entity need not present, in respect of all the interim periods of the current financial year, comparative statements of profit and loss for the comparable interim periods (current and year-to-date) of the immediately preceding financial year and comparative cash flow statement for the comparable year-to-date period of the immediately preceding financial year	No such transitional requirement

AS	Ind AS
In some cases reversal of impairment is permitted	Where an entity has recognised an impairment loss in an interim period in respect of goodwill, that impairment loss is not reserved in subsequent interim financial statement nor in annual financial statement
AS 28 Impairment of Assets	**Ind AS 36 Impairment of Assets**
Does not apply to such assets	Applies to subsidiaries, associates and joint ventures
No such specific exclusion	Specifically excludes biological assets related to Agricultural activity
No such requirement unless there is an indication of impairment	Requires annual impairment testing for an intangible asset with an indefinite useful life or not yet available for use and goodwill acquired in a business combination
Requires that the impairment loss recognised for goodwill should be reversed in a subsequent period when it was caused by a specific external event of an exceptional nature that is not expected to recur and subsequent external events that have occurred that reverse the effect of that even	Prohibits the recognition of reversals of impairment loss for goodwill
Goodwill is allocated to CGUs only when the allocation can be done on a reasonable and consistent basis	Goodwill is allocated to cash-generating units (CGUs) or groups of CGUs that are expected to benefit from the synergies of the business combination from which it arose

AS	Ind AS
AS 29 Provisions, Contingent Liabilities and Contingent Assets	**Ind AS 37 Provisions, Contingent Liabilities and Contingent Assets**
Provision is done for only legal obligations and for those arising in normal practice, custom or in desire to maintain good relationship and be equitable	Provisioning is done based on legal as well as constructive obligation
Prohibits discounting of provision *except in case of decommissioning, restoration and similar liabilities that are recognised as cost of Property, Plant and Equipment.(as per amendment in 2016)*	If the value of time money is substantial, the provision amount should be discounted and accounted for at their present value
No such specific requirement	Requires that before a separate provision for an onerous contract is established, an entity should recognise any impairment loss that has occurred on assets dedicated to that contract in accordance with Ind AS 36
No such specific provision	Provides specific guidance on decommissioning, restoration and environmental funds
No such specific provision	Provides specific guidance on specific market – waste electrical and electronic equipments
No such specific provision	Provides specific guidance on Levies
Contingent Assets are neither recognised nor disclosed	Contingent assets though not recognized, are disclosed in financial statements when inflow of economic benefits is probable

AS	Ind AS
A6 26 Intangible Assets	**Ind AS 38 Intangible Assets**
Defines an intangible asset as an identifiable non-monetary asset without physical substance held for use in the production or supply of goods or services, for rental to others, or for administrative purposes	Defines an intangible asset as an identifiable non-monetary asset without physical substance
Permits only to be measured at cost	Option to measure intangible assets at cost or using revaluation method
Only states that an intangible asset should be distinguished clearly from goodwill if the asset was separable	Provides detailed guidance in respect of identifiability
Deals only to intangible assets acquired in an amalgamation in the nature of purchase and does not refer to business combinations as a whole	Deals in detail in respect of intangible assets acquired in a business combination
No such guidance provided	Provides guidance on subsequent expenditure on an in-process research and development project acquired in a business combination
Intangible assets acquired free of charge or for nominal consideration by way of Government grant is recognised at nominal value or at acquisition cost, as appropriate plus any expenditure that is attributable to making the asset ready for intended use	When intangible assets are acquired free of charge or for nominal consideration by way of Government grant, an entity should, in accordance with Ind AS 20, record both the grant and the intangible asset at fair value

AS	Ind AS
Assumes that the useful life of an intangible asset is always finite, and includes a rebuttable presumption that the useful life cannot exceed ten years from the date the asset is available for use	Provides that the useful life of an intangible asset can even be indefinite subject to fulfillment of certain conditions, in which case it should not be amortised but should be tested for impairment
No such guidance	Provides guidance is available on cessation of capitalisation of expenditure, de-recognition of a part of an intangible asset and useful life of a reacquired right in a business combination
Requires that the residual value is not subsequently increased for changes in prices or value	Requires that the residual value is reviewed at least at each financial year-end. If it increases to an amount equal to or greater than the asset's carrying amount, amortisation charge is zero unless the residual value subsequently decreases to an amount below the asset's carrying amount
A change in the method of amortisation is regarded as a change in accounting policy	A change in the method of amortisation is regarded as a change in estimates
Requires annual impairment testing of asset not yet available for use	Does not require annual impairment testing of asset not yet available for use

Besides the above distinctions there are certain standards in Ind AS for which there are no corresponding standards in Indian GAAP as yet. Some of these standards are:

Ind AS 101: First-time Adoption of Indian Accounting Standards

Ind AS 102: Share-based Payment

Ind AS 104: Insurance Contracts

Ind AS 106: Exploration for and evaluation of Mineral Resources

Ind AS 107: Financial Instruments: Disclosures

Ind AS 112: Disclosure of Interests in Other Entities

Ind AS 113: Fair Value Measurement

Ind AS 27: Separate Financial Statements

Ind AS 29: Financial Reporting in Hyperinflationary Economies

Ind AS 32: Financial Instruments: Presentation

Ind AS 41: Agriculture

Chapter 4
How to Study Indian Accounting Standards?

Introduction

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

Why Ind AS?

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

a) Accessibility to foreign capital markets

b) Reduced Cost

c) Enhance Comparability

d) Boon for multinational group entities

e) New Opportunities for the professionals

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

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

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

Feature of Financial Statements based on Ind AS

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

Elements of Financial Statements

a. Assets

- **Definition:** An asset is a resource controlled by the entity as a result of past event and from which future economic benefits are expected to flow to the entity.

- **Recognition:** When it is probable that future economic benefits will flow to and the asset has cost or value that can be reliably measured.

b. **Liabilities**

- **Definition:** It is the present obligation of an entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits.

- **Recognition:** When it is probable that an outflow of resources embodying economic benefits will result from the settlement of a present obligation and the amount at which the settlement will take place can be reliably measured.

c. **Equity**

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

d. **Income**

- **Definition:** Income is the increase in economic benefits during the accounting period in the form of inflows or enhancements of assets or decreases of liabilities those results in increase in equity, other than those relating to contribution from equity participants. It encompasses both revenue and gains.

- **Recognition:** When an increase in the future economic benefits related to an increase in an asset or decrease in a liability has arisen that can be reliably measured.

e. **Expenses**

- **Definition:** It is the decrease in economic benefits during the accounting period in the form of outflows or depletion of assets or incurrence of liabilities those results in decrease in equity, other than those relating to contribution to equity participants. It encompasses both losses and expenses that arise in the course of ordinary activity of the entity.

- **Recognition**: When a decrease in the future economic benefits related to a decrease in an asset or increase in a liability has arisen, that can be reliably measured.

The Principal Assumptions in Preparation of Financial Statements

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

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

Broad Based Principles of Ind AS

a. Substance over Form

b. Fair Value Oriented

c. Principle based not Rule based

d. Predominance of Balance Sheet

Resources for Understanding Ind AS

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

Moreover, there are websites like www.ifrs.org, www.iasbplus.com, icai.org, etc. which provide very useful information on existing and prospective literature on Ind AS and IFRS. The study of Ind AS / IFRS compliant published Financial Statement can throw immense

light on practical application of Ind AS. Moreover, there are online and classroom courses on Ind AS which can be done for through understanding of the subject. Institute of Chartered Accountants of India with its Regional Councils and various other professional bodies like ASSOCHAM and Chambers of Commerce are regularly holding meeting and seminar on various topics on Ind AS. One can gain insight of the subject by attending them. For a person well conversed with Indian GAAP, the study of major and minor discrepancy between the Standards can be of immense help in grasping the new reporting requirements.

Chronology of Study

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

Ind AS 113: Fair Value Measurement
Ind ASs dealing with the Presentation of Financial Statements • Ind AS 1: Presentation of Financial Statements • Ind AS 7: Statement of Cash Flows • Ind AS 8: Accounting Policies, Changes in Accounting Estimates and Errors • Ind AS 10: Events after the Reporting Period • Ind AS 21: The Effects of the Changes in Foreign Exchange Rates • Ind AS 29: Financial Reporting in Hyperinflationary Economies

- Ind AS 33: Earnings *per* Share
- Ind AS 34: Interim Financial Reporting

Ind ASs dealing with Financial Reporting by Group Entities

- Ind AS 103: Business Combinations
- Ind AS 110: Consolidated Financial Statements
- Ind AS 111: Joint Arrangements
- Ind AS 27: Separate Financial Statements
- Ind AS 28: Investments in Associates and Joint Ventures
- Ind AS 112: Disclosure of Interests in Other Entities

Recognition, Measurement, Presentation & Disclosure of Assets

- Ind AS 2: Inventories
- Ind AS 16: Property, Plant and Equipment
- Ind AS 17: Leases
- Ind AS 23: Borrowing Costs
- Ind AS 36: Impairment of Assets
- Ind AS 38: Intangible Assets
- Ind AS 40: Investment Property
- Ind AS 41: Agriculture
- Ind AS 105: Non-current Assets held for Sale and Discontinued Operations
- Ind AS 20: Accounting for Government Grants and Disclosure of Government Assistance

Recognition, Measurement, Presentation & Disclosure of Income

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

Recognition, Measurement, Presentation & Disclosure of Expenses & Liabilities • Ind AS 19 : Employee Benefits • Ind AS 37: Provisions, Contingent Liabilities and Contingent Assets • Ind AS 12: Income Taxes • Ind AS 102: Share-based Payment
Standards dealing with Financial Instruments • Ind AS 32: Financial Instruments: Presentation • Ind AS 107: Financial Instruments: Disclosures • Ind AS 109: Financial Instruments
Industry Based Standards • Ind AS 104: Insurance Contracts • Ind AS 106: Exploration For And Evaluation Of Mineral Resources
Disclosure Standards • Ind AS 24: Related Party Disclosures • Ind AS 108: Operating Segments
Ind AS 101: First Time Adoption of Indian Accounting Standards

Chapter 5
Fair Value Measurement

Ind AS 113: Fair Value Measurement

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

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

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

Discussion on Ind AS 113

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

Requirements of Fair Value Measurement

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

Steps in application of Ind AS 113

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

Unit of Account

- Fair value measurement is for a particular asset or liability.
- Therefore, when measuring fair value an entity should take into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Such characteristics include, for example, the following:

  (a) The condition and location of the asset; and

  (b) Restrictions, if any, on the sale or use of the asset.

The determination of the unit of account must be established prior to determining fair value and is defined as the level at which an asset or a liability is aggregated or disaggregated in an Ind AS for recognition purposes. There are few instances in which the unit of account is explicitly defined. However, in some cases, the unit of account may not be clear. Often, it is inferred from the recognition

or measurement guidance in the applicable standard and/or from industry practice. Also, there are times when the unit of account varies depending on whether one is considering recognition, initial measurement, or subsequent measurement, including impairments.

Ind AS 113 also includes a "portfolio exception" allowing a specified level of grouping when a portfolio of financial assets and financial liabilities are managed together with offsetting markets risks or counterparty credit risk.

Orderly Transaction

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

Place of Transaction: Market

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

in various markets, entity should document which particular market price is used and what process was followed to determine the appropriate market to use for determining fair value.

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

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

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

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

Price for determination of Fair Value

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

- Transaction costs do not include *transport costs.*

Measurement of Non-Financial Assets

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

- A market participant's ability
- To generate economic benefits
- By using the asset
- In its *highest and best* use or
- By selling it to another market participant
- That would use the asset in its highest and best use

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

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

- Received to sell a net long position (i.e., an asset) for a particular risk exposure, or
- To transfer a net short position (i.e., a liability) for a particular risk exposure in an orderly transaction between market participants.

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

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

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

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

Financial or Non-Financial Liabilities

A fair value measurement assumes that a financial or non-financial liability or an entity's own equity instrument (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:

- A liability would remain outstanding and the market participant transferee would be required to fulfil the obligation.
- 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 should measure the fair value of the liability or equity instrument from the **perspective of a market participant** that holds the identical item as an asset at the measurement date.

Liabilities and equity instruments not held by other parties as assets

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

Transaction Price vs. Fair Value

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

Valuation Techniques

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

Types of Valuation Techniques

Three widely used valuation techniques are

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

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

Fair Value Hierarchy

To increase consistency and comparability in fair value measurements and related disclosures, Ind AS 113 establishes a

fair value hierarchy that categorises into three levels the inputs to valuation techniques used to measure fair value. The fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1 inputs) and the lowest priority to unobservable inputs (*Level 3 inputs*).

Level 1 Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date. A quoted price in an active market provides the most reliable evidence of fair value and should be used without adjustment to measure fair value whenever available except

- When an entity holds a large number of similar (but not identical) assets or liabilities (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).
- When a quoted price in an active market does not represent fair value at the measurement date.
- When measuring the fair value of a liability or an entity's own equity instrument using the quoted price for the identical item traded as an asset in an active market and that price needs to be adjusted for factors specific to the item or the asset.

Level 2 Inputs

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

(a) Quoted prices for similar assets or liabilities in active markets.

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

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

(d) Market-corroborated inputs.

Adjustments to Level 2 Inputs depends on the following factors

a) The condition or location of the asset.

b) The extent to which inputs relate to items that are comparable to the asset or liability, and

c) The volume or level of activity in the markets within which the inputs are observed.

Level 3 Inputs

- Level 3 inputs are unobservable inputs for the asset or liability.
- Unobservable inputs should be used to measure fair value to the extent 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 should be disclosed and discussed separately from transfers out of each level.

- for recurring and non-recurring FV measurements categorised within Level 2 and Level 3 of the FV hierarchy, a description of the valuation technique(s) and the inputs used in the FV measurement.

2. If there has been a change in valuation technique, the entity should disclose that change and the reason(s) for making it.

3. If the highest and best use of a non-financial asset differs from its current use, the fact and the reason thereof.

4. If portfolio exception used, the fact to be disclosed as accounting policy.

5. For a liability measured at FV and issued with an inseparable third-party credit enhancement, the existence of that credit enhancement and whether it is reflected in the FV measurement of the liability, should be disclosed.

6. All the quantitative disclosures required to be presented in tabular format unless another format is more appropriate.

7. Additional Disclosures for Level 3 inputs

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

Chapter 6
Standards dealing with the Presentation of Financial Statements

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

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

A. Ind AS 1: Presentation of Financial Statements

Ind AS 1 sets out the overall framework and responsibilities for the presentation of financial statements, guidelines for their structure and minimum requirements for the content of the financial statements. It does not however prescribe any fixed format for

presentation of Financial Statements. It applies to all general purpose financial statements based on Ind AS.

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

Components of financial statements

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

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

b) a Statement of Profit and Loss (P &L) for the period including a separate section for Other Comprehensive Income (OCI);

c) a Statement of Changes in Equity for the period (SOCIE);

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

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

f) comparative information in respect of the preceding period;

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

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

Basis of Preparation of Financial Statements

1. Fair presentation and Compliance with Ind AS: The financial statements must present fairly the financial position, financial performance and cash flows of an entity. Ind AS 1 requires that an entity whose financial statements comply with all the requirements of every Ind ASs, to make an explicit and unreserved statement

of such compliance in the notes. In extremely rare circumstances, management may conclude that compliance with an Ind AS requirement would be so misleading that it would conflict with the objective of financial statements set out in the Framework. In such a case, the entity is required to depart from the Ind AS requirement, with detailed disclosure of the nature, reasons, and impact of the departure. However, inappropriate accounting policies cannot be rectified either by disclosure of the accounting policies used or by notes or explanatory material.

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

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

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

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

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

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

financial statements is amended, comparative amounts should be reclassified unless the reclassification is impracticable.

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

Structure and Content

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

a) Name of the reporting entity and any change in that information from the preceding reporting date.

b) Whether the statements are for an entity or for a group.

c) The date or period covered.

d) The presentation currency

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

Information to be presented in the Balance Sheet

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

a) property, plant and equipment;

b) investment property;

c) intangible assets;

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

e) investments accounted for using the equity method;

f) biological assets;

g) inventories;

h) trade and other receivables;

i) cash and cash equivalents;

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

k) trade and other payables;

l) provisions;

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

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

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

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

q) minority interest, presented within equity; and

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

Current/Non-current distinction

Ind AS 1 states that an entity should make a distinction between current and non-current assets and liabilities, except when the presentation based on liquidity provides information that is more reliable and relevant.

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

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

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

i. Number of shares authorised

ii. Number of shares issued and fully paid and issued but not fully paid

iii. Par value of shares or that shares have no par value

iv. Reconciliation of shares outstanding at the beginning and the end of the period

v. Description of rights, preferences, and restrictions

vi. Shares held by the entity, including shares held by subsidiaries and associates

vii. Shares reserved for issuance under options and contracts

viii. A description of the nature and purpose of each reserve within owners' equity

Statement of Profit and Loss

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

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

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

a) revenue

b) finance costs

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

d) tax expenses

e) a single amount comprising the total of

- the post-tax profit or loss of discontinued operations and

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

f) profit or loss

g) each component of other comprehensive income classified by nature

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

i) total comprehensive income

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

a) profit or loss for the period:

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

b) total comprehensive income for the period as:

- comprehensive income attributable to minority interest; and
- comprehensive income attributable to equity holders of the parent.

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

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

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

a) write-downs of inventories to net realisable value or of property, plant and equipment to recoverable amount, as well as reversals of such write-downs;

b) restructurings of the activities of an entity and reversals of any provisions for the costs of restructuring;

c) disposal of items of property, plant and equipment;

d) disposal of investments;

e) discontinued operations;

f) litigation settlements; and

g) other reversals of provisions.

Expenses should be analysed by nature of expenses (raw materials, staffing costs, depreciation, etc.) either on the face of the statement of profit & loss or in the notes.

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

Statement of Cash Flows

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

Statement of Changes in Equity

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

a) total comprehensive income for the period, showing separately the total amounts attributable to owners of the parent and to non-controlling interests;

b) for each component of equity, the effects of retrospective application or retrospective restatement recognised in accordance with Ind AS 8; and

c) for each component of equity, a reconciliation between the carrying amount at the beginning and the end of the period, separately disclosing changes resulting from:

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

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

Notes to the Financial Statements

The notes must:

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

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

- a statement of compliance with Ind ASs;
- the significant accounting policies applied, including:
  - o the measurement basis (or bases) used in preparing the financial statements and
  - 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 financial statements, in the order in which each statement and each line item is presented;
- other disclosures, including:
  - o contingent liabilities and unrecognised contractual commitments and

- o non-financial disclosures, such as the entity's financial risk management objectives and policies.

B. Ind AS 7: Statement of Cash Flows

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

Presentation of the Statement of Cash Flows

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

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

- ➢ Operating activities are the main revenue-producing activities of the enterprise that are not investing or financing activities. Separate disclosure is required as cash flow from operating activities is a key indicator of the extent to which the operation of the entity has generated sufficient cash flows for maintaining its operating capability etc.
- ➢ Investing activities are the acquisition and disposal of long-term assets and other investments that are not considered to be cash equivalents. Separate disclosure is important as they

represent the extent to which expenditure has been made for resources intended to generate future income and cash flows.

- Financing activities are activities that alter the size and composition of equity capital and borrowing structure of the enterprise. Separate disclosure is useful in predicting claims on future cash flows by providers of capital to the entity.
- For operating cash flows, the direct method of presentation is encouraged, but the indirect method is acceptable.

Direct and indirect method

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

Foreign currency cash flows

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

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

Investment in subsidiaries, associates and joint ventures

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

Aggregate cash flows relating to acquisitions and disposals of subsidiaries and other business units should be presented separately and classified as investing activities, with specified additional disclosures. The aggregate cash paid or received as consideration should be reported net of cash and cash equivalents acquired or disposed 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 should be separately disclosed and are normally classified as operating, unless they can be specifically identified with financing or investing activities
- cash flows from investing and financing activities should be reported gross by major class of cash receipts and major class of cash payments except for the following cases, which may be reported on a net basis.
- cash receipts and payments on behalf of customers (for example, receipt and repayment of demand deposits by banks, and receipts collected on behalf of and paid over to the owner of a property)
- cash receipts and payments for items in which the turnover is quick, the amounts are large, and the maturities are short, generally less than three months (for example, charges and collections from credit card customers, and purchase and sale of investments)
- cash receipts and payments relating to fixed maturity deposits
- cash advances and loans made to customers and repayments thereof
- investing and financing transactions which do not require the use of cash should be excluded from the statement of cash flows, but they should be separately disclosed elsewhere in the financial statements
- the components of cash and cash equivalents should be disclosed, and a reconciliation presented to amounts reported in the Balance Sheet

- the amount of cash and cash equivalents held by the enterprise that is not available for use by the group should be disclosed, together with a commentary by management
- Additional information that may be lead to better understanding of financial statements.
- Amount of undrawn borrowing facilities available for future operating activities and to settle capital commitment.
- Aggregate amount of cash flows that represent increase in operating capacity separately from those cash flows required to maintain operating capacity
- Amount of cash flows arising from operating, investing and financing activities of each reportable segment.
- Aggregate amount of cash flows from each operating, investing and financing activities related to each joint venture reported using proportionate consolidation.

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

Objective & Scope: Standard prescribes the criteria for selecting and changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates and corrections of errors.

Accounting Policies

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

- If a standard directly deals with a transaction, use that standard;
- If no standard deals with a transaction, judgment should be applied. The following sources should be referred to, to make the 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. It is changed only if required by an Ind AS, or if the change results in reliable and more relevant information. If a change in accounting policy is required by an Ind AS, the pronouncement's transition requirements, if any, are followed. If none are specified, or if the change is voluntary, the new accounting policy is applied retrospectively by restating prior periods. If impractical to determine period-specific effects or cumulative effects of the error, then retrospectively apply to the earliest period that is practicable. If restatement is impracticable, the cumulative effect of the change is included in profit or loss. If the cumulative effect cannot be determined, the new policy is applied prospectively.

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

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

- Subsequent periods need not repeat these disclosures.

Accounting Estimate

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

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

Prior Period Errors

Prior period errors are omissions from, and misstatements in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that was available when financial statements for those periods were approved for issue; and could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud. All material errors are corrected by restating comparative prior period amounts and, if the error occurred before the earliest period presented, by restating the opening Balance Sheet for the earliest prior period presented. Omissions or misstatements of items are material if they could, individually or collectively; influence the economic decisions of users taken on

the basis of the financial statements. Following disclosures must be made in relation to prior period error if detected:

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

D. Ind AS 10 Events after the Reporting Period

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

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

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

- Events that indicate that the going concern assumption in relation to the whole or part of the entity is not appropriate
- Settlement after reporting date of court cases that confirm the entity had a present obligation at reporting date
- Bankruptcy of a customer that occurs after reporting date that confirms a loss existed at reporting date on trade receivables

- Sales of inventories after reporting date that give evidence about their net realisable value at reporting date
- Determination after reporting date of cost of assets purchased or proceeds from assets sold, before reporting date
- Discovery of fraud or errors that show the financial statements are incorrect.

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

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

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

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

Disclosures

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

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

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

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

The Standard is applied in :

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

However, 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 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*.

Discussion on Ind AS 21

- 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 is 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. E.g.: Pension and Other employee benefits to be paid in Cash, Provisions that are to be settled in Cash, Cash dividends that are recognised as liabilities
- o **Example of Non-Monetary Items are** Prepaid rent, Goodwill, Intangible Assets, Inventories, Property, Plant & Equipment

Approach of a Standard

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

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

- Translation of Foreign Currency Items into Functional Currency and reporting the effects of translation
- Translation of Results and Financial Position of an individual entity within the Reporting Entity whose Functional Currency differs from the Presentation Currency should be translated

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

Nature of Foreign Currency Transactions

1. Buying and Selling of Goods or Services – Price denominated in 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

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

Reporting at the ends of Subsequent Reporting Periods

At the end of every reporting period

- Foreign currency monetary items should be translated using the closing rate.

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

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

(a) the cost or carrying amount, as appropriate, translated at the exchange rate at the date when that amount was determined (i.e. the rate at the date of the transaction for an item measured in terms of historical cost); and

(b) the net realisable value or recoverable amount, as appropriate, translated at the exchange rate at the date when that value was determined (e.g. the closing rate at the end of the reporting period).

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

Recognition of Exchange Differences

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

Settlement of Monetary Items in Foreign Currency

Change in exchange rate between the transaction date and the date of settlement results in exchange differences. If the settlement

in the same period, all exchange difference is recognised in that period. However, if the settlement is in subsequent period exchange difference is recognised in each period up to the date of settlement.

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

Exchange difference is recognised

- 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 should 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 that are recognised in other Comprehensive Income, the exchange component of that gain or loss is recognised in the other comprehensive income (Ind AS 16 requires gains or losses on revaluation of Property Plant & Equipment to be recognised in other comprehensive income). However, where the gain or loss in non-monetary items is recognized in Profit or Loss A/c, the exchange component of that gain or loss is recognised 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 example, Change in Currency that mainly influences the sale price of goods and services may lead to a change in an entity's functional currency)

If there is a change in Entity's Functional Currency

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

Use of Presentation Currency other than Functional Currency

- 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 hyperinflationary economy – should be translated into a different presentation currency using the following procedure
  - o Assets and Liabilities of each Balance Sheet presented should be translated at the closing rate
    - ▪ At the date of that Balance Sheet
  - o Income and expenses for each statement of profit & loss presented should be translated at exchange rates
    - ▪ At the dates of the transaction
  - o All resulting exchange differences should be recognised 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 Recognised 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 recognised (Ind AS 1)
- o On partial disposal proportionate share of the cumulative amount should be reclassified to Profit or Loss A/c

The following accounted for as Disposals

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

- o Amount of Exchange Difference recognised in Profit or Loss A/c

- o Net Exchange Differences recognised 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.

F. Ind AS 29: Financial Reporting In Hyperinflationary Economies

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

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

- 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
- o Interest rates, wages and prices are linked to a price index
- o The cumulative inflation rate over three years is approaching, or exceeds, 100%.

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

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

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

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

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

When an economy ceases to be hyperinflationary and an entity discontinues the preparation and presentation of financial

statements prepared in accordance with Ind AS 29, it treats the amounts expressed in the measuring unit current at the end of the previous reporting period as the basis for the carrying amounts in its subsequent financial statements.

G. Ind AS 33: Earnings Per Share

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

Important Terms

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

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

Requirement of Ind AS 33

- An entity should present basic and diluted EPS for each class of ordinary share that has a different right to share in profit for the period. The EPS should be presented for all periods presented and with equal prominence.
- An entity that reports a discontinued operation should disclose the basic and diluted amounts per share for the discontinued operation either in the Statement of Profit and Loss or in the notes.
- In Ind AS, EPS is calculated both in case of Separate Financial Statements and Consolidated Financial Statements
- EPS is reported for profit or loss attributable to equity holders of the parent entity, for profit or loss from continuing

operations attributable to equity holders of the parent entity, and for any discontinued operations.

- In consolidated financial statements, EPS reflects earnings attributable to the parent's shareholders.
- Basic earnings per share should be calculated by dividing profit or loss attributable to ordinary equity holders of the parent entity (the numerator) by the weighted average number of ordinary shares outstanding (the denominator) during the period. In other words, basic EPS=earnings numerator: after deduction of all expenses including tax, and after deduction of non-controlling interests and preference dividends/ denominator: weighted average number of shares outstanding during the period.
- The weighted average number of ordinary shares outstanding during the period and for all periods presented should be adjusted for events, other than the conversion of potential ordinary shares, that have changed the number of ordinary shares outstanding without a corresponding change in resources
- Dilution is a reduction in EPS or an increase in loss per share on the assumption that convertible instruments are converted, that options or warrants are exercised, or that ordinary shares are issued when specified conditions are met.
- Diluted EPS calculated as follows:
  - 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 should be adjusted retrospectively.

H. Ind AS 34: Interim Financial Reporting

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

Important terms

Interim financial 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.

Discussion on Ind AS 34

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

Chapter 7
Financial Reporting by Group Entities

The relevant standards in this context are

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

These standards are discussed hereafter.

A. Ind AS 103: Business Combinations

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

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

Important Terms

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

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

Acquisition method

Steps in applying the acquisition method are:

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

Applying the acquisition method

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

Any classifications or designations made in recognising these items must be made in accordance with the contractual terms, economic conditions, acquirer's operating or accounting policies and other factors that exist at the acquisition date. Acquisition costs are not to be capitalised, must instead be expensed in the period they are incurred. Any costs to issue debt or equity are recognised in accordance with Ind AS 109. Each identifiable asset

and liability is measured at its acquisition-date fair value. Any non-controlling interest in an acquiree is measured at fair value or as the non-controlling interest's proportionate share of the acquiree's net identifiable assets. All other components of non-controlling interests (e.g., from Ind AS 102 *Share-based payment*) are required to be measured at their acquisition-date fair values.

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

- **Contingent Liabilities:** The requirements of Ind AS 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 Ind AS 19 *Employee Benefits.*

- **Indemnification Assets:** An acquirer recognises indemnification assets at the same time and on the same basis as the indemnified item subject to the need for a valuation allowance for uncollectible amounts.

- **Reacquired Rights:** An acquirer measures reacquired rights by reference to the remaining contractual term of related contracts without considering potential contract renewals.
- **Share-based payment:** A liability or equity instrument related to share-based payment transactions of the acquiree or the replacement of an acquiree's share-based payment transactions with share-based payment transactions of the acquirer in accordance with the method in Ind AS 102 *Share-based Payment* at the acquisition date.
- **Asset held for sale:** The acquirer should measure an acquired non-current asset (or disposal group) that is classified as held for sale at the acquisition date in accordance with Ind AS 105 *Non-current Assets Held for Sale and Discontinued Operations* at fair value less costs to sell.

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

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

(b) The net identifiable assets acquired.

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

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

Business Combination in Stages

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

Business Combination without consideration

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

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

Subsequent Measurement

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

- **Reacquired Rights:** A reacquired right recognised as an intangible asset should be amortised over the remaining contractual period of the contract in which the right was granted. If such rights are sold subsequently by the acquirer, the carrying amount of the intangible asset must be included in determining the gain or loss on the sale.
- **Contingent Liabilities:** The acquirer should subsequently measure a contingent liability recognised in a business

combination at the higher of the amount that would be recognised in accordance with Ind AS 37 and the amount initially recognised less, if appropriate, cumulative amortisation recognised in accordance with Ind AS 18 *Revenue.*

- **Indemnification Assets:** Such assets are subsequently measured on the same basis as indemnifies asset or liability except where there is contractual limitation on its amount or management has doubt on its collectability.

- **Contingent Considerations:** Contingent Considerations classified as equity is not subsequently remeasured and its subsequent settlement is accounted for within equity. Other contingent considerations are measured at fair value at each reporting date and changes in fair value is recognised in profit or loss.

Disclosures

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

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

B. Ind AS 27: Separate Financial Statements

Objective & Scope

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

- Subsidiaries
- Joint ventures
- Associates

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

Important Terms

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

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

Discussion on Ind AS 27

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

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

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

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

Disclosure

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

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

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

- That the financial statements are separate financial statements
- A list of significant investments in subsidiaries, joint ventures and associates, including:
  - The name of those investees
  - The investees principal place of business and country of incorporation
  - The proportion of the ownership interest and the proportion of voting rights held in those investees.

- A description of the method used to account for the investments listed
- The financial statements prepared in accordance with Ind AS 110, Ind AS 111, or Ind AS 28 to which they relate

C. Ind AS 28 : Investments in Associates and Joint Ventures

Objective & Scope

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

Important Terms

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

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

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

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

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

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

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

Significant Influence

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

Test of Significant Influence

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

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

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

(d) Interchange of managerial personnel; or

(e) Provision of essential technical information.

Application of Equity Method

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

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

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

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

- If all the following apply:
  - (a) The entity is a wholly-owned subsidiary, or is a partially-owned subsidiary of another entity and its other owners, including those not otherwise entitled to vote, have been informed about, and do not object to, the entity not applying the equity method.
  - (b) The entity's debt or equity instruments are not traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets).
  - (c) The entity did not file, nor is it in the process of filing, its financial statements with a securities commission or other regulatory organization, for the purpose of issuing any class of instruments in a public market.
  - (d) The ultimate or any intermediate parent of the entity produces financial statements available for public use that comply with Ind ASs in which subsidiaries are consolidated or measured at Fair Value through Profit or Loss Account.

Points to note under Equity Method

- An investment is accounted for using the equity method from the date on which it becomes an associate or a joint venture.
- On acquisition of the investment, any difference between the cost of the investment and the entity's share of the net fair value of the investee's identifiable assets and liabilities is accounted for as follows:
  - (a) Goodwill relating to an associate or a joint venture is included in the carrying amount of the investment. Amortisation of that goodwill is not permitted.
  - (b) Any excess of the entity's share of the net fair value of the investee's identifiable assets and liabilities over the cost of the investment is recognised directly in equity as capital reserve in the period in which the investment is acquired.

- The most recent available financial statements of the associate or joint venture are used by the entity in applying the equity method.
- If an entity's share of losses of an associate or a joint venture equals or exceeds its interest in the associate or joint venture, the entity discontinues recognising its share of further losses.

Discontinuing Application of Equity Method

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

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

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

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

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

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

D. Ind AS 110: Consolidated Financial Statements

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

- Requires an entity (the *parent*) that controls one or more other entities (subsidiaries) to present consolidated financial statements;
- Defines the principle of *control*, and establishes control as the basis for consolidation;
- Sets out how to apply the principle of control to identify whether an investor controls an investee and therefore must consolidate the investee;
- Sets out the accounting requirements for the preparation of consolidated financial statements; and
- Defines an investment entity and sets out an exception to consolidating particular subsidiary of an investment entity.

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

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

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

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

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

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

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

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

Important Definitions

Consolidated Financial Statements is 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 is 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 is equity in a subsidiary not attributable, directly or indirectly, to a parent.

Parent is an entity that controls one or more entities.

Power is existing rights that give the current ability to direct the relevant activities.

Protective Rights are 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 are rights to deprive the decision maker of its decision-making authority.

Subsidiary is an entity that is controlled by another entity.

Determination of Control

- An investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.
- An investor controls an investee if and only if the investor has all the following:
  a) Power over the investee
  b) Exposure, or rights, to variable returns from its involvement with the investee and
  c) The ability to use its power over the investee to affect the amount of the investor's returns

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

1. The purpose and design of the investee

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

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

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

2. Relevant Activities

Relevant activities include (but are not limited to):

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

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

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

3. Right to direct the relevant activities

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

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

Special relationships beyond a passive interest

- Sometimes there may be indicators present that an investor has more than simply a passive interest
- The presence of indicators alone may not satisfy the power criteria, but may add to other considerations:
  - 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 than its 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. Investment entity

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

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

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

E. Ind AS 111: Joint Arrangements

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

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

Important Terms

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

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

Joint Arrangement

- A joint arrangement binds the parties by way of contractual agreement (does not have to be in writing, instead it is based on the substance of the dealings between the parties). It gives two (or more) parties joint control.
- The Ind AS defines joint control as the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities (i.e., activities that significantly affect the returns of the arrangement) require the unanimous consent of the parties sharing control.
- This can be explicit or implicit:
    - 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 should recognise in relation to its interest in a joint operation:
  - Its assets, including its share of any assets held jointly;
  - Its liabilities, including its share of any liabilities incurred jointly;
  - Its revenue from the sale of its share of the output arising from the joint operation;
  - Its share of the revenue from the sale of the output by the joint operation; and
  - Its expenses, including its share of any expenses incurred jointly.
- A joint operator should account for the assets, liabilities, revenues and expenses relating to its interest in a joint operation in accordance with the Ind ASs applicable to the particular assets, liabilities, revenues and expenses.

Joint Venturer

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

Important Points

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

F. Ind AS 112 Disclosure of Interests in Other Entities

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

(a) The nature of, and risks associated with, its interests in other entities; and

(b) The effects of those interests on its financial position, financial performance and cash flows.

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

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

(b) An entity's separate financial statements to which Ind AS 27 *Separate Financial Statements* applies. However, if an entity has interests in unconsolidated structured entities and prepares separate financial statements as its only financial statements, it should apply the certain requirements when preparing those separate financial statements.

(c) An interest held by an entity that participates in, but does not have joint control of, a joint arrangement unless that interest results in significant influence over the arrangement or is an interest in a structured entity.

(d) An interest in another entity that is accounted for in accordance with Ind AS 109 *Financial Instruments.*

Discussion on Ind AS 112

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

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

Disclosures of Interest in Subsidiaries

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

- The subsidiary's name.
- Its principal place of business (and country of incorporation, if different).
- The proportion of ownership interests held by non-controlling interests.

- The proportion of voting rights held by non-controlling interests, if different from the proportion of ownership interests held.
- The profit or loss allocated to non-controlling interests of the subsidiary during the reporting period.
- The accumulated non-controlling interests of the subsidiary at the end of the reporting period.
- Summarised financial information about the subsidiary.

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

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

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

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

- Disclosure of any current intentions to provide financial or other support to a consolidated structured entity (including intentions to assist the structured entity in obtaining financial support).

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

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

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

(a) The subsidiary's name;

(b) The principal place of business (and country of incorporation if different from the principal place of business) of the subsidiary;

(c) The proportion of ownership interest held by the investment entity and, if different, the proportion of voting rights held;

(d) The nature and extent of any significant restrictions, if any, on the ability of an unconsolidated subsidiary to transfer funds to the investment entity in the form of cash dividends or to repay loans or advances made to the unconsolidated subsidiary by the investment entity;

(e) Any current commitments or intentions to provide financial or other support to an unconsolidated subsidiary, including commitments or intentions to assist the subsidiary in obtaining financial support;

(f) Details with reasons for support if any, provided by the investment entity or any of its subsidiaries, during the year , without having a contractual obligation to do so; and

(g) The terms of any contractual arrangements that could require the entity or its unconsolidated subsidiaries to provide financial support to an unconsolidated, controlled, structured entity, including events or circumstances that could expose the reporting entity to a loss.

Disclosure of Interest in Joint Arrangements and Associates: An entity should disclose information that enables users of its financial statements to evaluate:

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

(b) The nature of, and changes in, the risks associated with its interests in joint ventures and associates.

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

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

Disclosure of Interests in Unconsolidated Structured Entities: If the entity has any interests in unconsolidated structured entities, it must disclose information that enables users of its financial statements:

- To understand the nature and extent of its interests in unconsolidated structured entities; and
- To evaluate the nature of, and changes in, the risks associated with its interests in unconsolidated structured entities (including an entity's exposure to risk from involvement with unconsolidated structured entities in previous periods, even if the contractual involvement had ceased at the reporting date).

To achieve this, the entity should provide:

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

Chapter 8
Recognition, Measurement, Presentation & Disclosure of Assets

Relevant Ind ASs on Assets are as follows:

- Ind AS 2 Inventories,
- Ind AS 16 Property, plant and equipment,
- Ind AS 17 Leases,
- Ind AS 23 Borrowing Costs
- Ind AS 36 Impairment of Assets
- Ind AS 38 Intangible Assets,
- Ind AS 40 Investment Property,
- Ind AS 41 Agriculture,
- Ind AS 105 Non-current Assets held for sale and discontinued operations,
- Ind AS 20 Accounting for Government Grants and Disclosure of Government Assistance.

A. Ind AS 2: *Inventories*

Objective & Scope Inventories are assets which are

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

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

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

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

ii. Financial Instruments, and

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

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

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

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

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

Cost of Conversion for manufactured goods includes costs directly related to the units of production, such as direct labour and overheads. The allocation of overheads must be systematic and rational. The allocation of fixed overheads (i.e., expenses which are fixed in amount irrespective of quantum of production), should be based on normal production levels. In the periods of drastically low production certain portion of the fixed overheads should be directly taken to operations and should not be charged to inventory as these would inflate the amount at which the inventories are

carried. However, in periods of abnormally high production, the amount of fixed overhead allocated to each unit of production is decreased so that inventories are not measured above cost. On the other hand, variable production overheads, i.e., expenses which vary in direct proportion to quantum of production, are allocated to each unit of production on the basis of the actual use of the production facilities.

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

Cost which are not part of inventories are:

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

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

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

iv. Selling costs;

v. Research cost;

vi. Some development cost;

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

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 recognised as interest expense over the period of the financing and not recognised in cost of inventories.

Certain Exceptions to measurement principle

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

Cost of inventories of a service provider

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

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

ii. Attributable overheads.

Joint products and by-products

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

Methods of inventory costing permitted under Ind AS

1. Specific Identification

2. First in First Out Method (FIFO)

3. Weighted Average Cost
4. Standard Cost
5. Retail Method
6. Net Realisable Value

Disclosures

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

The financial statements should disclose:

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

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

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

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

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

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

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

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

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

B. Ind AS 16: *Property, Plant and Equipment*

Objective & Scope

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

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

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

Recognition

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

- The future economic benefits associated with the asset will flow to the enterprise; and
- The cost of the asset can be measured reliably.

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

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

Initial Measurement

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

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

Measurement Subsequent to Initial Recognition

Ind AS 16 permits two accounting models:

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

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

The Revaluation Model

Under the revaluation model, revaluations should be carried out regularly, so that the carrying amount of an asset does not differ materially from its fair value at the reporting date. If an item is revalued, the entire class of assets to which that asset belongs should be revalued. Revalued assets are depreciated in the same way as under the cost model (see below). If a revaluation results in an increase in value, it should be credited to other comprehensive income and accumulated in equity under the heading "Revaluation surplus" unless it represents the reversal of a revaluation decrease of the same asset previously recognised as an expense, in which case it should be recognised as income in profit or loss. A decrease arising as a result of a revaluation should be recognised as an expense to the extent that it exceeds any amount previously credited to the revaluation surplus relating to the same asset. When a revalued asset is disposed of, any revaluation surplus may be transferred directly to retained earnings, or it may be left in equity under the heading Revaluation surplus. The transfer to retained earnings should not be made through the Statement of Profit and Loss (that is, no "recycling" through profit or loss).

Depreciation (Cost and Revaluation Models)

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

benefits has changed, the depreciation method should be changed prospectively as a change in estimate under Ind AS 8.

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

Recoverability of the Carrying Amount

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

Derecognition (Retirements and Disposals)

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

C. Ind AS 40: *Investment Property*

Objective & Scope

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

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

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

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

Recognition

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

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

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

Measurement

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

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

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

Disclosures

An entity must disclose:

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

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

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

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

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

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

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

(g) The depreciation methods used;

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

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

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

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

- other changes; and

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

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

D. Ind AS 17: *Leases*

Objective & Scope

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

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

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

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

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

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

Accounting by Lessees

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

Accounting by Lessors

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

Finance Leases: Lessors should recognise assets held under a finance lease in their Balance Sheet and present them as a receivable at an amount equal to the net investment in the lease. The recognition of finance income should be based on a pattern reflecting a constant periodic rate of return on the lessor's net investment in the finance lease. Manufacturer or dealer lessors should recognise selling profit or loss in the period, in accordance with the policy followed by the entity for outright sales. If artificially low rates of interest are quoted, selling profit should

be restricted to that which would apply if a market rate of interest were charged. Costs incurred by manufacturer or dealer lessors in connection with negotiating and arranging a lease should be recognised as an expense when the selling profit is recognised.

E. Ind AS 38: *Intangible Assets*

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

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

Recognition and Measurement

Initial Recognition

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

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

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

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

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

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

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

Internally generated intangible assets

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

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

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

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

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

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

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

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

Measurement after recognition

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

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

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

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

Definition of active market and useful life

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

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

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

(c) Prices are available to the public.

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

comprehensive income to the extent of any credit balance in the revaluation surplus in respect of that asset.

Useful life

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

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

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

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

Intangible assets with finite useful lives

The depreciable amount of an intangible asset with a finite useful life should be allocated on a systematic basis over its useful life. Depreciable amount is the cost of an asset, or other amount substituted for cost, less its residual value. Amortisation should begin when the asset is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Amortisation should cease at the earlier of the date that the asset is classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with Ind AS 105 *Non-current Assets Held for Sale and Discontinued Operations* and the date that the asset is derecognised. The amortisation method used should reflect the

pattern in which the asset's future economic benefits are expected to be consumed by the entity. If that pattern cannot be determined reliably, the straight line method should be used. The amortisation charge for each period should be recognised in profit or loss unless this or another Standard permits or requires it to be included in the carrying amount of another asset.

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

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

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

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

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

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

Intangible assets with indefinite useful lives

An intangible asset with an indefinite useful life should not be amortised. In accordance with Ind AS 36 *Impairment of Assets*, an entity is required to test an intangible asset with an indefinite useful life for impairment by comparing its recoverable amount with its carrying amount annually, and whenever there is an indication that the intangible asset may be impaired. The useful life of an intangible asset that is not being amortised

should be reviewed each period to determine whether events and circumstances continue to support an indefinite useful life assessment for that asset. If they do not, the change in the useful life assessment from indefinite to finite should be accounted for as a change in an accounting estimate.

F. Ind AS 36: *Impairment of Assets*

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

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

Identifying an Asset that may be impaired

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

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

Determining Recoverable Amount

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

then recoverable amount is value in use. For assets to be disposed of, recoverable amount is fair value less costs to sell.

Fair Value less Costs to Sell

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

Value in Use

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

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

Cash flow projections should be based on reasonable and supportable assumptions, the most recent budgets and forecasts, and extrapolation for periods beyond budgeted projections. Cash flow projections should relate to the asset in its current condition. Estimates of future cash flows should not include cash inflows or outflows from financing activities, or income tax receipts or payments. In measuring value in use, the discount rate used

should be the pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the asset. For impairment of an individual asset or portfolio of assets, the discount rate is the rate the company would pay in a current market transaction to borrow money to buy that specific asset or portfolio. If a market-determined asset-specific rate is not available, a surrogate must be used that reflects the time value of money over the asset's life as well as country risk, currency risk, price risk, and cash flow risk. The following would normally be considered:

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

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

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

- Represent the lowest level within the entity at which the goodwill is monitored for internal management purposes; and

- Not be larger than a segment based on either the entity's primary or the entity's secondary reporting format determined in accordance with Ind AS 108 *Operating Segments*.

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

- If the recoverable amount of the unit exceeds the carrying amount of the unit, the unit and the goodwill allocated to that unit is not impaired.
- If the carrying amount of the unit exceeds the recoverable amount of the unit, the entity must recognise an impairment loss.

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

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

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

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

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

Reversal of an Impairment Loss

- Same approach as for the identification of impaired assets: assess at each Balance Sheet date whether there is an indication that an impairment loss may have decreased. If so, calculate recoverable amount.

- No reversal for unwinding of discount.
- The increased carrying amount due to reversal should not be more than what the depreciated historical cost would have been if the impairment had not been recognised.
- Reversal of an impairment loss is recognised as income in the Statement of Profit and Loss.
- Adjust depreciation for future periods.
- Reversal of an impairment loss for goodwill is prohibited.

G. Ind AS 23: *Borrowing Costs*

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

Key Definitions

Borrowing cost is:

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

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

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

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

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

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

Recognition

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

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

a) It incurs expenditures for the asset;

b) It incurs borrowing costs; and

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

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

H. Ind AS 41 : *Agriculture*

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

a) Biological assets

b) Agricultural produce at the point of harvest

c) Government grants covered in paras 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 does not include transport and other costs necessary to get assets to a market.

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

Accounting Treatment

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

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

- A quoted market price in an active market for a biological asset or agricultural produce is the most reliable basis for determining the fair value of that asset. If an active market does not exist, Ind AS 41 provides guidance for choosing another measurement basis. First choice would be a market-determined price such as the most recent market price for that type of asset, or market prices for similar or related assets;

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

Other Issues

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

Government Grants

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

Disclosure

Disclosure requirements in Ind AS 41 include:

- Description of an enterprise's biological assets, by broad group
- Change in fair value during the period
- Fair value of agricultural produce harvested during the period

- Description of the nature of an enterprise's activities with each group of biological assets and non-financial measures or estimates of physical quantities of output during the period and assets on hand at the end of the period
- Information about biological assets whose title is restricted or that are pledged as security
- Commitments for development or acquisition of biological assets
- Financial risk management strategies
- Methods and assumptions for determining fair value
- Reconciliation of changes in the carrying amount of biological assets, showing separately changes in value, purchases, sales, harvesting, business combinations, and foreign exchange differences.

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

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

- Description of the assets
- An explanation of the circumstances
- If possible, a range within which fair value is highly likely to fall
- Gain or loss recognised on disposal
- Depreciation method
- Useful lives or depreciation rates
- Gross carrying amount and the accumulated depreciation, beginning and ending

If the fair value of biological assets previously measured at cost now becomes available, certain additional disclosures are required. Disclosures relating to Government grants include the nature and

extent of grants, unfulfilled conditions, and significant decreases in the expected level of grants.

I. Ind AS 105: *Non-Current Assets Held for Sale and Discontinued Operations*

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

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

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

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

Important Terms

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

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

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

Classification of Non-Current Assets (or Disposal Groups) held for Sale or Distribution to Owners

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

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

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

Measurement

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

Discontinued Operations

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

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

Objective & Scope

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

- Government assistance that is provided for an entity in the form of benefits that are available in determining taxable income or are determined or limited to the basis of income tax liability;

- Government participation in the ownership of an entity;
- Government grants covered by Ind AS 41 *Agriculture.*

Important Terms

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

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

Government grants

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

Types of Government Grants

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

Recognition & Measurement of Government Grants

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

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

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

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

Presentation of Government Grants

(a) Grants related to assets

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

(b) Grants related to Income

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

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

Disclosures

The following matters should be disclosed:

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

Chapter 9
Recognition, Measurement, Presentation & Disclosure of Income

The standards dealt in this section are:

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

A. Ind AS 11: Construction Contracts

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

The two types of contracts are:

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

Construction Contracts include

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

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

Contract revenue and contract costs

Contract revenue comprise of :

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

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

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

  (ii) They are capable of being reliably measured.

Contract costs should include costs that relate:

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

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

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

Accounting treatment

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

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

Uncertainty of income

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

Single or separate contracts

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

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

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

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

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

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

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

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

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

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

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

Disclosure

i. Amount of contract revenue recognised;

ii. Method used to determine revenue;

iii. Method used to determine stage of completion; and

iv. For contracts in progress at reporting date:

   a) Aggregate costs incurred and recognised profit

   b) Amount of advances received

   c) Amount of retentions

Presentation

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

   (a) Costs incurred plus recognised profits; less

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

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

   (a) Costs incurred plus recognised profits; less

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

B. Ind AS 18: *Revenue*

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

Revenue excludes:

a) Lease agreements (Ind AS 17 *Leases*);

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

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

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

e) Changes in the value of other current assets;

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

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

h) The extraction of mineral ores.

Measurement of Revenue

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

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

Recognition of Revenue

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

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

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

(a) The sale of goods;

(b) The rendering of services; and

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

Sale of Goods

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

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

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

c) The amount of revenue can be measured reliably;

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

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

Rendering of Services

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

a) The amount of revenue can be measured reliably;

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

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

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

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

Interest, Royalties, and Dividends

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

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

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

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

C. Ind AS 114: *Regulatory Deferral Accounts*

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

Summary of requirements of Ind AS 114

Recognition and Measurement

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

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

Presentation

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

Balance Sheet

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

Statement of Profit & Loss

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

Chapter 10
Recognition, Measurement, Presentation & Disclosure of Expenses & Liabilities

Relevant standards dealt in this chapter are:

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

A. Ind AS 12: *Income Taxes*

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

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

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

Current Tax

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

Deferred Taxation

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

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

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

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

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

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

Deferred tax asset

A deferred tax asset is recognised when there is a deductible temporary difference between the tax base of an asset or liability and its carrying amount in the Balance Sheet, but only to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised. A deductible temporary difference arises when the carrying amount of a liability exceeds its tax base, as the future settlement of its

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

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

Allocation

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

B. Ind AS 19: *Employee Benefits*

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

- Wages and salaries
- Compensated absences (paid vacation and sick leave)

- Profit sharing plans
- Bonuses
- Medical and life insurance benefits during employment
- Housing benefits
- Free or subsidised goods or services given to employees
- Pension benefits
- Post-employment medical and life insurance benefits
- Long-service or sabbatical leave
- 'Jubilee' benefits
- Deferred compensation programmes
- Termination benefits.

Short-term employee benefits

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

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

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

Post-employment benefits

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment. Post-employment benefit plans are formal or informal

arrangements under which an entity provides post-employment benefits for one or more employees. Post-employment benefit plans are classified as either defined contribution plans or defined benefit plans, depending on the economic substance of the plan as derived from its principal terms and conditions

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

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

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

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

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

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

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

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

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

Other long-term employee benefits

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

Termination benefits

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

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

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

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

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

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

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

C. Ind AS 37: *Provisions, Contingent Liabilities and Contingent Assets*

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

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

(b) Those resulting from executory contracts, except where the contract is onerous. Executory contracts are contracts under

which either none of the parties has performed any of its obligations or both parties have partially performed their obligations to an equal extent;

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

(d) Those covered by another Standard.

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

Provisions

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

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

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

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

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

Measurement

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

estimate of the liability. However, even in such a case, the entity considers other possible outcomes.

Contingent Liabilities

A *contingent liability* is:

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

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

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

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

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

Contingent Assets

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

D. Ind AS 102: *Share-Based Payment*

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

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

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

Recognition and Measurement

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

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

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

Chapter 11
Standards on Financial Instruments

The relevant standards are:

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

A. 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 derivative that will or may be settled other than by the exchange of a fixed amount of cash or other financial asset for a fixed number of the entity own equity instruments. For this purpose the entity's own equity instrument does not include instruments that are themselves contracts for future receipt or delivery of the entity's own equity instruments.

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

Contracts and Contractual rights

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

are not financial assets or financial liabilities even though it may result in the receipt or delivery of cash.

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

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

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

Exclusions from Financial Assets

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

i. A hedged item in a fair value hedge.

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

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

iv. Employers' assets and liabilities under employee benefit plans.

v. Rights and obligations under an insurance contract.

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

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

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

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

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

Financial Liability as per the standard is any liability that is

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

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

Equity-Liability Classification

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

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

The terms of some instruments may give rise to an obligation to pay cash or transfer another financial asset only on the occurrence of one or more uncertain future events. For instance, an instrument may include clauses which call for redemption in the event of changes in tax legislation or failure to comply with financial performance measures or covenants etc. Where such specified events are beyond the entity's control, the entity does not have the

unconditional right to avoid payment, and hence the instrument is classified as a liability. Liability treatment may be avoided only where an entity can demonstrate that either:

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

Settlement in entity's own shares

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

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

B. Ind AS 107: *Financial Instruments: Disclosures*

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

i. Information about the significance of financial instruments

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

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

Financial assets as at fair value through profit or loss

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

fair value of financial asset attributable to changes in its credit risk, it should give the reason for such conclusion and other relevant factors.

Financial liabilities at fair value through profit or loss

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

Other Disclosures in Balance Sheet

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

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

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

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

Collateral Given: In respect to collateral pledged by the entity it should disclose the carrying amount and terms and conditions of financial assets pledged as collateral. Moreover, in respect of collateral given, for which counterparty has, right to sell or 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 should be provided of trust and other fiduciary activities that result in the holding or investing of assets on behalf of individuals, trusts, retirement benefit plans, and other institutions. Such information is useful in assessing the level of such activities by entity and in estimating probable future income of the entity.
- Interest income on impaired financial assets that is determined using the rate of interest used to discount the future cash flows for measuring impairment loss.
- The amount of any impairment loss for each class of financial asset.

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

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

Qualitative disclosure

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

Quantitative disclosure

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

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

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

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

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

- Information about collateral and other credit enhancements obtained

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

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

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

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

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

Other Disclosures

1. Accounting Policies

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

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

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

2. Hedge Accounting Disclosures

Hedging activities are integral and a very significant part of many entities. These activities are integral to entity's financial risk management policy. Hedge accounting is not mandatory for an enterprise. It is adopted to remove the difference in timing of recognition of gains and losses on exposure that is being hedged and the hedging instrument. This accounting choice can have significant effect on the financial statement. For all hedges, entity must disclose a description of each type of hedge, description and fair values at reporting date of the financial instruments

designated as hedging instruments date and nature of the risks being hedged. Since, in cash flow hedges, entity has to make significant judgments about expectation of the cash flow and these hedges also requires recognition of gains and losses directly in equity which are recycled to profit or loss, greater transparency is required. Therefore, some additional disclosures are required for cash flow hedges, which are:

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

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

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

Reclassification

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

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

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

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

b) Interest/ revenue recognised

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

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

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

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

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

C. Ind AS 109 – *Financial Instruments*

Ind AS 109 is based on IFRS 9 which will replace IAS 39 and has not yet been made effective though earlier adoption has been allowed by IASB. This is one standard that would be adopted early in India than rest of the world. The standards' scope is broad. The standard covers all types of financial instruments, including receivables, payables, investments in bonds and shares, borrowings and derivatives. They also apply to certain contracts to buy or sell non-financial assets (such as commodities) that can be net-settled in cash or another financial instrument. Ind AS 109 introduces single classification and measurement model for financial assets dependent on both:

- The entity's business model objective for managing financial assets;
- The contractual cash flow characteristics of financial assets.

Important Definitions

A ***financial asset*** is cash; a contractual right to receive cash or another financial asset; a contractual right to exchange financial assets or liabilities with another entity under potentially favourable conditions; or an equity instrument of another entity.

A ***financial liability*** is a contractual obligation to deliver cash or another financial asset; or to exchange financial instruments with another entity under potentially unfavourable conditions; or is a contract that will or may be settled in entity's own instrument under certain circumstances.

An ***equity instrument*** is any contract that evidences a residual interest in the entity's assets after deducting all of its liabilities.

A ***derivative*** is a financial instrument that derives its value from an underlying price or index; requires little or no initial net investment; and is settled at a future date.

Initial Recognition of Financial Assets and Liabilities

A financial asset or liability is recognised in the Balance Sheet when and only when, an entity becomes party to the contractual provisions of the instrument.

Initial Measurement of Financial Assets and Liabilities

A financial asset (except for certain trade receivables) 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 either at amortised cost, fair value through profit or loss, or fair value through other comprehensive income.

Financial Assets subsequently Measured at Amortised cost: To classify a financial asset as subsequently measured at amortised cost both of the below conditions must be met:

- The financial assets held within a **business model** whose objective is to hold financial assets in order to collect contractual cash flows;
- The contractual term of the financial asset give rise on specified dates to **cash flow** that are solely payments of principal and interest on the principal amount outstanding.

Such financial assets are subsequently measured at amortised cost using effective interest rate.

Financial Assets measured at Fair Value through Other Comprehensive Income (FVTOCI)

A financial asset should be measured at fair value through other comprehensive income if both of the following conditions are met:

- The financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Such assets are subsequently measured at fair value with all gains and losses recognised in other comprehensive income. Changes in fair value are not subsequently recycled to profit and loss. Dividends are recognised in profit or loss.

Financial Assets measured at Fair value through profit or loss (FVTPL)

A financial asset should be measured at fair value through profit or loss unless it is measured at amortised cost in or at fair value through other comprehensive income. However an entity may make an irrevocable election at initial recognition for particular investments in equity instruments that would otherwise be measured at fair value through profit or loss to present subsequent changes in fair value in other comprehensive income Note: the option to designate is irrevocable. Such financial assets are subsequently measured at fair value, with all gains and losses recognised in profit or loss.

Financial assets: Equity instruments

Investments in equity instruments are always measured at fair value. Equity instruments are those that meet the definition of equity from the perspective of the issuer as defined in Ind AS 32. Equity instruments that are held for trading are required to be classified as FVPL. For all other equities, management has the ability to make an irrevocable election on initial recognition, on an instrument-by-instrument basis, to present changes in fair value in OCI rather than profit or loss. If this election is made, all fair value changes, excluding dividends that are a return on investment, will

be included in OCI. There is no recycling of amounts from OCI to profit and loss (for example, on sale of an equity investment), nor are there any impairment requirements. However, the entity might transfer the cumulative gain or loss within equity.

Financial liabilities

Financial liabilities are measured at the amortised cost using effective interest rate method unless they are classified as FTVPL. Financial liabilities are classified as FTVPL if they are designated at initial recognition as such (subject to various conditions), if they are held for trading or are derivatives (except for a derivative, that is, a financial guarantee contract or a designated and effective hedging instrument). For liabilities designated at FVPL, changes in fair value related to changes in own credit risk, are presented separately in OCI. Amounts in OCI relating to own credit are not recycled to profit or loss even when the liability is derecognised and the amounts are realised. However, the standard does allow transfers within equity.

Derivatives

Derivatives (including separated embedded derivatives) are measured at fair value. All fair value gains and losses are recognised in profit or loss except where the derivatives qualify as hedging instruments in cash flow hedges or net investment hedges.

Regular way purchase or sale of financial assets

Appendix A of Ind AS 109 defines *a regular way purchase or sale* of financial assets as follows: *A purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned.* Therefore, a contract that requires or permits net settlement of the change in the value of the contract is not a regular way contract. Instead, such a contract is accounted for as a derivative in the period between the trade date and the settlement date

A regular way purchase or sale of financial assets is recognised using either trade date accounting or settlement date accounting. Here trade date refers to the date that an entity commits itself to purchase or sell an asset whereas settlement date is the date that an asset is delivered to or by an entity.

Trade date accounting refers to

- the recognition of an asset to be received and the liability to pay for it on the trade date, and
- derecognition of an asset that is sold, recognition of any gain or loss on disposal and the recognition of a receivable from the buyer for payment on the trade date.

Settlement date accounting refers to

- The recognition of an asset on the day it is received by the entity, and
- The derecognition of an asset and recognition of any gain or loss on disposal on the day that it is delivered by the entity.

Implications:

- When using trade date accounting generally, interest does not start to accrue on the asset and corresponding liability until the settlement date when title passes.
- When using settlement date accounting, an entity accounts for any change in the fair value of the asset to be received during the period between the trade date and the settlement date in the same way as it accounts for the acquired asset. In other words, the change in value is not recognised for assets measured at amortised cost; it is recognised in profit or loss for assets classified as financial assets measured at fair value through profit or loss; and it is recognised in other comprehensive income for investments in equity instruments accounted for using OCI option.

Derecognition of Financial Instruments

Derecognition is the term used for ceasing to recognise a financial asset or financial liability on an entity's balance sheet. These rules are more complex.

Assets

An entity that holds a financial asset may raise finance using the asset as security for the finance or as the primary source of cash flow to repay the finance. Derecognition requirements of Ind AS 109 determine whether the transaction is a sale of the financial

assets (and therefore the entity ceases to recognise the assets) or whether finance has been secured on the assets (and the entity recognises a liability for any proceeds received). This evaluation can be straightforward. For example, it is clear with little or no analysis that a financial asset is derecognised in an unconditional transfer of it to an unconsolidated third party, with no risks and rewards of the asset being retained.

Conversely, derecognition is not allowed where an asset has been transferred, but substantially all the risks and rewards of the asset have been retained through the terms of the agreement. However, the analysis may be more complex in other cases. Securitisation and debt factoring are examples of more complex transactions where derecognition will need careful consideration.

Liabilities

An entity may only cease to recognise (derecognise) a financial liability when it is extinguished – that is, when the obligation is discharged, cancelled or expires, or when the debtor is legally released from the liability by law or by the creditor agreeing to such a release. An exchange between an existing borrower and lender of debt instruments with substantially different terms or substantial modification of the terms of an existing financial liability of part thereof is accounted for as an extinguishment. The difference between the carrying amount of a financial liability extinguished or transferred to a 3rd party and the consideration paid is recognised in profit or loss.

Impairment of Financial Assets

The impairment requirements are applied to:

- Financial assets measured at amortised cost (including 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 is a probability-weighted estimate of credit losses. A credit loss is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive discounted at the original effective interest rate. Since ECL consider the amount and timing of payments, a credit loss arises even if the entity expects to be paid in full, but later than when contractually due.

The model includes some operational simplifications for trade receivables, contract assets and lease receivables as they are often held by entities that do not have sophisticated credit risk management systems. These simplifications eliminate the need to

calculate 12-month ECL and to assess when a significant increase in credit risk has occurred.

For trade receivables or contract assets that do not contain a significant financing component, the loss allowance needs to be measured at the initial recognition as well as throughout the life of the receivable at an amount equal to lifetime ECL. As a practical expedient, a provision matrix may be used to estimate ECL for these financial instruments.

For trade receivables or contract assets which contain a significant financing component and lease receivables, an entity has an accounting policy choice. It can either apply the simplified approach (measuring the loss allowance at an amount equal to lifetime ECL at initial recognition and throughout its life), or apply the general model. As an exception to the general model, if the credit risk of a financial instrument is low at the reporting date, management can measure impairment using 12-month ECL, and so it does not have to assess whether a significant increase in credit risk has occurred.

Hedge Accounting

Hedging is the process of using a financial instrument (usually a derivative) to mitigate all or some of the risk of a hedged item. Hedge accounting changes the timing of recognition of gains and losses on either the hedged item or the hedging instrument so that both are recognised in profit or loss within the same accounting period, in order to record the economic substance of the combination of the hedged item and instrument. To qualify for hedge accounting, an entity must (a) formally designate and document a hedge relationship between a qualifying hedging instrument and a qualifying hedged item at the inception of the hedge, and (b) both at inception and on an ongoing basis, demonstrate that the hedge is effective.

There are three types of hedge relationships:

I. Fair value hedge: A hedge of the exposure to changes in the fair value of a recognised asset or liability, or a firm commitment

II. Cash flow hedge: A hedge of the exposure to variability in cash flows of a recognised asset or liability, a firm commitment or a highly probable forecast transaction.

III. Net investment hedge: A hedge of the foreign currency risk on a net investment in a foreign operation.

For a fair value hedge, the hedged item is adjusted for the gain or loss attributable to the hedged risk. That element is included in the statement of profit & loss where it will offset the gain or loss on the hedging instrument. For an effective cash flow hedge, gains and losses on the hedging instrument are initially included in other comprehensive income.

The amount included in other comprehensive income is the lesser of the fair value of the hedging instrument and hedge item. Where the hedging instrument has a fair value greater than the hedged item, the excess is recorded within the profit or loss as ineffectiveness. Gains or losses deferred in other comprehensive income are reclassified to profit or loss when the hedged item affects the statement of profit & loss. If the hedged item is the forecast acquisition of a non-financial asset or liability, the entity may choose an accounting policy of adjusting the carrying amount of the non-financial asset or liability for the hedging gain or loss at acquisition, or leaving the hedging gains or losses deferred in equity and reclassifying them to profit and loss when the hedged item affects profit or loss. Hedges of a net investment in a foreign operation are accounted for similarly to cash flow hedges.

Chapter 12
Industry Based Standards

Standards dealt in this chapter are:

Ind AS 104: Insurance Contracts

Ind AS 106: Exploration for and Evaluation of Mineral Resources

A. Ind AS 104: *Insurance Contracts*

An insurance contract is a "contract under which one party (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder." The objective of Ind AS 104 is to specify the financial reporting for insurance contracts by any entity that issues such contracts. In particular, this Ind AS requires:

(a) Limited improvements to accounting by insurers for insurance contracts.

(b) Disclosure that identifies and explains the amounts in an insurer's financial statements arising from insurance contracts and helps users of those financial statements understand the amount, timing and uncertainty of future cash flows from insurance contracts.

Ind AS 104 applies to virtually all insurance contracts (including reinsurance contracts) that an entity issues and to reinsurance contracts that it holds. It also applies to financial instruments that an entity issues with a discretionary participation feature. It does not apply to other assets and liabilities of an insurer, such as financial assets and financial liabilities within the scope of Ind AS 109 Financial Instruments. Furthermore, it does not address accounting by policyholders. If insurance contracts include a deposit component, unbundling may be required.

Requirements of Ind AS 104

Temporary exemption from some other Ind ASs: Ind AS 8, *Accounting Policies, Changes in Accounting Estimates and Errors,* specify criteria for an entity to use in developing an accounting policy if no Ind AS applies specifically to an item. However, this Ind AS exempts an insurer from applying those criteria to its accounting policies for:

(a) Insurance contracts that it issues (including related acquisition costs and related intangible assets, such as those described in paragraphs 31 and 32); and

(b) Reinsurance contracts that it holds.

Unbundling of Deposit Components: Some insurance contracts contain both an insurance component and a deposit component. In some cases, an insurer is required or permitted to unbundle those components. To unbundle a contract, an insurer should apply Ind AS 104 to the insurance component and apply Ind AS 109 to the deposit component.

Liability Adequacy Test: An insurer should assess at the end of each reporting period whether its recognised insurance liabilities are adequate, using current estimates of future cash flows under its insurance contracts. If that assessment shows that the carrying amount of its insurance liabilities (less related deferred acquisition costs and related intangible assets) is inadequate, the entire deficiency should be recognised in profit or loss. If an insurer applies this test that meets specified minimum requirements, Ind AS 104 imposes no further requirements.

Impairment or Reinsurance Assets: If a cedent's reinsurance asset is impaired, the cedent should reduce its carrying amount accordingly and recognise that impairment loss in profit or loss.

Changes in accounting policies: An insurer may change its accounting policies for insurance contracts if, and only if, the change makes the financial statements more relevant to the economic decision-making needs of users and no less reliable, or more reliable and no less relevant to those needs.

Insurance contracts acquired in a business combination or portfolio transfer: An insurer measures, at the acquisition date,

the insurance liabilities assumed and insurance assets acquired in a business combination at fair value. However, an insurer is permitted, though not mandatorily required, to use an expanded presentation that splits the fair value of acquired insurance contracts into two components:

a. A liability measured in accordance with the insurer's accounting policies for insurance contracts that it issues; and

b. An intangible asset, representing the difference between the fair value of the contractual insurance rights acquired and insurance obligations assumed and the amount described in (a).

The subsequent measurement of this asset should be consistent with the measurement of the related insurance liability. An insurer acquiring a portfolio of insurance contracts may use the expanded presentation.

Discretionary participation features in insurance contracts: Some insurance contracts contain a discretionary participation feature as well as a guaranteed element. The issuer of such a contract:

- May, but need not, recognise the guaranteed element separately from the discretionary participation feature.
- If the issuer does not recognise them separately, it should classify the whole contract as a liability.
- If the issuer classifies them separately, it should classify the guaranteed element as a liability and classify discretionary participation feature as either a liability or a separate component of equity
- Issuer may recognise all premiums received as revenue without separating any portion that relates to the equity component. The resulting changes in the guaranteed element and in the portion of the discretionary participation feature classified as a liability should be recognised in profit or loss.
- If part or all of the discretionary participation feature is classified in equity, the issuer should recognise the portion of profit or loss attributable to any equity component of a

discretionary participation feature as an allocation of profit or loss, not as expense or income.

- Issuer must continue its existing accounting policies for such contracts, unless it changes those accounting policies in a way that complies with Ind AS 104.

Discretionary participation features in financial instruments: In case of financial instruments with discretionary participation feature, besides the above requirements, the following would apply:

- If the issuer classifies the entire discretionary participation feature as a liability, it should apply the liability adequacy test to the whole contract.
- If the issuer classifies part or all of that feature as a separate component of equity, the liability recognised for the whole contract must not be less than the amount that would result from applying Ind AS 109 to the guaranteed element.
- Although these contracts are financial instruments, the issuer may continue to recognise the premiums for those contracts as revenue and recognise as an expense the resulting increase in the carrying amount of the liability.

Disclosures

- An insurer is required to disclose information that identifies and explains the amounts arising from insurance contracts.
- An insurer is required to disclose information that enables the user of its financial statement to evaluate the nature and extent of risks arising from insurance contracts:

B. Ind AS 106: Exploration For and Evaluation of Mineral Resources

Objective of Ind AS 106

Ind AS 106 provides guidance on recognition, impairment and disclosures for exploration and evaluation expenditures and assets. An entity should apply Ind AS 106 to exploration and evaluation expenditures that it incurs except the following expenses that entity incurs:

- Before the exploration for and evaluation of mineral resources, such as expenditures incurred before the entity has obtained the legal rights to explore a specific area.
- After the technical feasibility and commercial viability of extracting a mineral resource are demonstrable.

This standard does not address other aspects of accounting by entities engaged in the exploration for and evaluation of mineral resources.

Important Definitions

Exploration and evaluation assets are exploration and evaluation expenditures recognised as assets in accordance with the entity's accounting policy.

Exploration and evaluation expenditures are expenditures incurred by an entity in connection with exploration for and evaluation of mineral resources before the technical feasibility and commercial viability of extracting a mineral resource are demonstrable.

Exploration for and evaluation of mineral resources include the search for mineral resources, including minerals, oil, natural gas and similar non-regenerative resources after the entity has obtained legal rights to explore in a specific area, as well as the determination of the technical feasibility and commercial viability of extracting the mineral resource.

Requirements of Ind AS 106

Temporary exemption from Ind AS 8

(a) This standard permits an entity to develop an accounting policy for exploration and evaluation assets without specifically considering the requirements of paragraphs 11 and 12 of Ind AS 8 *Accounting Policies, Changes in Accounting Estimates and Errors.* Thus, an entity adopting Ind AS 106 may continue to use the accounting policies applied immediately before adopting this Ind AS. This includes continuing to use recognition and measurement practices that are part of those accounting policies.

(b) Exploration and evaluation assets are classified as tangible or intangible according to the nature of the assets acquired. Once classified, it must be followed consistently.

Measurement: Expenditures related to the development of mineral resources are not be recognised as exploration and evaluation assets. The guidance in ICAI's *Framework* and other Ind ASs would provide guidance on the recognition of assets arising from development and obligations for removal and restoration incurred. After recognition, an entity should apply either the cost model or the revaluation model to the exploration and evaluation assets.

Presentation: Ind AS 106 requires entities recognising exploration and evaluation assets to perform an impairment test on those assets when facts and circumstances suggest that the carrying amount of the assets may exceed their recoverable amount.

Impairment: Ind AS 106 varies in the recognition of impairment from that in Ind AS 36 *Impairment of Assets* but measures the impairment in accordance with that Standard once the impairment is identified.

Disclosures: Ind AS 106 requires disclosure of information that identifies and explains the amounts recognised in its financial statements arising from the exploration for and evaluation of mineral resources, including

a. Its accounting policies for exploration and evaluation expenditures including the recognition of exploration and evaluation assets.

b. The amounts of assets, liabilities, income and expense and operating and investing cash flows arising from the exploration for and evaluation of mineral resources.

Chapter 13
Disclosure Standards

Besides, Ind AS 107 *Financial Instruments: Disclosures* & Ind AS 112 *Disclosure of Interests in Other Entities* has been dealt in earlier chapter pertaining to Financial Instruments and Group Accounting, the following standards deal exclusively with disclosure requirements.

- Ind AS 24 Related Party Disclosures
- Ind AS 108 Operating Segments

A. Ind AS 24: *Related Party Disclosures*

Objective & Scope of Ind AS 24

The objective of Ind AS 24 is to ensure that an entity's financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and profit or loss may have been affected by the existence of related parties and by transactions with such parties. This Standard should be applied in:

(a) Identifying related party relationships and transactions;

(b) Identifying outstanding balances, including commitments, between an entity and its related parties;

(c) Identifying the circumstances in which disclosure of the items in (a) and (b) is required; and

(d) Determining the disclosers to be made about those items.

This Standard requires disclosure both in the consolidated and separate financial statements of a parent, venturer or investor presented in accordance with Ind AS 27 *Separate Financial Statements*. It also applies to individual financial statements. Related party transactions and outstanding balances with other entities in a group are disclosed in an entity's financial statements. Intra-group related party transactions and outstanding balances are

eliminated in the preparation of consolidated financial statements of the group. Related party disclosure requirements as laid down in this Standard do not apply in circumstances where providing such disclosures would conflict with the reporting entity's duties of confidentiality as specifically required in terms of a statute or by any regulator or similar competent authority.

Important Definitions

A *related party* is a person or entity that is related to the entity that is preparing its financial statements (in this Standard referred to as the 'reporting entity').

(a) A person or a close member of that person's family is related to a reporting entity if that person:

  (i) Has control or joint control over the reporting entity;

  (ii) Has significant influence over the reporting entity; or

  (iii) Is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.

(b) An entity is related to a reporting entity if any of the following conditions applies:

  (i) The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

  (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

  (iii) Both entities are joint ventures of the same third party.

  (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

  (v) The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity)

A ***related party transaction*** is a transfer of resources, services or obligations between related parties, regardless of whether a price is charged.

Close members of the family of a person are the persons specified within meaning of 'relative' under the Companies Act 1956 and that person's domestic partner, children of that person's domestic partner and dependants of that person's domestic partner.

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity.

Disclosure Requirements under Ind AS 24

Relationships between parents and subsidiaries should be disclosed irrespective of whether there have been transactions between those related parties. An entity should disclose the name of the entity's parent and, if different, the ultimate controlling party. If neither the entity's parent nor the ultimate controlling party produces financial statements available for public use, the name of the next most senior parent that does so should also be disclosed.

An entity should disclose key management personnel compensation in total and for each of the following categories:

(a) Short-term employee benefits;

(b) Post-employment benefits;

(c) Other long-term benefits;

(d) Termination benefits; and

(e) Share-based payment.

If there have been transactions between related parties, an entity should disclose the nature of the related party relationship as

well as information about the transactions and outstanding balances necessary for an understanding of the potential effect of the relationship on the financial statements. These disclosure requirements are in addition to the requirements to disclose key management personnel compensation. At a minimum, disclosures should include:

(a) The amount of the transactions;

(b) The amount of outstanding balances including commitments, and

    1. Their terms and conditions, including whether they are secured, and the nature of the consideration to be provided in settlement; and

    2. Details of any guarantees given or received;

(c) Provisions for doubtful debts related to the amount of outstanding balances; and

(d) The expense recognised during the period in respect of bad or doubtful debts due from related parties.

The disclosures should be made separately for each of the following categories:

(a) The parent;

(b) Entities with joint control or significant influence over the entity;

(c) Subsidiaries;

(d) Associates;

(e) Joint ventures in which the entity is a venturer;

(f) Key management personnel of the entity or its parent; and

(g) Other related parties.

Items of a similar nature may be disclosed in aggregate except when separate disclosure is necessary for an understanding of the effects of related party transactions on the financial statements of the entity.

B. Ind AS 108: *Operating Segments*

Objective & Scope of Ind AS 108

The main objective of Ind AS 108 is to provide information so as to enable users of entities financial statements to evaluate the nature and financial effects of the business activities in which it engages and the economic environments in which it operates. If a financial report contains both the consolidated financial statements of a parent that is within the scope of this Indian Accounting Standard as well as the parent's separate financial statements, segment information is required only in the consolidated financial statements. Ind AS 108 defines an operating segment as follows. An operating segment is a component of an entity:

- That engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity);
- Whose operating results are reviewed regularly by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance; and
- For which discrete financial information is available.

Reportable segments

Ind AS 108 requires an entity to report financial and descriptive information about its reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria:

- Its reported revenue, from both external customers and intersegment sales or transfers, is 10 per cent or more of the combined revenue, internal and external, of all operating segments; or
- The absolute measure of its reported profit or loss is 10 per cent or more of the greater, in absolute amount, of (i) the combined reported profit of all operating segments that did not report a loss and (ii) the combined reported loss of all operating segments that reported a loss; or

- Its assets are 10 per cent or more of the combined assets of all operating segments.

If the total external revenue reported by operating segments constitutes less than 75 per cent of the entity's revenue, additional operating segments must be identified as reportable segments (even if they do not meet the quantitative thresholds set out above) until at least 75 per cent of the entity's revenue is included in reportable segments.

Disclosure Requirements

i. General information about how the entity identified its operating segments and the types of products and services from which each operating segment derives its revenues;

ii. Information about the reported segment profit or loss, including certain specified revenues and expenses included in segment profit or loss, segment assets and segment liabilities and the basis of measurement; and

iii. Reconciliations of the totals of segment revenues, reported segment profit or loss, segment assets, segment liabilities and other material items to corresponding items in the entity's financial statements.

iv. Some entity-wide disclosures that are required even when an entity has only one reportable segment, including information about each product and service or groups of products and services.

v. Analyses of revenues and certain non-current assets by geographical area – with an expanded requirement to disclose revenues/assets by individual foreign country (if material), irrespective of the identification of operating segments.

vi. Information about transactions with major customers.

vii. Considerable segment information at interim reporting dates.

Chapter 14
First-Time Adoption of Indian Accounting Standards

Ind AS 101: ***First-Time Adoption of Indian Accounting Standards***

Objective & Scope of Ind A S 101: Ind AS 101 prescribes the accounting principles for first-time adoption of Ind AS. It lays down various 'transition' requirements when a company adopts Ind AS for the first time, i.e., a move from Accounting Standards (Indian GAAP) to Ind AS. Conceptually, the accounting under Ind AS should be applied retrospectively at the time of transition to Ind AS. However, to ease the process of transition, Ind AS 101 has given certain exemptions from retrospective application of Ind AS. The exemptions are broadly categorised into those which are mandatory in nature (i.e., cases where the company is not allowed to apply Ind AS retrospectively) and those which are voluntary in nature (i.e., the company may elect not to apply certain requirements of Ind AS retrospectively). Ind AS 101 also prescribes presentation and disclosure requirements, which would explain the transition to the users of financial statements, including explaining how the transition from Indian GAAP to Ind AS affected the company's financial position, financial performance and cash flows. Ind AS 101 does not provide any exemption from the disclosure requirements in other Ind AS. An entity should apply Ind AS 101 in its first Ind AS financial statements; and each interim financial report, if any, that it presents in accordance with Ind AS 34 *Interim Financial Reporting* for part of the period covered by its first Ind AS financial statements.

Structure 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 ASs

- Appendix C – Exemptions for business combinations
- Appendix D – Exemptions from other Ind ASs

Key Definitions as set out in Appendix A

First time Adopter: An entity that presents its first Ind AS financial statements

First Ind AS Financial Statements: The first annual financial statements in which an entity adopts Ind AS by an explicit and unreserved statement of compliance with Ind AS.

First Ind AS reporting period: The latest reporting period covered by an entity's first Ind AS financial statements

Indian Accounting Standards: Ind ASs are Accounting Standards prescribed under section 133 of the Companies Act, 2013.

Opening Ind AS Balance Sheet: An entity's Balance Sheet at the date of transition to Ind ASs.

Date of transition to Ind ASs: The beginning of the earliest period for which an entity presents full comparative information under Ind ASs in its first Ind AS financial statements

Deemed cost: An amount used as a surrogate for cost or depreciated cost at a given date. Subsequent depreciation or amortisation assumes that the entity had initially recognised the asset or liability at the given date and that its cost was equal to the deemed cost.

Previous GAAP: The basis of accounting that a first-time adopter used for its statutory reporting requirements in India immediately before adopting Ind ASs. For instance, companies required to prepare their financial statements in accordance with Section 133 of the Companies Act, 2013, should consider those financial statements as previous GAAP financial statements.

Transition date For Ind AS and preparing Opening Balance Sheet at date of Transition

The opening Ind AS Balance Sheet is the starting point for all subsequent accounting under Ind AS. Companies should prepare an opening Ind AS Balance Sheet at 'the date of transition to Ind AS'. This Balance Sheet forms the basis for preparation of financial

statements for e.g. opening Balance Sheet is required for, and integral to an equity reconciliation that has to be presented in an entity's first Ind AS financial statements. The opening statement of financial statement has to be prepared as on this date however, the same need not be published in the first Ind AS financial statements. In preparing opening Balance Sheet entity must follow the Recognition & Measurement principles of Ind AS 101.

Recognition & Measurement Principles of Ind AS 101

Ind AS 101 requires a first-time adopter to use the same accounting policies including general principle of retrospective application, optional exemptions and mandatory exceptions in its opening Ind AS Balance Sheet and all periods presented in its first Ind AS financial statements The selection of accounting policy among diverse existing alternatives as per Ind AS standards should be done carefully, fully understanding its implication on both the opening Ind AS Balance Sheet and the financial statements of future periods. A number of standards allow companies to choose between alternative policies. Companies should select the accounting policies to be applied to the opening Ind AS Balance Sheet carefully, with a full understanding of the implications on both the opening Ind AS Balance Sheet and the financial statements of future periods. A company may apply a standard that has been issued at the reporting date, even if that standard is not mandatory, as long as the standard permits early adoption.

Accounting policies

An entity should use the same accounting policies in its opening Ind AS Balance Sheet and throughout all periods presented in its first Ind AS financial statements. Those accounting policies should comply with each Ind AS effective at the end of its first Ind AS reporting period, except as specified in Ind AS 101.

Opening Balance Sheet

Generally a first time adopter should comply with the following requirements of Ind AS 101 in its opening Balance Sheet:

(a) Recognise all assets and liabilities whose recognition is required by Ind ASs;

(b) Not recognise items as assets or liabilities if Ind ASs do not permit such recognition;

(c) Reclassify items that it recognised in accordance with previous GAAP as one type of asset, liability or component of equity, but are a different type of asset, liability or component of equity in accordance with Ind ASs;

(d) Apply Ind ASs in measuring all recognised assets and liabilities.

Resulting adjustments required on account of moving from previous GAAP to Ind AS at the time of first-time adoption. The transition to Ind AS could result in an entity having to change its accounting policies on recognition and measurement. The effect of this is recognized directly in retained earnings or other appropriate category of equity in the opening Ind AS Balance Sheet prepared at the date of transition to Ind ASs.

There are significant disclosure requirements relating to changes in accounting policies on transition to Ind AS. The information gathering and reporting systems of the entities should be suitably modified to deliver correct presentation and disclosure requirements as per Ind AS in the opening and subsequent period Balance Sheets of the first time adopters.

Exceptions to the Principle that an Entity's opening Statement should comply with each Ind AS

The basic requirement is for full retrospective application of all Ind AS, effective at the reporting date. However, there are a number of optional exemptions and mandatory exceptions to the requirement of retrospective application. The exemptions cover standards for which it is considered that retrospective application could prove too difficult or could result in a cost likely to exceed related benefits to users. As regards optional exemptions, these are optional and any, all or none of the exemptions may be applied by the entity.

Presentation and Disclosure

Ind AS 101 does not provide exemptions from the presentation and disclosure requirements in other Ind ASs. This Ind AS requires that an entity's first Ind AS financial statements should include

at least three balance sheets, two statements of profit and loss, two statements of cash flows and two statements of changes in equity and related notes, including comparative information for all statements presented.

Explanation of transition to Ind ASs

Ind AS 101 requires that an entity should explain how the transition from previous GAAP to Ind ASs affected its reported balance sheet, financial performance and cash flows.

Exceptions to the retrospective application of other Ind ASs

Ind AS 101 prohibits retrospective application of some aspects of other Ind ASs. These exceptions are set out in paragraph 14-17 of Ind AS 101 and Appendix B to Ind AS 101.

Estimates

Paragraphs 14-17 of Ind AS 101 deal with exception with regard to 'estimates'. As per paragraph 14 of Ind AS 101, an entity's estimates in accordance with Ind AS at 'the date of transition to Ind AS' or 'the end of the comparative period presented in the entity's first Ind AS financial statements', as the case may be, should be consistent with estimates made for the same date in accordance with previous GAAP unless there is objective evidence that those estimates were in error. However, the estimates should be adjusted to reflect any differences in accounting policies.

Mandatory Exceptions

Appendix B to Ind AS 101 provides that an entity should apply the following mandatory exceptions:

- Derecognition of financial assets and financial liabilities;
- Hedge accounting;
- Non-controlling interests;
- Classification and measurement of financial assets;
- Impairment of financial assets;
- Embedded derivatives; and
- Government loans

Derecognition of financial assets and financial liabilities

A first-time adopter should apply the derecognition requirements in Ind AS 109 on 'Financial Instruments' prospectively for transactions occurring on or after the date of transition to Ind AS.

Hedge Accounting

As required by Ind AS 109, at the date of transition to Ind AS, an entity should:

a) Measure all derivatives at fair value; and

b) Eliminate all deferred losses and gains arising on derivatives that were reported in accordance with previous GAAP as if they were assets or liabilities.

Paragraph B5 of Appendix B to Ind AS 101 provides that an entity should not reflect in its opening Ind AS Balance Sheet a hedging relationship of a type that does not qualify for hedge accounting in accordance with Ind AS 109. Paragraph B6 of Ind AS 101 provides that if, before the date of transition to Ind AS, an entity had designated a transaction as a hedge but the hedge does not meet the conditions for hedge accounting in Ind AS 109, the entity should discontinue hedge accounting. Transactions entered into before the date of transition to Ind ASs should not be retrospectively designated as hedges.

Non-controlling interests

A first-time adopter should apply the following requirements of Ind AS 110 *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 an 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 *Non-current Assets Held for Sale and Discontinued Operations*. However, if a first-time adopter elects to apply Ind AS 103 *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 *Financial Instruments: Presentation.*

A first-time adopter should apply the requirements under Ind AS 109 *Financial Instruments* and Ind AS 20 *Accounting for Government Grants and Disclosure of Government Assistance* prospectively to Government loans existing at the date of transition to Ind AS, i.e., it should not recognise the corresponding benefit of the Government loan at a below-market rate of interest as a Government grant. Consequently, if a first-time adopter did not, under its previous GAAP, recognise and measure a Government loan at a below-market rate of interest on a basis consistent with the requirements under Ind AS, it should use its previous GAAP

carrying amount of the loan at the date of transition to Ind AS as the carrying amount of the loan in the opening Ind AS balance sheet and apply Ind AS 109 to the measurement of such loans after the date of transition to Ind AS.

Under Ind AS 101, an entity has been given an exception to prospective application of Ind AS 109 and Ind AS 20, i.e., an entity may apply the requirements in Ind AS 109 and Ind AS 20 retrospectively to any Government loan originated before the date of transition to Ind AS. However, this exception is available only in cases where the information needed for retrospective application of Ind AS 109 and Ind AS 20 had been obtained at the time of initially accounting for that loan.

Exemptions for business combinations

Appendix C to Ind AS 101 contains the requirements that an entity should apply to business combinations that the entity recognised before the date of transition to Ind AS. For all transactions qualifying as business combinations under Ind AS 103, an entity being a first time adopter has three choices viz.:

i. Not restate business combinations before the date of transition.

ii. Restate all business combinations before the date of transition.

iii. Restate a particular business combination, in which case all subsequent business combinations must also be restated and the Ind AS 36 *impairment guidance* must be applied.

An entity need not apply Ind AS 21, *The Effects of Changes in Foreign Exchange Rates,* retrospectively to fair value adjustments and goodwill arising in business combinations that occurred before the date of transition to Ind ASs and it should treat them as assets and liabilities of the entity. An entity may apply Ind AS 21 retrospectively to fair value adjustments and goodwill arising in either:

a) All business combinations that occurred before the date of transition to Ind ASs; or

b) All business combinations that the entity elects to restate to comply with Ind AS 103.

Appendix C also provides the detailed consequences in case a first-time adopter does not apply Ind AS 103 retrospectively to

a past business combination. 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
- Non-current assets held for sale and discontinued operations

An entity should not apply these exemptions by analogy to other items.

Chapter 15
Impact of Ind AS on Banks

MCA through its press release No. 11/10/2009 CL-V dated January 18, 2016 announced requirements for Scheduled Commercial Banks (excluding RRBs), All-India Term-lending Refinancing Institutions (i.e., Exim Bank, NABARD, NHB and SIDBI), NBFC and Insurance Companies to prepare Ind AS based standalone and consolidated financial statements. The applicability road map is as follows:

Applicable to	Applicability of Ind AS – Phase I from April 1, 2018	Applicability of Ind AS – Phase 2 from April 1, 2019
Commercial banks, term lending institutions, refinance institutions and insurance companies	Applicable to all the companies irrespective of their net worth	
Listed NBFCs	Net worth >= INR 500 crores	Net worth<= INR 500 crores
Unlisted NBFCs	Net worth >= INR 500 crores	Net worth >= INR 250 crores but less than INR 500 crores

Notwithstanding the roadmap for other corporates, this would apply to the holding, subsidiary, joint venture or associate companies of Scheduled Commercial Banks. Urban Co-operative Banks (UCBs) and Regional Rural Banks (RRBs) are however, ***not required*** to apply Ind AS and should continue to comply with the existing Accounting Standards.

RBI's Announcement

The above announcement was followed by the Reserve Bank Notification No. **DBR.BP.BC.No.76/21.07.001/2015-16 dated**

February 11, 2016 issued under Section 35A of the Banking Regulation Act, 1949. The salient features of these directions are:

- It mandates banks to comply with Ind AS as per the implementation Roadmap issued by the MCA.
- It advises Banks to set up a Steering Committee headed by an official of the rank of an Executive Director (or equivalent) comprising members from cross-functional areas of the bank to immediately initiate the implementation process.
- It requires banks to send by email to the RBI – the name and details of the designated official and the team.
- The Board of the bank has been cast with the ultimate responsibility of determining the Ind AS direction and strategy and overseeing the development and execution of the Ind AS implementation plan.
- It casts responsibility on the Audit Committees of the Boards to oversee the progress of the Ind AS implementation process and report to the Board at quarterly intervals.
- It introduces additional reporting requirements until implementation, according to which banks need to submit '**Proforma Ind AS Financial Statements**' to the RBI from half year ending 30th September 2016 onwards and disclose the strategy for Ind AS implementation, including the progress made, in their Annual Reports for FY 2016-17 and FY 2017-18.
- It requires banks to assess the impact of the Ind AS implementation on their financial position, including the adequacy of capital, taking into account the Basel III capital requirements.
- RBI has identified the following as critical issues which need to be factored in the Ind AS implementation plan:
  - o Ind AS Technical Requirements
  - o Systems and processes
  - o Business Impact
  - o Evaluation of human resources
  - o Project management

The RBI itself has undertaken the responsibility to facilitate the implementation process and issue necessary instructions/guidance/ clarifications on relevant aspects as and when required and hold periodic meetings with banks in this regard.

Key Impact Areas

Impact on Accounting for Financial Instruments

Ind AS has three most important standards dealing solely with Financial Instruments. Under Indian GAAP, this area was largely vacant with minimal guidance available in AS 13. As far as banks were concerned, the presentation and measurement of financial instruments were largely guided through RBI circulars which may now required to be withdrawn to harmonise with the requirements of Ind AS. To maintain comparability of financial statements, RBI may also consider to not adopting various options available in Ind AS. Banks being Financial Intitutions large deal with financial instruments in their day to day operations, and adopting Ind AS in respect to financial instruments would be greatest challenge. Working Committee group on the Implementation of Ind AS by banks, which submitted its report on September 8, 2015, identified the following key areas with a focus on financial instruments:

A. Classification and Measurement of Financial Assets

B. Classification and Measurement of Financial Liabilities

C. Hedge Accounting and Derivatives

D. Fair Value Measurement

E. Impairment of Financial Assets

F. Presentation of Financial Statements and Disclosure

G. Derecognition of Financial Assets

Let's briefly understand the underling transition issues and recommendation in respect to above:

A. Classification and Measurement of Financial Assets

Currently classification of investments by banks is made as per the guidelines of the RBI. The entire investment portfolio (including SLR and non- SLR category) of the bank is classified under three

categories viz., 'Held to Maturity' (HTM), 'Available for Sale' (AFS) and 'Held for Trading' (HFT). Such classification is decided on model based on "intention" and "ability' which is completely dispensed with in under Ind AS 109 *Financial Instruments* which now requires classification based on Business Model and the Cash Flow characteristics. Ind AS 109 requires all financial assets to be classified at amortised costs, fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVTPL). The cash flow characteristics should be ascertained and those that are solely payment of principal and interest (SPPI criteria) on the principal amount outstanding alone qualify to be classified as 'amortised cost category'. To bridge the gap, the WG has advised RBI would need to suitably align/withdraw the extant instructions on classification of investment portfolios as outlined in the *Master Circular on Prudential Norms for Classification, Valuation and Operation of Investment Portfolio by Banks* dated July 1, 2015. Implementation of Ind AS would require the extensive exercise of reclassifying each item of Financial Asset according to Ind AS, as this would ultimately affect the retained earnings or the profit and loss account on an on-going basis. Moreover since the above classification would be based on the business model test and the contractual cash flow tests, banks would have to document approved policies and processes as determined by their Key Management Personnel to justify classification. The business model test has to be performed at the portfolio level or sub-portfolio level requiring Banks to bifurcate its portfolio as per the business model objective. There could, of course, be more than one business model, meaning there could be a sub-portfolio meant for trading and another meant for collecting contractual cash flows or for both collecting contractual cash flows as well as for trading purposes. The challenge would be to determine these and make an appropriate classification.

B. Classification and Measurement of Financial Liabilities

Ind AS 109 requires all financial assets and financial liabilities to be initially measured at fair value (plus / minus transaction cost in case of those not measured at FVTPL) as against the current practice of recording them at transaction price. In most situations, the transaction value will be the fair value on initial recognition and as such no significant changes from current practices will

be required except for certain types of transactions. e.g., where preferential rates of deposits offered.

In respect to *demand deposits* which are generally interest free, the current practices need not be altered. However, in case of *saving bank deposit* since the rate of interest have been deregulated and rate fixed by banks may be different from the market rate, banks will need to consider if their deposit rates are in line with the market range of rates being offered. In case they are different, fair value of such deposit would be required to be determined which as per the requirement of Ind AS cannot be lower than the amount that can be withdrawn on demand. Therefore, a process needs to be instituted to ensure that there is a periodic comparison/analysis of market rates. Similar process would be required in case of *term deposits.* It is interesting to note here that if incentive based interest rates are offered to employees and ex-employees for term deposits, the difference between fair value and transaction price would be considered as an employee cost whereas where preferential interest rates are offered to senior citizens it would not normally require adjustment as these are industry practice. In case of *financial guarantee contracts,* issue would arise in cases where guarantees are not adequately priced by the bank or where the bank recognises the entire guarantee commission upfront on the issuance of such a product as Ind AS requires guarantee commissions to be recognised over the life of the commitment period.

As regards subsequent measurement of Financial Liability, Ind AS 109 requires financial liabilities held for trading and derivatives to be classified under FVTPL while all other financial liabilities are measured at amortised cost, unless the FVTPL designation option is used subject to certain stringent conditions. This is considerable departure from current practice of recognising all Financial Liabilities except for certain derivatives at cost. One other important aspect of Ind AS is that the transaction costs incurred in issuance of financial liabilities subsequently measured at amortised cost, that are incremental for an entity and are directly attributable to the issuance of the related liability are capitalised and recognised as part of the Effective Interest Rate of the instrument issued. This would result in recognision of these costs over the period of the related liability which is against the current provisions of Section 15 of the Banking Regulation Act. Therefore, WG has suggested amendment of this section.

Ind AS 32 prescribes stringent requirements *offsetting/ netting* of financial assets and liabilities based on 'legally enforceable unconditional right' and 'intention'. The issue may arise in respect to *Presentation of Inter Bank Participation Certificates (IBPC)* with risk sharing where the issuing bank, show its advances as net amount after deducting the aggregate amount of participation. This practice would not meet Ind AS 32 *Financial Instrument Presentation*, requirements and hence RBI may consider withdrawing the accounting related aspects of the circular DBOD. No.BP.BC.57/62-88 dated December 31, 1988, so that there is no contradiction with Ind AS.

Certain issues may also arise in respect to *debt equity classification* as per Ind AS 32, in respect to following instruments for which banks need to carefully study the Ind AS requirement and WG recommendation:

- *Perpetual Debt Instruments (PDI) qualifying for Additional Tier 1 Capital*
- *Perpetual Non Cumulative Preference Shares (PNCPS) as Additional Tier 1 Capital*
- *Debt instruments qualifying as Tier II Capital*
- *Perpetual Cumulative Preference Shares (PCPS) / Redeemable Non Cumulative Preference Shares(RNCPS) / Redeemable Cumulative Preference Shares (RCPS) – qualifying for Tier II capital*

C. Hedge Accounting and Derivatives

Derivatives and hedging has close nexus with banks as banks undertake transactions in derivatives both as market makers and as customers for hedging their own underlying risks. Indian banks has been following varied product based guidance on different types of derivatives unlike Ind AS 109 which has composite fundamental based approach towards hedging and requires all financial derivatives to be measured at fair value irrespective of the derivative type with gains and losses being recognised in profit & loss account except in case of derivatives which form part of an effective hedging relationship. The following are notable issues in this regards:

- RBI through its circular no. *MPD.BC.187/07.01.279/1999-2000 dated July 7, 1999,* has instructed banks to account for *Interest Rate Swap* which hedges interest bearing asset or liability on accrual basis except the swap designated with an asset or liability that is carried at market value or lower of cost or market value in the financial statements. This is not in line with the requirements of Ind AS 109, hence RBI may consider its withdrawal.
- In respect to *Exchange Traded Interest Rate Derivatives,* banks currently follow Guidance Note on Accounting for Equity Index Futures issued by ICAI. Based on IFRS 39, it requires dogmatic 80% to 125% testing range for assessing the hedge effectiveness which has been dispensed with in Ind AS 109 that requires an objective test that focuses on the economic relationship between the hedged item and the hedging instrument.

D. Fair Value Measurement

Fair Value measurement is another area of concern for banks due absence of deep bond and security markets in India. Though there are not much apprehension in respect to investment by banks in liquid and listed equity instrument, it will be interesting to observe the stand taken by RBI in respect to complex and illiquid instruments that may require valuations certified by an external valuer/expert and equity instruments that are neither quoted nor traded and where data for valuation is neither reliable, nor adequate or timely. WG is of opinion that RBI may provide an carve out by requiring such instruments to be measured at carrying cost and subjected to testing for impairment or by other measures including limiting the extent of such investments, imposing additional capital requirements, etc. Determination of fair value according to Ind AS 113 *Fair Value Measurement* would also be a departure from RBI extant guidelines and RBI would thereby be required to modify or withdraw those to comply with Ind AS 113.

E. Financial Instruments Impairment

Identifying impairment loss on financial instrument by banks at right time is of utmost importance for economic viability of any bank. The impairment model in Ind AS 109 is based on the expected credit losses. Whereas RBI's prudential norms require

percentage-based provisioning based on days past due concept ("90 day norm") that ensures consistent application across the banking system. To build a cushion against the build-up of non-performing assets (NPA), the RBI has also prescribed a provision on standard assets, which is broadly based on the principle of expected loss provisioning. The Ind AS 109 application would require complete change in approach as banks would have to design processes to get forward looking approach to identify expected credit losses. As per Ind AS 109 on day one, impairment loss allowance is to be recognised on the 12-month expected credit losses (stage 1), which reflects unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes adjusted for the time value of money based on reasonable and supportable information that is available without undue cost or effort about the past performance, current conditions and forecast of future economic conditions as well. If the credit risk increases significantly in future and the resulting credit quality is not considered to be low credit risk, full lifetime expected credit losses are recognised (Stage 2). Once the credit risk of a financial asset increases to the point that it is considered credit-impaired, interest revenue is calculated after netting the impairment allowance from the gross carrying amount (Stage 3). When the asset moves from Stage-3 to Stage-2 (where the credit risk increases significantly from the credit risk at the date of inception), interest would be recognised on the carrying value. For a purchased or originated credit impaired asset interest recognition would always be on the amortised cost and would never revert back to the carrying value.

The application of impairment model prescribed under Ind AS 109 would be huge challenge and would greatly enhance the provisioning requirements thereby also affecting the opening capital and retained earnings. WG has considered alternative on this issue and has suggested the following approach for RBI's perusal. *"The extant income recognition, asset classification and provisioning (IRACP) norms have stood the test of time and served the banking system well. In order to facilitate a full migration to Ind AS as well as ensure regulatory comfort with the provisioning for impairment, the RBI could consider prescribing the current IRACP norms with suitable modifications as a prudential floor. Where impairment requirements as per the banks' own ECL models are lower than the prudential floor, banks may be required to appropriate the*

differential amount to a prudential reserve, below the line. Any subsequent withdrawals from such a prudential reserve would require prior RBI approval".

F. Presentation of Financial Statements and Disclosure

Currently bank follow format prescribed in Schedule III of Banking Regulation Act however, Ind AS does not prescribe any fixed format. The current format may require changes and to ensure uniformity and comparability, RBI may prescribe a format keeping in view the requirements of Ind AS. particularly as contained in Ind AS I *Presentation of Financial Instruments*, Ind AS 107 *Financial Instruments Disclosure* and Ind AS 32 *Financial Instrument Presentation*. It should be noted that RBI has already prescribed a format for "proforma Ind AS half yearly statement via its Circular No. *D. R.BP.BC. No.106/21.07.001 / 2015-16 dated 23rd June, 2016.*

G. Derecognition

Derecognition criteria as per RBI guidelines are very strict as compared to Ind AS and financial assets which requires derecognition under Ind AS may not qualify for derecognition under extant RBI guidelines. The extant guidelines are based on "true Sale' model. For instance current RBI guidelines for derecognition of Securitisation financial assets require the sale to be only on cash basis and the consideration to be received not later than at the time of transfer of assets to the SPV. Further, if the originator indulges in market making or dealing in the securities issued by the SPV it shall result in a violation of the true sale criteria. Ind AS109 does not specify such requirements implying that even where the sale is on a non-cash basis or subsequent trading is carried out in the financial assets sold, the assets would remain derecognised subject to the Ind AS 109 specified derecognition criteria.

Beside, the financial instrument standards the following other areas will also significantly impact the financial statement of Banks:

Presentation of financial statements under Ind AS 1 would result in classification into current and non-current assets and liabilities on the face of the balance sheet with certain exceptions. SOCIE will be a new statement.

Segment reporting approach will see a massive change as Ind AS 108 requires operating segments to be identified on the basis of internal reports to Chief Operating Decision Maker who allocate resources to the segment and also assess its performance. Entities will be required to furnish a disclosure of customer concentration, if any, so as to enable investors to assess the risks faced by a company. This would result in compilation of information of the revenue generated by each segment to furnish the necessary disclosures in accordance with Ind AS 108.

Related parties will have to be reassessed for enhanced relationships that can get covered under the scope of definition of related party in accordance with Ind AS 24.

Part of Item Accounting (also often referred to as Component Accounting) under Ind AS 16 will require entities to restructure their fixed asset register and re-compute depreciation.

Annual impairment testing as opposed to amortization can create volatility in the profit and loss statement.

Lease classification requirements of service contracts such as ATM contracts under Ind AS may need to be accounted for as 'leases' on the use of the specific asset being essential to the operations as well as satisfying certain conditions. This can have a substantial impact due to derecognition of the asset from the books of the service provider on satisfaction of the finance lease classification.

Accounting for share based payments in form of Employees Share Options Plans will have to be remeasured using the fair value method which may lead to increased charges for ESOPs for many entities with a significant impact on earnings per share which will now have to be in accordance with Ind AS 102 thereby reflecting the true compensation cost of receiving employee benefits.

Accounting for business combinations would have significant impact and would result in:

- Recognition of acquired assets and liabilities at fair value;
- Recognition of intangible assets and contingent liabilities which were unrecorded on the acquiree's balance sheet to be now recorded at fair value in the acquirer's balance sheet;

- Recognition in the profit and loss account of the resulting gain or loss on measurement at fair value of the previously held equity interest in the acquiree in case of business combination being achieved in stages and thus increasing volatility;
- Recognition of net assets and the measurement of previously held equity interests and non-controlling interests thus significantly changing the value of goodwill recorded in financial statements; and
- Non-amortisation of goodwill but with the requisition of testing the same on an annual basis for impairment.

Accounting for deferred taxes in the Consolidated Financial Statement will be witness to a significant change in respect to non-distributed profits of intra-group transactions, subsidiaries, joint ventures and associates. The principle of 'convincing evidence' per Ind AS in contrast to 'virtual certainty' is less stringent with a higher probability of recognizing deferred tax asset on unabsorbed depreciation and carry forward of losses.

Chapter 16
Impact of Ind AS on Insurance Companies

The Ministry of Corporate Affairs (MCA) notified the Ind AS road map for corporates on 16th February 2015. However, Insurance companies were not made part of the road map. The Insurance Regulatory and Development Authority of India (IRDA), through its order on 17th November 2015 stated that the insurance sector in India would be converging with International Financial Reporting Standards (IFRS) and subsequently on 7th December 2015 issued a Discussion Paper on Ind AS implementation in the insurance sector with key recommendations. Later MCA through its *Press Release No. 11/10/2009 CL-V dated January 18, 2016* announced requirements for Scheduled commercial banks (excluding RRBs), All-India Term-lending Refinancing Institutions (i.e. Exim Bank, NABARD, NHB and SIDBI), NBFC and Insurance Companies to prepare Ind AS based standalone and consolidated financial statements for FY 2018-19 with comparatives of FY 2017-18. This was followed by the IRDA circular issued on 1 March 2016 which provides certainty on the mandate for implementation of Ind AS for all insurers. The salient features of this circular are:

- It mandates Insurers to comply with Ind AS as per the implementation Roadmap issued by the MCA. Insurance Companies cannot adopt the Ind AS earlier.
- It advises Insurers to set up a Steering Committee headed by an official of the rank of an Executive Director (or equivalent) comprising members from cross-functional areas of the insurer to immediately initiate the implementation process.
- It requires Insurers to send by e-mail to the IRDA– the name and details of the designated official and the team.
- Steering Committee must assess the impact of the Ind AS implementation on their financial position, including the adequacy of capital, taking into account the solvency

regulations requirements, and present the quarterly progress reports to their Boards.

- The Board of the insurer has been cast with the ultimate responsibility of determining the Ind AS direction and strategy and overseeing the development and execution of the Ind AS implementation plan.
- It casts responsibility on the Audit Committees of the Boards to oversee the progress of the Ind AS implementation process and report to the Board at quarterly intervals.
- It introduces additional reporting requirements until implementation, according to which Insurers need to submit **'Proforma Ind AS Financial Statements'** to the IRDA from half year ending 30th Sept 2016 onwards and disclose the strategy for Ind AS implementation, including the progress made, in their Annual Reports for FY 2016-17 and FY 2017-18.
- IRDA has identified the following as critical issues which need to be factored in the Ind AS implementation plan:
    - o Ind AS Technical Requirements
    - o Systems and processes
    - o Business Impact
    - o Evaluation of human resources
    - o Project management

The IRDA itself has undertaken the responsibility to facilitate the implementation process and issue necessary instructions/guidance/ clarifications on relevant aspects as and when required and hold periodic meetings with Insurers in this regard.

Implementation Issues

IRDA had also issued a Discussion Paper on Ind AS implementation in the insurance sector with key recommendations on December 7, 2015 which provides directives for implementation of Ind AS for all insurers. The Discussion Paper contains 3 Schedules:

- Schedule A contains requirements for insurer carrying life insurance business.
- Schedule B contains requirements for insurer carrying general, health insurance, reinsurance. The requirements would also apply to the foreign insurer engaged in the

business of reinsurance through a branch office established in India.

- Schedule C deals with requirements pertaining report of the auditor.

The Discussion Paper also states that the financial statement of an insurer should be signed in accordance with Section 11 of the Insurance Act, 1938.

Key Accounting Principles in Discussion Paper

Discussion Paper requires that the financial statements which includes Balance Sheet, Revenue Account [Policyholders' Account], Statement of Profit and Loss [Shareholders' Account], Receipts and Payments Account [Statement of Cash Flows], of an insurer must be consistent with the Ind AS issued under the Companies (Indian Accounting Standards) Rules, 2015, to the extent not inconsistent with Insurance Act, 1938. However, it provides certain exceptions to Ind AS application which are as follows:

(i) Other Comprehensive Income preparation under Ind AS 1 *Presentation of Financial Statements* will not apply.

(ii) Indirect method of preparing cash flow statement under Ind AS 7 Statement of Cash Flow is not permitted. Hence only direct method should be used.

(iii) Revaluation model as prescribed as alternative to cost model under Ind AS 16 *Property, Plant & Equipment* cannot be used for subsequent measurement of property, plant & equipment. Hence PPE should be measured at cost less accumulated depreciation at subsequent measurement.

(iv) Ind AS 40 *Investment Property* will not be applicable in relation to investment property that belong to policyholders' funds and in other cases fair value need not be disclosed.

(v) Ind AS 32 *Financial Instrument Presentation,* Ind AS 101 *First time adoption of Indian Accounting Standards,* Ind AS 107 *Financial Instruments Disclosures* & Ind AS 104 *Insurance Contracts* will not be applicable

(vi) Ind AS 108 *Operating Segments* will apply to all insurers irrespective of the meeting of the quantitative threshold and in particular in respect of life, annuity and pension, health and unit Linked business, having regard to participating and non-

participating policies. In case of insurance business other than life insurance Ind AS 108 will apply particularly to fire, marine cargo, marine Others, miscellaneous – motor own damage and motor third party, workmen's compensation/employer's liability, public/product liability, engineering, aviation, personal accident and others, health-benefit, indemnity, personal accident & travel irrespective of threshold limit.

(vii) Ind AS 109 *Financial instruments* will not be applicable except paragraphs relating to impairment.

By almost leaving aside standards on Financial Instruments, IRDA has tried to escape the major hassle in adoption of Ind AS but it would be important to see whether it is just an interim carve out as such statement cannot be referred to as Ind AS compliant statements. The treatment of following items has been specifically dealt with in the Discussion Paper.

(a) **Premium:** In case of life insurance plans premium should be recognised as income when due. For linked business and business of similar nature, the due date for payment may be taken as the date when the associated units are created. Premium in case of general insurance should be recognised as income over the contract period or the period of risk, whichever is appropriate. In the case of reinsurance business, premium should be recognised on the basis of contractual obligations consistent with market trends. Moreover, in case of general insurance, a reserve for unexpired risks is to be created as the amount representing that part of the premium written which is attributable to, and to be allocated to the succeeding accounting periods. Premium Received in Advance, which represents either premium not relating to the current accounting period or premium received prior to the commencement of the risk, should be shown separately under the head *'Current Liabilities'* in the financial statements.

(b) **Premium Deficiency:** If the sum of expected claim costs, related expenses and maintenance costs exceeds related reserve for unexpired risks, premium deficiency should be recognised. The insurers should compute and recognize the premium deficiency for each segment without off-setting between segments unless otherwise permitted by the IRDA.

(c) **Acquisition Costs:** Acquisition costs that are primarily related to the acquisition of new and renewal insurance contracts should be expensed in the period in which they are incurred.

(d) **Claims Cost:** The ultimate cost of claims comprises of the policy benefit amount and specific claims settlement costs, wherever applicable. In case of insurances other than life insurance, claims would include both that are incurred and those estimated or anticipated. An estimated liability for outstanding claims should be recognised in respect of both direct general insurance business and reinsurance business for future payments in relation to unpaid reported claims and Claims Incurred but Not Reported (IBNR) including inadequate reserves which will result in future cash/asset outgo for settling liabilities against those claims after adjustment for estimated salvage value, if there is sufficient degree of certainty of its realisation.

(e) **Forward Exchange Contract:** The premium or discount arising at the inception of a Forward Exchange Contract should be amortised as expense or income over the life of the contract. Exchange differences on such a contract should be recognised in the Revenue Account or in the Statement of Profit and Loss Account in the reporting period, in which the exchange rates change and any profit or loss arising on cancellation or renewal of such a Forward Exchange Contract should be recognised as income or as expense for the period.

(f) **Actuarial Valuation:** In case of life insurances and other insurances where claim payment period exceed four years, the estimation of claim liability is determined by the appointed actuary. Actuarial assumptions are to be disclosed by way of notes to the accounts.

(g) **Investments**

- **Real Estate:** The value of investment property pertaining to policyholder fund, should be determined at historical cost, subject to revaluation at least once in every three years and impairment provisions annually. The change in the carrying amount of the investment property should be taken to Revaluation Reserve under Policyholders funds. The Profit/ loss on Sale of Investments should include accumulated changes

in the carrying amount previously recognised under 'Revaluation Reserve' in respect of a particular property and being recycled to the relevant Revenue Account on sale of that property. In case of revaluation, the bases for revaluation must be disclosed in the notes to accounts. The amount in Revaluation Reserve should not be used or distributed in way other than that is released to policyholders as per the IRDA's direction.

- **Debt Securities –** Debt securities, including Government securities and redeemable preference shares, should be considered as "held to maturity" securities and measured at historical cost subject to amortisation and impairment provisions as per Ind AS 109 or IRDA's guidelines whichever is higher. It is important to note here that, though insurers will not be measuring such securities at fair value at cost as required by Ind AS, they would however be using impairment guidance under Ind AS.
- **Equity Securities and Derivative Instruments** – Equity Securities and Derivative Instruments that are traded in active markets are to be measured at fair value on the balance sheet date subject to impairment provisions as per Ind AS or IRDA's guidelines whichever is higher. Any unrealised gains/losses arising due to changes in the fair value of listed equity shares and derivative instruments should be taken to equity under the head 'Fair Value Change Account". The profit/loss on sale of investments should include accumulated changes in the fair value previously recognised in equity under the heading 'Fair Value Change Account' in respect of a particular security and being recycled to the relevant Revenue Account or Statement of Profit and Loss on actual sale of that listed security. The amount in Fair Value Change Account may be released for declaration of Bonus to the policy holders as per the directions of IRDA, however no part of the amount so released should be transferred to shareholders.
- **Unlisted and other than actively traded Equity Securities and Derivative Instruments** — Unlisted equity securities and derivative instruments and listed equity securities and derivative instruments that are not regularly traded in active markets or thinly

traded should be measured at historical cost subject to impairment provisions.

(h) **Loans:** Loans should be measured at historical cost subject to impairment provisions as per Ind AS 109 or IRDA's guidelines whichever is higher.

(i) **Linked Business:** A separate set of financial statements, for each segregated fund of the linked businesses, should be prepared on same accounting principles as discussed above and annexed.

(j) **Funds for Future Appropriation:** The funds for future appropriation represent all funds, the allocation of which, either to the policyholders or to the shareholders, has not been determined by the end of the financial year. Such funds should be presented separately.

(k) **Preliminary Expenses:** Expenses incurred for incorporation of the company need to be written off in the year of incorporation to the Statement of Profit & Loss and any other expenses incurred on issue of equity share capital should be shown as deduction from such paid-up share capital.

(l) **Catastrophe Reserve:** Catastrophe reserve should be created in accordance with norms, prescribed by the IRDA and should form part of policyholders' funds.

Financial Statements

Beside the above accounting policies for preparation of financial statements contained in the Part I of Schedule A and Schedule B of the Discussion Paper, both schedules of the Discussion Paper contains the following other parts:

- Part II: Disclosures forming part of Financial Statements
- Part III: General Instructions for Preparation of Financial Statements
- Part IV: Contents of Management Report
- Part V: Preparation of Financial Statements
- Part VI: Preparation of Consolidated Financial Statements

As per the Part V, Financial Statements of an insurer will consist of

- Revenue Account [Policyholders' Account], in Form A-RA in case of insurer in business of life insurance and in Form B-RA in case of other insurers,

- Statement of Profit and Loss [Shareholders' Account] in Form A-PL in case of insurer in business of life insurance and in Form B-PL in case of other insurers,
- The Balance Sheet in Form A-BS in case of insurer in business of life insurance and in Form B-BS in case of other insurers,
- Schedules/Notes to accounts should contain information in addition to that presented in the Financial Statements and should provide where required
  - o narrative descriptions or dis-aggregations of items recognised in those statements; and
  - o information about items that do not qualify for recognition in those statements.
- An insurer should also prepare separate Receipts and Payments Account in accordance with the Direct Method prescribed in Ind AS 7 – "Statement of Cash Flows".

Each item on the face of the Balance Sheet, Revenue Account and Statement of Profit and Loss should be cross-referenced to any related information in the notes/schedules to accounts. In preparing the Financial Statements including the notes/schedules to accounts, a balance should 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.

Auditors Report

Schedule C of the Discussion Paper, provides the matter to be reported in Auditor's Report. Besides other contents, the auditor is required to give his opinion regarding whether the financial statements by the insurer complies with the Indian Accounting Standards (Ind AS), to the extent applicable and the Accounting Regulations prescribed by the IRDA. This will increase the responsibility of the auditor, especially in case of assessing the impairment of financial instruments where evaluation has to be done keeping in view the requirement of both Ind AS 109 and IRDA's regulation.

Chapter 17
Schedule III of Companies Act, 2013 on presentation of Ind AS based Financial Statements

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			

	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
	(f) Intangible assets under development			
	(g) Biological Assets other than bearer plants			
	(h) Financial Assets			
	(i) Investments			
	(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			

	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
	(iii) Other financial liabilities (other than those specified in item (b) to be specified)			
	(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: Remeasurment 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)

(ii) 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			
XI	Tax expense of discontinued operations			

	Particulars	Note No.	Figures for the current reporting period	Figures for the previous reporting period
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 consolid-ated 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 consolid-ated 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)								
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 consolid-ated other compre-hensive income	Amount	As % of total compre-hensive income	Amount
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.

Chapter 18
Illustrative IND AS Financial Statements (Infosys FY 2015-16)

Infosys Limited

CIN : L85110KA1981PLC013115

Regd. Office: Electronics City, Hosur Road,
Bangalore 560 100, India.

Website: www.infosys.com ; email: investors@infosys.com ;
T: 91 80 2852 0261 ; F: 91 80 2852 0362

Audited consolidated financial results of Infosys Limited and its subsidiaries for the quarter and year ended March 31, 2016, prepared in compliance with the International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board.

(in ` crore, except equity share and per equity share data)

Particulars	Quarter ended March 31,	Quarter ended December 31,	Quarter ended March 31,	Year ended March 31,	
	2016	**2015**	**2015**	**2016**	**2015**
Revenues	**16,550**	**15,902**	**13,411**	**62,441**	**53,319**
Cost of sales(1)	10,262	9,990	8,174	39,098	32,883
Gross profit	**6,288**	**5,912**	**5,237**	**23,343**	**20,436**
Selling and marketing expenses	909	859	736	3,431	2,941

Particulars	Quarter ended March 31,	Quarter ended December 31,	Quarter ended March 31,	Year ended March 31,	
	2016	2015	2015	2016	2015
Administrative expenses	1,159	1,094	1,052	4,292	3,663
Operating profit	**4,220**	**3,959**	**3,449**	**15,620**	**13,832**
Other income, net	772	802	881	3,125	3,427
Share in associate's profit /(loss)	(1)	-	(1)	(3)	(1)
Profit before income taxes	**4,991**	**4,761**	**4,329**	**18,742**	**17,258**
Income tax expense	1,394	1,296	1,232	5,251	4,929
Net profit	**3,597**	**3,465**	**3,097**	**13,491**	**12,329**
Paid-up equity share capital (par value ` 5/- each, fully paid)	1,144	1,144	572	1,144	572
Share premium, retained earnings and other components of equity	60,635	54,191	54,191	60,635	54,191
Earnings per share (par value ` 5/- each) #					
Basic	15.74	15.16	13.55	59.03	53.94
Diluted	15.74	15.16	13.55	59.02	53.94

(1) Includes Depreciation and amortization expense of `419 crore and `1,459 crore for the quarter ended and year ended March 31, 2016

adjusted for bonus issues wherever applicable

1. The audited consolidated financial statements for the quarter and year ended March 31, 2016 have been taken on record by the Board of Directors at its meeting held on April 15, 2016. The statutory auditors have expressed an unqualified audit opinion. The information presented above is extracted from the audited consolidated financial statements. The consolidated financial statements are prepared in accordance with the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

2. On November 6, 2015, the Securities and Exchange Board of India (SEBI) relaxed the requirements of Regulations 33(1)(c) of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 for the quarter ending December 31, 2015 and quarter and financial year ending March 31, 2016 for all such listed entities which had exercised the option of preparing consolidated financial statements under IFRS for the earlier quarters of FY 2015-16. The company had earlier availed the option of publishing consolidated financial results under IFRS as per the press release issued by SEBI on November 9, 2009 and continues to do so for the quarter ending March 31, 2016 pursuant to the relaxation provided by the aforesaid November 6, 2015 circular.

3 i) The shareholders of the company have approved, through postal ballot, the reappointment of Prof. Jeffrey S. Lehman with effect from April 14, 2016 to April 13, 2018.

ii) The shareholders of the company have approved, through postal ballot, the appointment of Dr. Punita Kumar - Sinha up to January 13, 2021.

4. *Vide* postal ballot, the shareholders of the company have approved the reappointment and remuneration of Dr. Vishal Sikka, CEO and Managing Director with effect from April 1, 2016 to March 31, 2021.

5. Pursuant to the approval by the shareholders through postal ballot which ended on March 31, 2016, the Board of Directors have been authorised to introduce, offer, issue and allot share-based incentives to eligible employees of the Company and its subsidiaries under the 2015 Stock Incentive Compensation Plan (2015 Plan). The maximum number of shares under the 2015 plan shall not exceed 2,40,38,883 equity shares (this includes 1,12,23,576 equity shares which are currently held by Infosys Limited Employees Welfare Trust towards the 2011 RSU Plan). 1,70,38,883 equity shares will be issued as RSUs at par value and 70,00,000 equity shares will be issued as stock options at market price. These instruments will vest over a period of 4 years and the Company expects to grant the instruments under the 2015 Plan over the period of 4 to 7 years.

6. Information on dividends for the quarter and year ended March 31, 2016

An interim dividend of `10/- (par value `5/- each) per equity share was declared on October 12, 2015 and paid on October 21, 2015. The interim dividend declared in the previous year was `30/- (not adjusted for bonus issues) per equity share. The Board of Directors recommended a final dividend of `14.25 per equity share for the financial year ended March 31, 2016. The payment is subject to the approval of the shareholders in the ensuing Annual General Meeting of the Company, being held on June 18, 2016. The book closure date for the purpose of the Annual General Meeting and payment of final dividend is June 11, 2016.

(in `)

Particulars	Quarter ended March 31,	Quarter ended December 31,	Quarter ended March 31,	Year ended March 31,	
	2016	**2015**	**2015**	**2016**	**2015**
Dividend per share (par value `5/- each)					
Interim dividend	-	-	-	10.00	30.00(1)
Final dividend	14.25	-	29.50(2)	14.25	29.50(2)

1) Not adjusted for bonus issues on December 3, 2014 and June 17, 2015

2) Not adjusted for bonus issue on June 17, 2015

7. Other information

(in ` crore)

Particulars	Quarter ended March 31,	Quarter ended December 31,	Quarter ended March 31,	Year ended March 31,	
	2016	2015	2015	2016	2015
Staff costs	9,024	8,772	7,319	34,406	29,742
Items exceeding 10% of aggregate expenditure	-	-	-	-	-

8. Audited financial results of Infosys Limited (Standalone Information)

(in ` crore)

Particulars	Quarter ended March 31,	Quarter ended December 31,	Quarter ended March 31,	Year ended March 31,	
	2016	2015	2015	2016	2015
Revenues	14,158	13,562	11,926	53,983	47,300
Profit before exceptional item and tax	4,712	4,376	4,170	17,657	16,386
Profit on transfer of business*	-	-	-	3,036	412
Profit before tax	4,712	4,376	4,170	20,693	16,798
Profit for the period	3,399	3,183	3,024	15,786	12,164

** Exceptional item pertains to profit on transfer of business to EdgeVerve Systems Limited, a wholly owned subsidiary.*

Note: The audited results of Infosys Limited for the above mentioned periods are available on our website, www.infosys.com and on the Stock Exchange website www.nseindia.com and www.bseindia.com. The information above has been extracted from the audited financial statements as stated.

9. Consolidated statement of Assets and Liabilities (IFRS Consolidated Audited)

(in ` crore)

Particulars	As at	
	March 31, 2016	March 31, 2015
EQUITY AND LIABILITIES		
Shareholders' funds		
Share capital	1,144	572
Reserves and surplus	60,635	54,191
Sub-total- Shareholders' Fund	**61,779**	**54,763**
Minority interests	-	-
Non-current liabilities		
Deferred tax liabilities (net)	256	160
Other long-term liabilities	115	46
Sub-total: Non-current liabilities	**371**	**206**
Current liabilities		
Trade payables	386	140
Other current liabilities	12,341	10,765
Short-term provisions	512	478
Sub-total- Current liabilities	13,239	11,383
TOTAL - EQUITY AND LIABILITIES	**75,389**	**66,352**

ASSETS		
Non-current assets		
Fixed assets	11,515	9,763
Goodwill	3,764	3,091
Non-current investments	1,914	1,438
Deferred tax assets (net)	536	537
Other non-current assets	5,965	4,327
Sub-total- Non-current assets	**23,694**	**19,156**
Current assets		
Current investments	75	874
Trade receivables	11,330	9,713
Cash and cash equivalents	32,697	30,367
Other current assets	7,593	6,242
Sub-total Current assets	**51,695**	**47,196**
TOTAL - ASSETS	75,389	66,352

The above disclosure is in compliance with Regulation 33(3) (f) read with Annexure IX of circular CIR/CFD/CMD/15/2015 dated November 30, 2015 issued by SEBI in this regard. The disclosure is an extract of the audited IFRS Consolidated Balance Sheet as at March 31, 2016.

10. Segment reporting (IFRS Consolidated - Audited)

(in ` crore)

Particulars	Quarter ended March 31,	Quarter ended December 31,	Quarter ended March 31,	Year ended March 31,	
	2016	**2015**	**2015**	**2016**	**2015**
Revenue by business segment					
Financial Services (FS)	4,522	4,377	3,628	17,024	14,394

Particulars	Quarter ended March 31,	Quarter ended December 31,	Quarter ended March 31,	Year ended March 31,	
	2016	**2015**	**2015**	**2016**	**2015**
Manufacturing (MFG)	1,748	1,756	1,522	6,948	6,172
Energy & utilities, Communication and Services (ECS)	3,635	3,410	2,926	13,547	12,005
Retail, Consumer packaged goods and Logistics (RCL)	2,727	2,576	2,219	10,226	8,864
Life Sciences, Healthcare and Insurance (HILIFE)	2,083	2,102	1,720	8,090	6,702
Hi-Tech	1,327	1,198	1,056	4,891	3,918
All other segments	508	483	340	1,715	1,264
Total	**16,550**	**15,902**	**13,411**	**62,441**	**53,319**
Less: Inter-segment revenue	-	-	-	-	-
Net revenue from operations	**16,550**	**15,902**	**13,411**	**62,441**	**53,319**
Segment profit before tax, depreciation and non-controlling interests:					
Financial Services (FS)	1,249	1,250	1,096	4,839	4,262

Particulars	Quarter ended March 31,	Quarter ended December 31,	Quarter ended March 31,	Year ended March 31,	
	2016	2015	2015	2016	2015
Manufacturing (MFG)	426	425	331	1,560	1,406
Energy & utilities, Communication and Services (ECS)	1,108	969	844	4,029	3,608
Retail, Consumer packaged goods and Logistics (RCL)	767	699	669	2,840	2,678
Life Sciences, Healthcare and Insurance (HILIFE)	626	581	465	2,265	1,883
HiTech	364	314	266	1,301	1,045
All other segments	105	95	61	259	19
Total	**4,645**	**4,333**	**3,732**	**17,093**	**14,901**
Less: Other unallocable expenditure	425	374	283	1,473	1,069
Add: Unallocable other income	772	802	881	3,125	3,427
Add: Share in Associate's profit / (loss)	(1)	-	(1)	(3)	(1)
Profit before tax and non-controlling interests	**4,991**	**4,761**	**4,329**	**18,742**	**17,258**

Notes on segment information

Business segments

During the quarter ended March 31, 2016, the Company reorganised some of its segments to enhance executive customer relationships, improve focus of sales investments and increase management oversight consequent to which,the erstwhile manufacturing segment is now being reviewed as Hi-Tech, Manufacturing and others included in ECS. Further, Infosys Public Services is also being reviewed seperately by the Chief Operating Decision maker. Consequent to the internal reorganisations, there were changes effected in the reportable business segments based on the "management approach" as defined in IFRS 8, Operating Segments. The previous period figures, extracted from the audited consolidated financial statements, have been presented after incorporating necessary reclassification adjustments pursuant to changes in the reportable segments.

Segmental capital employed

Assets and liabilities used in the Company's business are not identified to any of the reportable segments, as these are used interchangeably between segments. The Management believes that it is not practicable to provide segment disclosures relating to total assets and liabilities since a meaningful segregation of the available data is onerous.

By order of the Board

for Infosys Limited

Bangalore, India — Dr. Vishal Sikka

April 15, 2016 — Chief Executive Officer and Managing Director

The Board has also taken on record the unaudited condensed consolidated results of Infosys Limited and its subsidiaries for the quarter and year ended March 31, 2016, prepared as per International Financial Reporting Standards (IFRS) and reported in US Dollars. A summary of the financial statements is as follows:

(in US$ million, except per equity share data)

Particulars	Quarter ended March 31,	Quarter ended December 31,	Quarter ended March 31,	Year ended March 31,	
	2016	2015	2015	2016	2015
Revenues	2,446	2,407	2,159	9,501	8,711
Cost of sales	1,516	1,512	1,317	5,950	5,374
Gross profit	930	895	842	3,551	3,337
Net profit	533	524	498	2,052	2,013
Earnings per Equity Share #					
Basic	0.23	0.23	0.22	0.90	0.88
Diluted	0.23	0.23	0.22	0.90	0.88
Total assets	11,378	10,771	10,615	11,378	10,615
Cash and cash equivalents including available-for-sale financial assets (current) and certificates of deposit	4,946	4,523	4,999	4,946	4,999

adjusted for bonus issues wherever applicable

Certain statements in this advertisement concerning our future growth prospects are forward-looking statements regarding our future business expectations intended to qualify for the 'safe harbour' under the Private Securities Litigation Reform Act of 1995, which involve a number of risks and uncertainties that could cause actual results to differ materially from those in such forward-looking statements. The risks and uncertainties relating to these statements include, but are not limited to, risks and uncertainties regarding fluctuations in earnings, fluctuations in foreign exchange

rates, our ability to manage growth, intense competition in IT services including those factors which may affect our cost advantage, wage increases in India, our ability to attract and retain highly skilled professionals, time and cost overruns on fixed-price, fixed-time frame contracts, client concentration, restrictions on immigration, industry segment concentration, our ability to manage our international operations, reduced demand for technology in our key focus areas, disruptions in telecommunication networks or system failures, our ability to successfully complete and integrate potential acquisitions, liability for damages on our service contracts, the success of the companies in which Infosys has made strategic investments, withdrawal or expiration of governmental fiscal incentives, political instability and regional conflicts, legal restrictions on raising capital or acquiring companies outside India, and unauthorized use of our intellectual property and general economic conditions affecting our industry. Additional risks that could affect our future operating results are more fully described in our United States Securities and Exchange Commission filings including our Annual Report on Form 20-F for the fiscal year ended March 31, 2015. These filings are available at www.sec.gov. Infosys may, from time-to-time, make additional written and oral forward-looking statements, including statements contained in the Company's filings with the Securities and Exchange Commission and our reports to shareholders. In addition, please note that the date of this advertisement is April 15, 2016, and any forward-looking statements contained herein are based on assumptions that we believe to be reasonable as of this date. The company does not undertake to update any forward-looking statements that may be made from time-to-time by or on behalf of the company unless it is required by law.

Infosys Limited

CIN : L85110KA1981PLC013115

Regd. Office: Electronics City, Hosur Road,
Bangalore 560 100, India.

Website: www.infosys.com ; email: investors@infosys.com ;
T: 91 80 2852 0261 ; F: 91 80 2852 0362

Extract of Audited consolidated financial results of Infosys Limited and its subsidiaries for the quarter and year ended March 31, 2016, prepared in compliance with the International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board.

(in ` crore)

Particulars	**Quarter ending March 31,**	**Year ending March 31,**	**Quarter ending March 31,**
	2016	**2016**	**2015**
Revenues	16,550	62,441	13,411
Net profit	3,597	13,491	3,097
Paid-up equity share capital (par value `5/- each, fully paid)	1,144	1,144	572
Share premium, retained earnings and other components of equity	60,635	60,635	54,191
Earnings per share (par value `5/- each) #			
Basic	15.74	59.03	13.55
Diluted	15.74	59.02	13.55

adjusted for bonus issues wherever applicable

Notes:

1. The audited consolidated financial statements for the quarter and year ended March 31, 2016 have been taken on record by the Board of Directors at its meeting held on April 15,

2016. The statutory auditors have expressed an unqualified audit opinion. The information presented above is extracted from the audited consolidated financial statements. The consolidated financial statements are prepared in accordance with the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

2i) The shareholders of the company have approved, through postal ballot, the reappointment of Prof. Jeffrey S. Lehman with effect from April 14, 2016 to April 13, 2018.

2ii) The shareholders of the company have approved, through postal ballot, the appointment of Dr. Punita Kumar-Sinha up to January 13, 2021.

3. *Vide* postal ballot, the shareholders of the company have approved the reappointment and remuneration of Dr. Vishal Sikka, CEO and Managing Director with effect from April 1, 2016 to March 31, 2021.

4. The Board of Directors recommended a final dividend of `14.25 per equity share for the financial year ended March 31, 2016. The payment is subject to the approval of the shareholders in the ensuing Annual General Meeting of the Company, being held on June 18, 2016. The book closure date for the purpose of the Annual General Meeting and payment of final dividend is June 11, 2016.

5. Pursuant to the approval by the shareholders through postal ballot which ended on March 31, 2016, the Board of Directors have been authorised to introduce, offer, issue and allot share-based incentives to eligible employees of the Company and its subsidiaries under the 2015 Stock Incentive Compensation Plan (2015 Plan). The maximum number of shares under the 2015 plan shall not exceed 2,40,38,883 equity shares (this includes 1,12,23,576 equity shares which are currently held by Infosys Limited Employees Welfare Trust towards the 2011 RSU Plan). 1,70,38,883 equity shares will be issued as RSUs at par value and 70,00,000 equity shares will be issued as stock options at market price. These instruments will vest over a period of 4 years and the Company expects to grant the instruments under the 2015 Plan over the period of 4 to 7 years.

6. Audited financial results of Infosys Limited (Standalone Information)

(in ` crore)

Particulars	Quarter ending March 31,	Year ending March 31,	Quarter ending March 31,
	2016	2016	2015
Revenues	14,158	53,983	11,926
Profit before exceptional item and tax	4,712	17,657	4,170
Profit on transfer of business*	-	3,036	-
Profit before tax	4,712	20,693	4,170
Profit for the period	3,399	15,786	3,024

** Exceptional item pertains to profit on transfer of business to EdgeVerve Systems Limited, a wholly owned subsidiary.*

The above is an extract of the detailed format of Quarterly Financial Results filed with Stock Exchanges under Regulation 33 of the SEBI (Listing and Other Disclosure Requirements) Regulations, 2015. The full format of the Quarterly Financial Results are available on the Stock Exchange websites, www.nseindia.com and www.bseindia.com, and on the Company's website, www.infosys.com.

Certain statements in this advertisement concerning our future growth prospects are forward-looking statements regarding our future business expectations intended to qualify for the 'safe harbour' under the Private Securities Litigation Reform Act of 1995, which involve a number of risks and uncertainties that could cause actual results to differ materially from those in such forward-looking statements. The risks and uncertainties relating to these statements include, but are not limited to, risks and uncertainties regarding fluctuations in earnings, fluctuations in foreign exchange rates, our ability to manage growth, intense competition in IT services including those factors which may affect our cost advantage, wage increases in India, our ability to attract and retain highly skilled professionals, time and cost overruns on fixed-price, fixed-time frame contracts, client concentration, restrictions on

immigration, industry segment concentration, our ability to manage our international operations, reduced demand for technology in our key focus areas, disruptions in telecommunication networks or system failures, our ability to successfully complete and integrate potential acquisitions, liability for damages on our service contracts, the success of the companies in which Infosys has made strategic investments, withdrawal or expiration of governmental fiscal incentives, political instability and regional conflicts, legal restrictions on raising capital or acquiring companies outside India, and unauthorized use of our intellectual property and general economic conditions affecting our industry. Additional risks that could affect our future operating results are more fully described in our United States Securities and Exchange Commission filings including our Annual Report on Form 20-F for the fiscal year ended March 31, 2015. These filings are available at www.sec.gov. Infosys may, from time to time, make additional written and oral forward-looking statements, including statements contained in the Company's filings with the Securities and Exchange Commission and our reports to shareholders. In addition, please note that the date of this advertisement is April 15, 2016, and any forward-looking statements contained herein are based on assumptions that we believe to be reasonable as of this date. The company does not undertake to update any forward-looking statements that may be made from time to time by or on behalf of the company unless it is required by law.

Infosys Limited

CIN: L85110KA1981PLC013115

Regd. Office: Electronics City, Hosur Road,
Bangalore – 560 100, India.

Website: www.infosys.com; email: investors@infosys.com;
T: 91 80 2852 0261; F: 91 80 2852 0362

Audited financial results of Infosys Limited for the quarter and year ended March 31, 2016.

(in ` crore, except equity share and per equity share data)

Particulars	Quarter ended March 31,	Quarter ended December 31,	Quarter ended March 31,	Year ended March 31,	
	2016	**2015**	**2015**	**2016**	**2015**
Income from software services and products	14,158	13,562	11,926	53,983	47,300
Expenses:					
Employee benefit expenses	7,300	7,103	6,183	28,206	25,115
Deferred consideration pertaining to acquisition	-	18	51	110	219
Cost of technical sub-contractors	1,191	1,226	836	4,417	2,909
Travel expenses	438	360	325	1,655	1,360
Cost of software packages and others	223	200	223	1,049	979
Communication expenses	79	73	90	311	384
Consultancy and professional charges	155	153	148	563	396
Depreciation and amortization expense	315	275	241	1,115	913
Other expenses	523	515	550	1,909	1,976
Total expenses	**10,224**	**9,923**	**8,647**	**39,335**	**34,251**
Profit from operations before other income	**3,934**	**3,639**	**3,279**	**14,648**	**13,049**
Other income	778	737	891	3,009	3,337

Particulars	Quarter ended March 31,	Quarter ended December 31,	Quarter ended March 31,	Year ended March 31,	
	2016	2015	2015	2016	2015
Profit before exceptional item and tax	**4,712**	**4,376**	**4,170**	**17,657**	**16,386**
Profit on transfer of business(1)	-	-	-	3,036	412
Profit before tax	4,712	4,376	4,170	20,693	16,798
Tax expense	1,313	1,193	1,146	4,907	4,634
Net Profit for the period	**3,399**	**3,183**	**3,024**	**15,786**	**12,164**
Paid-up equity share capital (par value `5/- each fully paid)	1,148	1,148	574	1,148	574
Reserves and surplus	56,009	47,494	47,494	56,009	47,494
Earnings per share (par value `5/- each) #					
Before exceptional item					
Basic	14.80	13.86	13.16	55.51	51.17
Diluted	14.80	13.86	13.16	55.51	51.17
After exceptional item					
Basic	14.80	13.86	13.16	68.73	52.96
Diluted	14.80	13.86	13.16	68.73	52.96

(1) Exceptional item pertains to profit on transfer of business to EdgeVerve, a wholly owned subsidiary.

 # adjusted for bonus issues wherever applicable

Notes:

1. The audited financial statements for the quarter and year ended March 31, 2016 have been taken on record by the Board of Directors at its meeting held on April 15, 2016. The statutory auditors have expressed an unqualified audit opinion. The information presented above is extracted from the audited standalone financial statements.

2.i) The shareholders of the company have approved, through postal ballot, the reappointment of Prof. Jeffrey S. Lehman with effect from April 14, 2016 to April 13, 2018.

ii) The shareholders of the company have approved, through postal ballot, the appointment of Dr. Punita Kumar- Sinha up to January 13, 2021.

3. Vide postal ballot, the shareholders of the company have approved the reappointment and remuneration of Dr. Vishal Sikka, CEO and Managing Director with effect from April 1, 2016 to March 31, 2021.

4. Pursuant to the approval by the shareholders through postal ballot which ended on March 31, 2016, the Board of Directors have been authorised to introduce,offer, issue and allot share-based incentives to eligible employees of the Company and its subsidiaries under the 2015 Stock Incentive Compensation Plan (2015 Plan). The maximum number of shares under the 2015 plan shall not exceed 2,40,38,883 equity shares (this includes 1,12,23,576 equity shares which are currently held by Infosys Limited Employees Welfare Trust towards the 2011 RSU Plan). 1,70,38,883 equity shares will be issued as RSUs at par value and 70,00,000 equity shares will be issued as stock options at market price. These instruments will vest over a period of 4 years and the Company expects to grant the instruments under the 2015 Plan over the period of 4 to 7 years.

5. Information on dividends for the quarter and year ended March 31, 2016

   An interim dividend of `10/- ( par value `5/- each) per equity share was declared on October 12, 2015 and paid on October 21, 2015. The interim dividend declared in the previous year

was `30/- (not adjusted for bonus issues) per equity share. The Board of Directors recommended a final dividend of `14.25 per equity share for the financial year ended March 31, 2016. The payment is subject to the approval of the shareholders in the ensuing Annual General Meeting of the Company, being held on June 18, 2016. The book closure date for the purpose of the Annual General Meeting and payment of final dividend is June 11, 2016.

(in `)

Particulars	Quarter ended March 31,	Quarter ended December 31,	Quarter ended March 31,	Year ended March 31,	
	2016	2015	2015	2016	2015
Dividend per share (par value `5/- each)					
Interim dividend	-	-	-	10.00	30.00[(1)]
Final dividend	14.25	-	29.50[(2)]	14.25	29.50[(2)]

(a) not adjusted for bonus issues on December 3, 2014 and June 17, 2015

(b) not adjusted for bonus issue on June 17, 2015

6. Statement of assets and liabilities (Standalone-Audited)

(in ` crore)

Particulars	As at	
	March 31, 2016	March 31, 2015
EQUITY AND LIABILITIES		
Shareholders' funds		
Share capital	1,148	574
Reserves and surplus	56,009	47,494
Sub-total-Shareholders' funds	**57,157**	**48,068**

Particulars	As at	
	March 31, 2016	March 31, 2015
Non-current liabilities		
Deferred tax liabilities (net)	-	-
Other long-term liabilities	73	30
Sub-total Non-current liabilities	**73**	**30**
Current liabilities		
Trade payables	623	124
Other current liabilities	6,105	5,546
Short-term provisions	8,809	8,045
Sub-total Current liabilities	**15,537**	**13,715**
TOTAL - EQUITY AND LIABILITIES	**72,767**	**61,813**
ASSETS		
Non-current assets		
Fixed assets	9,182	8,116
Non-current investments	**11,111**	**6,108**
Deferred tax assets (net)	405	433
Long-term loans and advances	5,970	4,378
Other non-current assets	2	26
Sub-total Non-current assets	**26,670**	**19,061**
Current assets		
Current investments	2	749
Trade receivables	9,798	8,627
Cash and cash equivalents	29,176	27,722
Short-term loans and advances	7,121	5,654
Sub-total Current assets	**46,097**	**42,752**
TOTAL - ASSETS	**72,767**	**61,813**

The above disclosure is in compliance with Regulation 33(3)(f) read with Annexure IX of circular CIR/CFD/CMD/15/2015 dated November 30, 2015 issued by SEBI in this regard. The disclosure is an extract of the audited Standalone Balance Sheet of Infosys Limited as at March 31, 2016.

The Central Government in consultation with National Advisory Committee on Accounting Standards has amended Companies (Accounting Standards) Rules, 2006 ('principal rules'), vide notification issued by Ministry of Corporate Affairs dated March 30, 2016. The Companies (Accounting Standards) Rules, 2016 is effective March 30, 2016. According to the amended rules, the proposed final dividend mentioned above in note 5 will not be recorded as a liability as at March 31, 2016. (Refer Para 8.5 of AS-4 – Contingencies and Events occurring after Balance Sheet date). The Company believes, based on a legal opinion, that the Rule 3(2) of the principal rules has not been withdrawn or replaced and accordingly, the Companies (Accounting Standards) Rule, 2016 will apply for the accounting periods commencing on or after March 30, 2016. Therefore the Company has recorded ` 3,939 crore as liability for proposed dividends (including corporate dividend tax) as at March 31, 2016.

6. Segment reporting (Standalone-Audited)

(in ` crore)

Particulars	Quarter ended March 31,	Quarter ended December 31,	Quarter ended March 31,	Year ended March 31,	
	2016	2015	2015	2016	2015
Revenue by industry segment					
Financial Services and Insurance (FSI)	4,552	4,468	4,126	17,791	16,175
Manufacturing and Hi - Tech (MFG & Hi-Tech)	3,127	2,990	2,634	12,087	10,230
Energy & utilities, Communication and Services (ECS)	3,030	2,803	2,377	10,997	9,756
Retail, Consumer Packaged Goods and Logistics (RCL)	2,525	2,379	2,097	9,501	8,369

Particulars	Quarter ended March 31,	Quarter ended December 31,	Quarter ended March 31,	Year ended March 31,	
	2016	**2015**	**2015**	**2016**	**2015**
Life Sciences and Healthcare (LSH)	924	922	692	3,607	2,770
Total	**14,158**	**13,562**	**11,926**	**53,983**	**47,300**
Less: Inter-segment revenue	-	-	-	-	-
Net revenue from operations	**14,158**	**13,562**	**11,926**	**53,983**	**47,300**
Segment profit before tax and depreciation					
Financial Services and Insurance (FSI)	1,265	1,251	1,268	5,068	4,905
Manufacturing and Hi - Tech (MFG & Hi-Tech)	923	870	695	3,424	2,798
Energy & utilities, Communication and Services (ECS)	1,010	847	733	3,425	2,920
Retail, Consumer Packaged Goods and Logistics (RCL)	762	715	656	2,835	2,620
Life Sciences and Healthcare (LSH)	289	231	172	1,011	723
Total	**4,249**	**3,914**	**3,524**	**15,763**	**13,966**
Less: Other unallocable expenditure	315	275	245	1,115	917
Add: Unallocable other income	778	737	891	3,009	3,337

Particulars	Quarter ended March 31,	Quarter ended December 31,	Quarter ended March 31,	Year ended March 31,	
	2016	2015	2015	2016	2015
Profit before exceptional item and tax	**4,712**	**4,376**	**4,170**	**17,657**	**16,386**
Exceptional item(1)	-	-	-	3,036	412
Profit before tax	**4,712**	**4,376**	**4,170**	**20,693**	**16,798**

(1) Exceptional item pertains to profit on transfer of business to EdgeVerve, a wholly owned subsidiary.

Notes on segment information:

Primary segments

The Company's operations predominantly relate to providing end-to-end business solutions to enable clients to enhance business performance. Revenues represented along industries served constitute the primary basis of the segmental information set out above. During the year ended March 31, 2016, the Company reorganized its segments to enhance executive customer relationships, improve focus of sales investments and increase management oversight. However the reorganizations did not have any impact in the reportable segments as per AS 17 'Segment reporting' apart from Manufacturing being named as Manufacturing and Hi-Tech.

Segmental capital employed

Assets and liabilities used in the company's business are not identified to any of the reportable segments, as these are used interchangeably between segments. The Management believes that it is not practicable to provide segment disclosures relating to total assets and liabilities since a meaningful segregation of the available data is onerous.

By order of the Board

for Infosys Limited

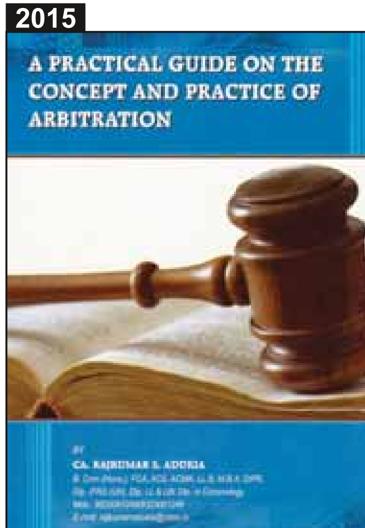
Bangalore, India — Dr. Vishal Sikka

April 15, 2016 — Chief Executive Officer and Managing Director

Certain statements in this release concerning our future growth prospects are forward-looking statements regarding our future business expectations intended to qualify for the 'safe harbour' under the Private Securities Litigation Reform Act of 1995, which involve a number of risks and uncertainties that could cause actual results to differ materially from those in such forward-looking statements. The risks and uncertainties relating to these statements include, but are not limited to, risks and uncertainties regarding fluctuations in earnings, fluctuations in foreign exchange rates, our ability to manage growth, intense competition in IT services including those factors which may affect our cost advantage, wage increases in India, our ability to attract and retain highly skilled professionals, time and cost overruns on fixed-price, fixed-time frame contracts, client concentration, restrictions on immigration, industry segment concentration, our ability to manage our international operations, reduced demand for technology in our key focus areas, disruptions in telecommunication networks or system failures, our ability to successfully complete and integrate potential acquisitions, liability for damages on our service contracts, the success of the companies in which Infosys has made strategic investments, withdrawal or expiration of governmental fiscal incentives, political instability and regional conflicts, legal restrictions on raising capital or acquiring companies outside India, and unauthorized use of our intellectual property and general economic conditions affecting our industry. Additional risks that could affect our future operating results are more fully described in our United States Securities and Exchange Commission filings including our Annual Report on Form 20-F for the fiscal year ended March 31, 2015. These filings are available at www.sec.gov. Infosys may, from time to time, make additional written and oral forward-looking statements, including statements contained in the company's filings with the Securities and Exchange Commission and our reports to shareholders. In addition, please note that the date of this release is April 15, 2016, and any forward-looking statements contained herein are based on assumptions that we believe to be reasonable as of this date. The company does not undertake to update any forward-looking statements that may be made from time to time by or on behalf of the company unless it is required by law.

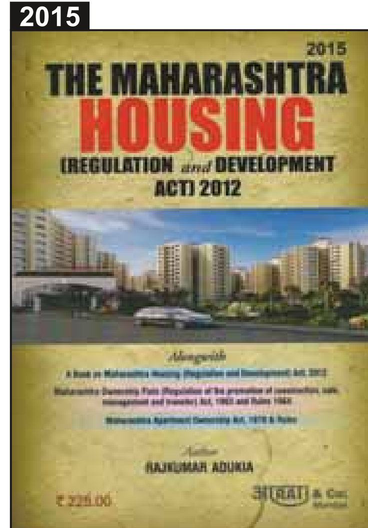
Classic Publications

2015



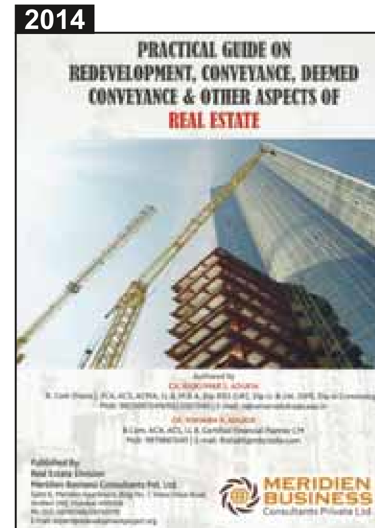
A Practical Guide on the Concept and Practice of Arbitration

2015



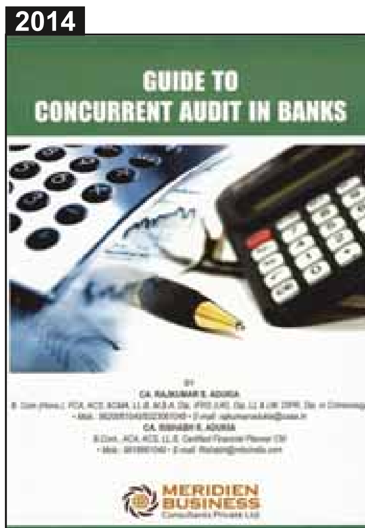
The Maharashtra Housing (Regulation and Development Act) 2012

2014



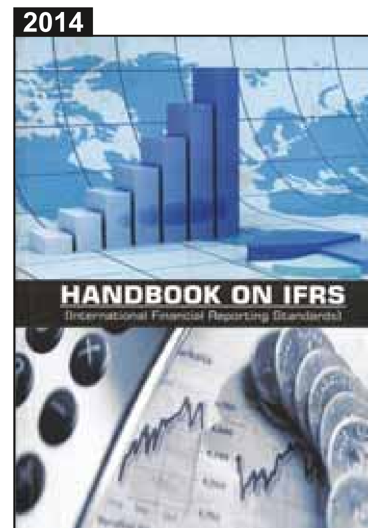
Practical Guide on Redevelopment, Conveyance, Deemed Conveyance & Other Aspects of Real Estate

2014



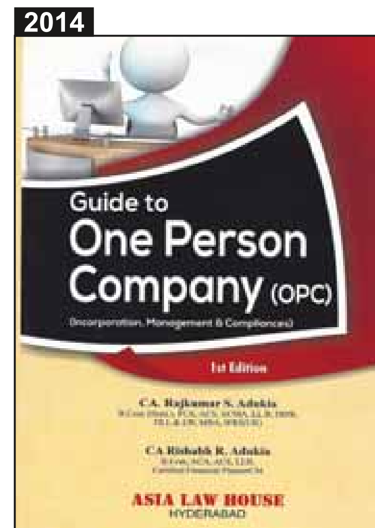
Guide to Concurrent Audit in Banks

2014



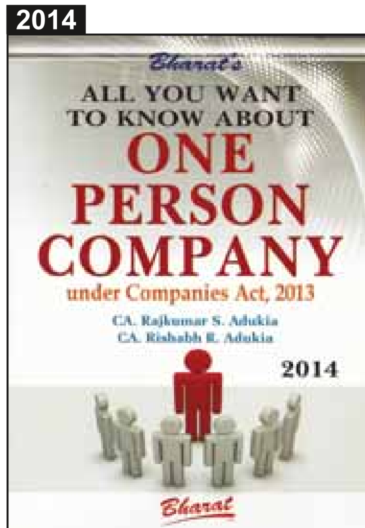
Handbook on IFRS

2014

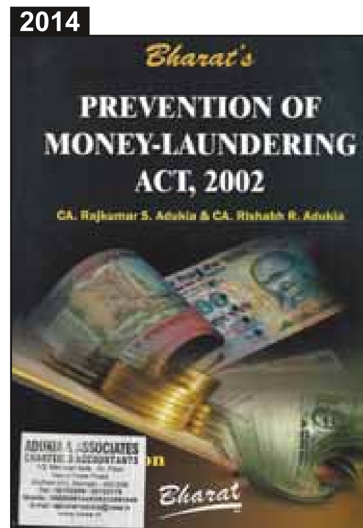


Guide to One Person Company (OPC)

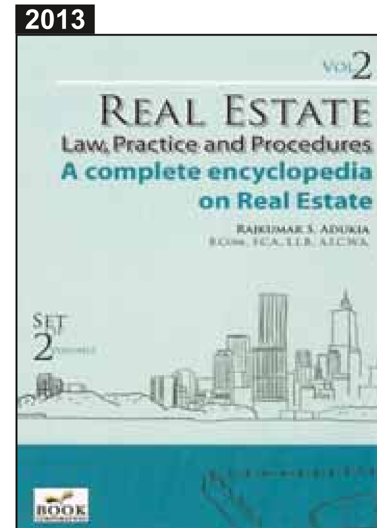
Classic Publications



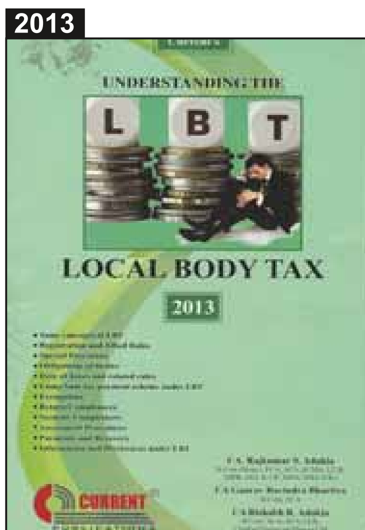
All you want to Know About One Person Company



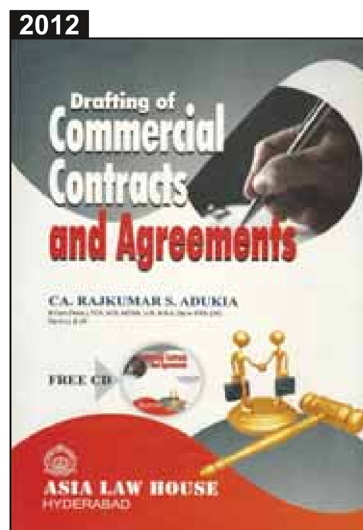
Prevention of Money–Laundering Act, 2002



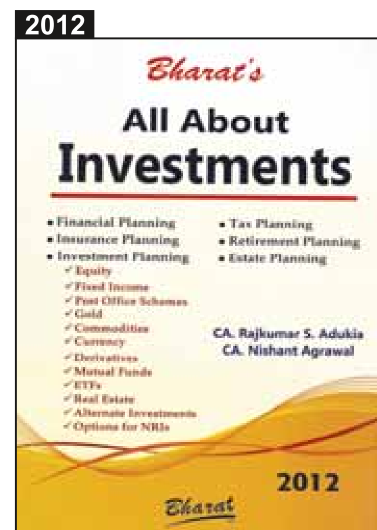
Real Estate Law, Practice and Procedures



Understanding The Local Body Tax, 2013

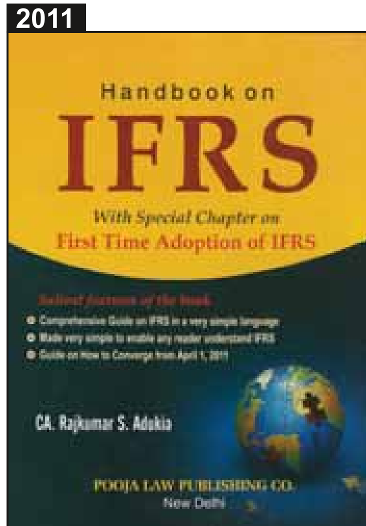


Drafting of Commercial Contracts and Agreements

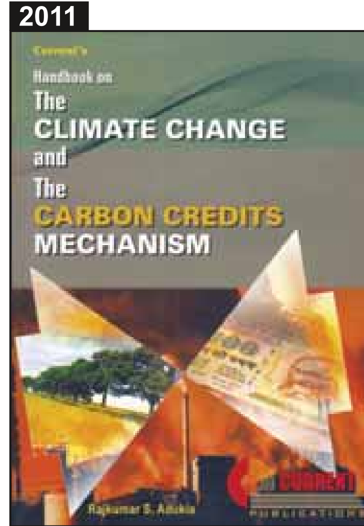


All About Investments

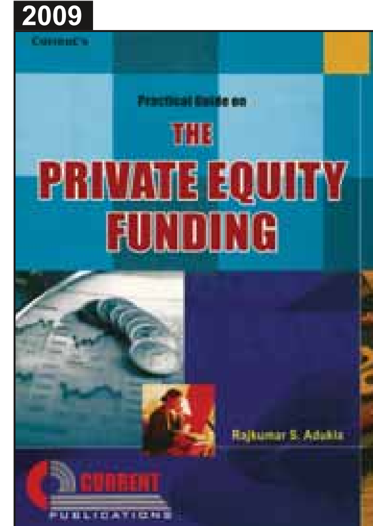
Classic Publications



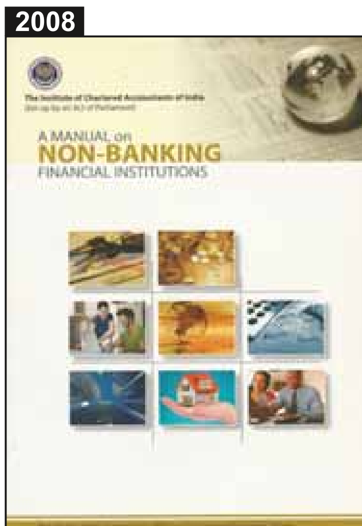
Handbook on IFRS



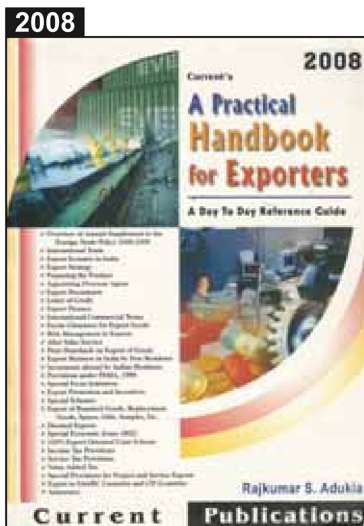
Handbook on The Climate Change and The Carbon Credits Mechanism



Practical Guide on The Private Equity Funding



A Manual on Non-Banking Financial Institutions



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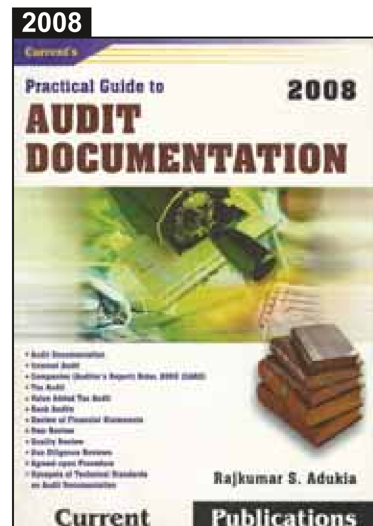

Practical Guide to Audit Documentation

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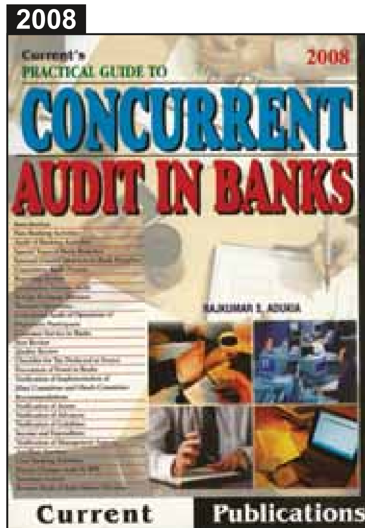

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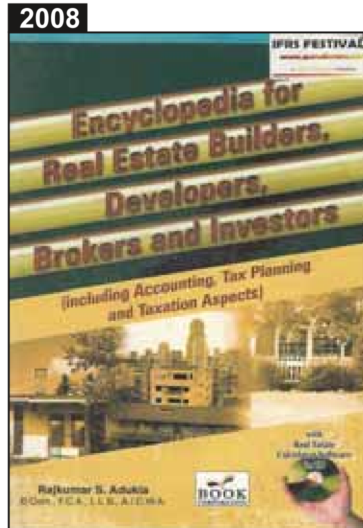
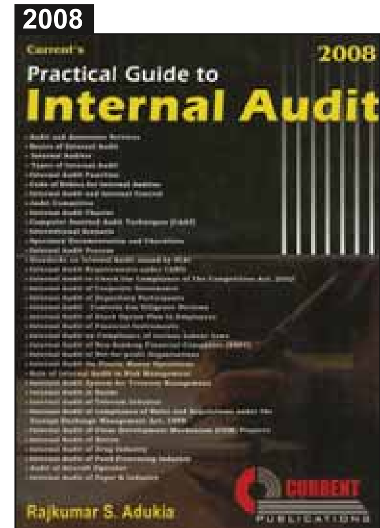


Encyclopaedia for Real estate Builders, Developers, Brokers and Investors



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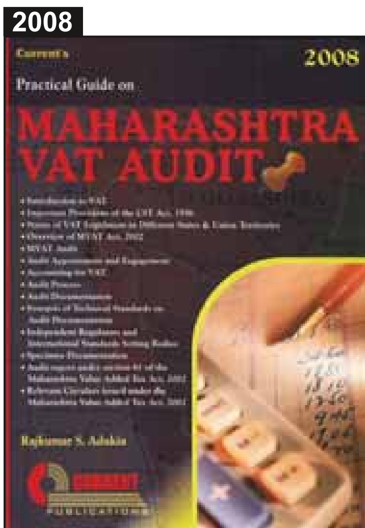
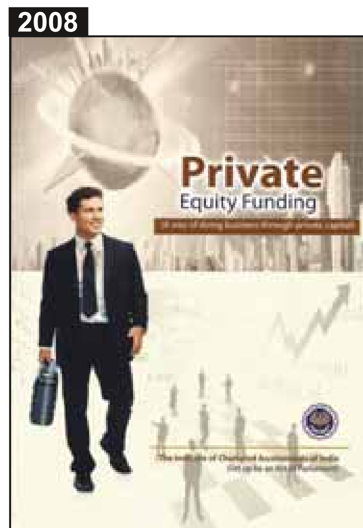
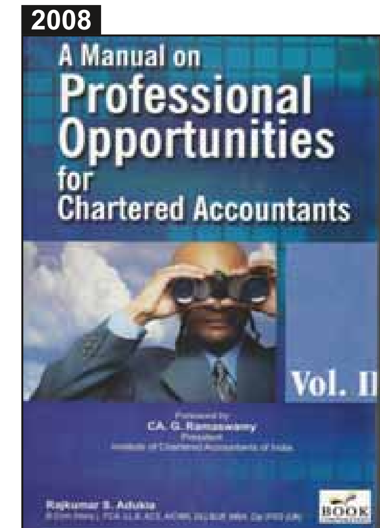


Maharashtra VAT Audit



Private Equity Funding



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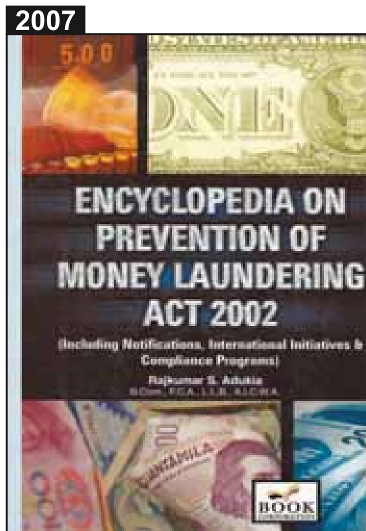

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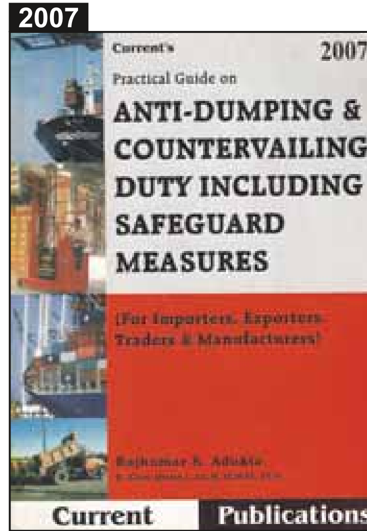

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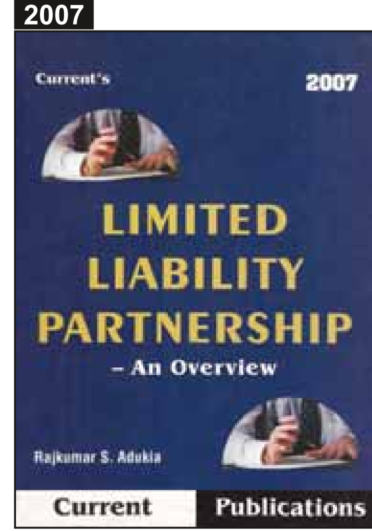

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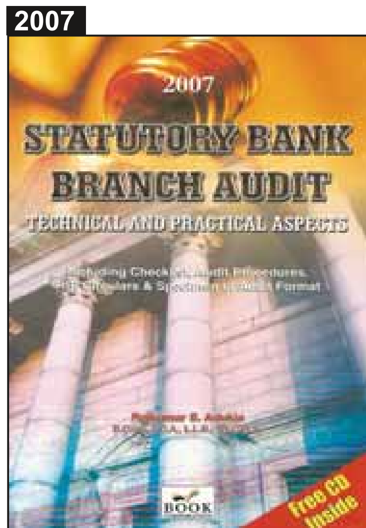
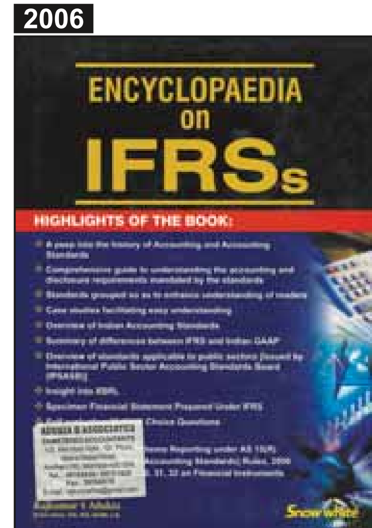


Statutory Bank Branch Audit Technical and Practical Aspects

A Handbook on Companies (Auditor's Report) Order 2003



Encyclopaedia on IFRSs

Dr. Rajkumar S. Adukia is an eminent business advisor, author and speaker. He has been conducting seminars and lectures across various countries. 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 in the Examination. Passed the Chartered Accountancy examination 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 a 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, Member of J. J. Irani Committee which drafted Companies Bill 2008, Member of Secretarial Standards Board of ICSI, Member of working group of Competition Commission of India, National Housing Bank, NABARD, RBI, CBI etc. He has also been Independent Director of Mutual Fund Company and Asset Management Company.

He has written more than 100 books on wide variety of topics ranging from those dealing with Trade, Taxation, Finance, Real Estate to topics like Time Management and Professional Opportunities. He is a successful Practising Chartered Accountant since last 30 years in varied fields 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.

His current positions include 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 contributed to Government organisations by giving lectures on International Financial Reporting Standards at National Academy of Audit and Accounts, Training for staff members of Regional Director and Registrar of Companies, Western Region, Ministry of Corporate Affairs, Training for staff members of CBDT and CBEC. He has won numerous awards such as Winner of the College's highest Award – The Jeejeebhoy Cup for Proficiency and Character, STATE TRAINER by the Indian Junior Chamber, "Rajasthan Shree" by Rajasthan Udgosh noted social organisation of Rajasthan and many other awards as a successful leader in various fields.

He promotes education and is always available for students and specially, for the ones who are finding it difficult to succeed in the exams. He is also available for personal counselling of students. He promotes knowledge development and is willing to be co-author with other enthusiastic professionals.

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