AMENDMENTS NOTES
ON
FINANCIAL REPORTING

CONTENTS

Topic 1

Carve Outs & Other Differences

Ind AS 1

1. <u>Rectification of breach in loan agreement (Ind AS 1 & Ind AS 10)</u>

IAS 1 requires that in case of a loan liability, if any condition of the loan agreement which was classified as non-current is breached on the reporting date, such loan liability should be classified as current. Where the breach is rectified after the balance sheet date IAS requires loans to be classified as current.

Carve Out: Ind AS 1 clarifies that where there is a breach of a material provision of a long-term loan arrangement on or before the end of the reporting period with the effect that the liability becomes payable on demand on the reporting date, the entity does not classify the liability as current, if the lender agreed, after the reporting period and before the approval of the financial statements for issue, not to demand payment as a consequence of the breach.

Reason: Under Indian banking system, a long-term loan agreement generally contains a large number of conditions. Some of these conditions are substantive, such as, recalling the loan in case interest is not paid, and some conditions are procedural and not substantive, such as, submission of insurance details where the entity has taken the insurance but not submitted the details to the lender at the end of the re porting period. Generally, customer-banker relationships are developed whereby in case of any procedural breach, a loan is generally not recalled. Also, in many cases, a breach is rectified after the balance sheet date and before the approval of financial statements. Carve out has been made as it is felt that if the breach is rectified after the balance sheet date and before the approval of the financial statements, it would be appropriate that the users are informed about the true nature of liabilities being non-current liabilities and not current liabilities.

Ind As 17

2. <u>Operating lease Rentals</u>

As per IFRS: IAS 17 requires all leases rentals to be charged to statement of profit and loss on straight-line basis in case of operating leases unless another systematic basis is more representative of the time pattern of the user's benefit even if the payments to the lessor are not on that basis.

Carve out: A carve-out has been made to provide that lease rentals, in case of operating leases, shall be charged to the statement of profit and loss in accordance with the lease agreement unless the payments to the lessor are structured to increase in line with expected general inflation to compensate for the lessor's expected inflationary cost increases. If payments to the lessor vary because of factors other than general inflation, then this condition is not met.

Reason: Companies enter into various kinds of lease agreements to get the right to use an asset of the lessor. Considering the Indian inflationary situation, lease agreements contain periodic rent escalation. Accordingly, where there is periodic rent escalation in line with the expected inflation so as to compensate the lessor for expected inflationary cost increases, the rentals shall not be straight-lined.

Ind AS-115

3. <u>Penalties</u>

As per IFRS: IFRS 15 provides that all types of penalties which may be levied in the performance of a contract should be considered in the nature of variable consideration for recognising revenue.

Carve Out: Ind AS 115 has been amended to provide that penalties shall b e accounted for as per the substance of the contract. Where the penalty is inherent in determination of transaction price, it shall form part of variable consideration, otherwise the same should not be considered for determining the consideration and the transaction price shall be considered as fixed.

Ind AS-101

4. *<u>Allowing the use of Carrying Cost of Property, Plant and Equipment (PPE) on the Date of Transition of Ind AS 101.</u>*

As per IFRS: IFRS 1 *First time adoption of International Accounting Standards* provides that on the date of transition either the items of Property, Plant and Equipment shall b e determined by applying IAS 16 '*Property, Plant and Equipment'* retrospectively or the same should be recorded at fair value.

Carve out: Ind AS 101 provides an additional option to use carrying values of all items of property, plant and equipment on the date of transition in accordance with previous GAAP as an acceptable starting point under Ind AS.

Reason: In case of old companies, retrospective application of Ind AS 16 or fair values at the date of transition to determine deemed cost may not be possible for old assets. Accordingly, Ind AS 101 provides relief to an entity to use carrying values of all items of property, plant and equipment on the date of transition in accordance with previous GAAP as an acceptable starting point under Ind AS.

Ind AS-101

5. *<u>Long-term Foreign Currency Monetary Items</u>*

As per IFRS: No provision in IFRS 1.

Carve out: Ind AS 101 provides that a first-time adopter may continue the policy adopted for accounting for exchange differences arising from translation of long-term foreign currency monetary items recognised in the financial statements for the period ending immediately before the beginning of the first Ind AS financial reporting period as per the previous GAAP. Consequently, Ind AS 21 also provides that it does not apply to long-term foreign currency monetary items for which an entity has opted for the exemption. Such an entity may continue to apply the accounting policy so opted for such long-term foreign currency monetary items.

Reason: Para 46A of AS 11 provides an option to recognise long term foreign currency monetary items in the statement of profit and loss as a part of the cost of property, plant and equipment or to defer its recognition in the statement of profit and loss over the period of loan in case the loan is not related to acquisition of fixed assets. To provide transitional relief, such entities have been given an option to continue the capitalisation or deferment of exchange differences, as the case may be, on foreign currency borrowings obtained before the beginning of First IFRS reporting period.

Ind AS-115

6. *<u>Financial Assets or Intangible Assets accounted for in accordance with Appendix C, Service Concession Arrangements to Ind AS 115, ' Revenue from Contracts with Customers'</u>*

Schedule II to the Companies Act, 2013, allows companies to use revenue - based amortization of intangible assets arising from service concession arrangements related to toll roads while Ind AS 38, *Intangible Assets*, allows revenue based amortisation only in the circumstances in which the predominant limiting factor that is inherent in an intangible asset is the achievement of revenue threshold. In order to provide relief to such entities, Ind AS 38 and Ind AS 101 have been amended to allow the entities to continue to use the accounting policy adopted for amortization of intangible assets arising from service concession arrangements related to toll roads recognised in the financial statements for the period ending immediately before the beginning of the first Ind AS financial statements. In other words, Ind AS 38 would be applicable to the amortization of intangible assets arising from service concession arrangements related to toll roads entered into after the implementation of Ind AS.

As per IFRS: IAS 28 requires that for the purpose of applying equity method of accounting in the preparation of investor's financial statements, uniform accounting policies should be used. In other words, if the associate's accounting policies are different from those of the investor, the investor should change the financial statements of the associate by using same accounting policies.

Ind AS-28

7. Additional Phrase

Carve out: In Ind AS 28, the phrase, 'unless impracticable to do so' has been added in the relevant requirements, i.e., paragraph 35.

Reasons: Certain associates, e.g., regional rural banks (RRBs), being associates of nationalized banks, are not in a position to use the Ind AS as these may be too advanced for the RRBs. Accordingly, the above-stated words have been included to exempt such associates.

8. Transfer to Capital Reserve

Carve out: Further, in IAS 28, Capital Reserve when Investors share in Net Assets exceeds Cost of Investment is recognised in profit or loss while in Ind AS 28, Paragraph 32 (b) has been modified on the lines of Ind AS 103, *'Business Combinations'*, to transfer excess of the investor's share of the net fair value of the investee's identifiable assets and liabilities over the cost of investment in capital reserve.

Ind AS-32

9. Foreign Currency Convertible Bonds

As per IFRS: As per accounting treatment prescribed under IAS 32, equity conversion option in case of foreign currency denominated convertible bonds is considered a derivative liability which is embedded in the bond. Gains or losses arising on account of change in fair value of the derivative need to be recognised in the statement of profit and loss as per IAS 32.

Carve out: In Ind AS 32, an exception has been included to the definition of 'financial liability' in paragraph 11(b)(ii), whereby conversion option in a convertible bond denominated in foreign currency to acquire a fixed number of entity's own equity instruments is classified as an equity instrument if the exercise price is fixed in any currency.

Reasons: This treatment as per IAS 32 is not appropriate in instruments, such as, FCCBs since the number of shares convertible on the exercise of the option remains fixed and the amount at which the option is to be exercised in terms of foreign currency is also fixed; merely the difference in the currency should not affect the nature of derivative, i.e., the option. Further, the fair value of the option is based on the fair value of the share prices of the company. If there is decrease in the share price, the fair value of derivative liability would also decrease which would result in recognition o f gain in the statement of profit and loss. This would bring unintended volatility in the statement of profit and loss due to volatility in share prices. This will also not give a true and fair view of the liability as in this situation, when the share prices fall, the option will not be exercised. However, it has been considered that if such option is classified as equity, fair value changes would not be required to be recognised.

Accordingly, the exception has been made in definition of financial liability in Ind AS 32.

Ind AS-103

10. <u>Transfer to Capital Reserve</u>

As per IFRS: IFRS 3 requires bargain purchase gain arising on business combination to be recognised in profit or loss as income.

Carve out: Ind AS 103 requires the bargain purchase gain 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. A similar carve-out is made in Ind AS 28, Investments in Associates and Joint Ventures

Reasons: At present, since bargain purchase gain occurs at the time of acquiring a business, these are considered as capital reserve. Recognition of such gains in profit or loss would result into recognition of unrealised gains, which may get distributed in the form of dividends. Moreover, such a treatment may lead to structuring thro ugh acquisitions, which may not be in the interest of the stakeholders of the company.

Other Differences Ind As 1

1. *Statement of Profit or Loss:* With regard to preparation of statement of profit and loss, IAS 1 provides an option either to follow the single statement approach or to follow the two statement approach. An entity may present a single statement of profit or loss and other comprehensive income, with profit or loss and other comprehensive income presented in two sections or an entity may present the profit or loss section in a separate statement of profit or loss which shall immediately precede the statement presenting comprehensive income beginning with profit or loss.
   Ind AS 1 allows only the single statement approach with profit or loss and other comprehensive income presented in two sections.
2. *Different Terminology:* IAS 1 gives the option to individual entities to follow different terminology for the titles of financial statements. Ind AS 1 is changed to remove alternatives by giving one terminology to be use d by all entities.
3. *Periodicity:* IAS 1 permits the periodicity, for example, of 52 weeks for preparation of financial statements. Ind AS 1 does not permit it.
4. *Analysis/Classification of Expenses:* IAS 1 requires an entity to present an analysis of expenses recognised in profit or loss using a classification based on either their nature or their function within the equity. Ind AS 1 requires only nature-wise classification of expenses.

Other Differences Ind AS 34

5. *Single Statement Approach:* IAS 34 provides option either to follow single statement approach or to follow two statement approaches. Ind AS 34 allows only single statement approach on the lines of Ind AS 1, *'Presentation of Financial Statements',* which also allows only single statement approach.

Other Differences Ind AS 12

6. *Presentation of Tax Expense:* IAS 12 requires presentation of tax expense (income) in the separate income statement, where separate income statement is presented. Ind AS 12 does not require such presentation since in Ind AS 1 option regarding the two statement approach has been removed.
7. *Deferred Tax Benefits Related to* Business Combinations: IAS 12 provides that acquired deferred tax benefits recognised within the measurement period that results from new information about facts and circumstances existed at the acquisition date shall be applied to reduce the carrying amount of goodwill related to that acquisition. If the carrying amount of that goodwill is zero, any remaining deferred tax benefits shall be recognised in profit and loss. As a consequence of different accounting treatment of bargain purchase gain

prescribed in Ind AS 103, in comparison to IFRS 3, Ind AS 12 provides that if the carrying amount of such goodwill is zero, any remaining deferred tax benefits shall be recognised in other comprehensive income and accumulated in equity as capital reserve or recognised directly in capital reserve.

Other Differences Ind AS 2

8. *Classification of Expenses:* IAS 2 dealing with recognition of inventories as an expense based on function-wise classification, has been deleted keeping in view the fact that option provided in IAS 1 to present an analysis of expenses recognised in profit or loss using a classification based on their function within the entity has been removed and Ind AS 1 requires only nature-wise classification of expenses.

Other Differences Ind AS 16

9. *Reduction in the Carrying Amount of PPE:* Paragraph 28 has been shown as deleted since Ind AS 20 '*Accounting for Government Grants and Disclosure of Government Assistance'* does not permit the option of reducing the carrying amount of an item of property, plant and equipment by the amount of government grant received in respect of such an item, as permitted in IAS 20.

Other Differences Ind AS 40

10. *Valuation Models:* IAS 40 permits both cost model and fair value model (except in some situations) for measurement of investment properties after initial recognition. Ind AS 40 permits only the cost model. Fair value model is not permitted because the unrealised gain and losses would have been required to be recognised in the statement of profit and loss. The fair value of investment property in India is not reliable and also using fair value model may lead to recognition and distribution of unrealised gains.

Other Differences Ind AS 38

11. *Intangible Assets acquired by way of Government Grant:* With regard to the acquisition of an intangible asset by way of a government grant, IAS 38, Intangible Assets, provides the option to an entity to recognise both asset and grant initially at fair value or at a nominal amount plus any expenditure that is directly attributable to preparing the asset for its intended use. Ind AS 38 allows only fair value for recognising the intangible asset and grant in accordance with Ind AS 20.

Other Differences Ind AS 36

12. *Impairment of Investment Property:* Paragraph 2(f) of IAS 36 provides that this standard is not applied to the accounting for impairment of investment property that is measured at fair value. Paragraph 2(f) is deleted in Ind AS 36 as Ind AS 40 requires cost model for measurement of investment property.

Other Differences Ind AS 105

13. *Classification of a Non-current Asset:* IFRS 5 prescribes the conditions for classification of a non-current asset (or disposal group) as held for sale. In Ind AS 105, a clarification has also been added that the non-current asset (or disposal group) cannot be classified as held for sale, if the entity intends to sell it in a distant future.

14. *Presentation of Discontinued Operations:* IFRS 5 requires presentation of discontinued operations in the separate income statement, where separate income statement is presented. This requirement is not provided in Ind AS 105 consequential to the removal of option regarding two statement approach in Ind AS 1. Ind AS 1 requires that the components of profit or loss and components of other comprehensive income shall be presented as a part of the statement of profit and loss.

Other Differences Ind AS 24

15. *Confidentially:* In Ind AS 24, disclosures which conflict with confidentiality requirements of statute/regulations are not required to be made since Accounting Standards cannot override legal/regulatory requirements.

16. *Management Contracts Including for Deputation or Employees:* In Ind AS 24, '(k) management contracts including for deputation or employees' has been added in the example of transactions that are disclosed if they are with related party.

17. *Definition of Close Members of the Family of a Person:* 'Definition of close members of the family of a person' has been amended to include brother, sister, father and mother in the category of family members who may be expected to influence, or be influenced.

Other Differences Ind As 115

18. *Excise Duty:* Paragraph 109AA has been inserted in Ind AS 115 to require an entity to present separately the amount of excise duty included in the revenue recognised in the statement of profit and loss.

Other Differences Ind AS 7 and IAS 7

19. *Interest:* In case of other than financial entities, IAS 7 gives an option to classify the interest paid and interest and dividends received as item of operating cash flows. Ind AS 7 does not provide such an option and requires these items to be classified as items of financing activity and investing activity, respectively.

20. *Dividend:* IAS 7 gives an option to classify the dividend paid as an item of operating activity. However, Ind AS 7 requires it to be classified as a part of financing activity only.

Other Differences Ind AS 20, IAS 20

21. *Non-Monetary Grant:* IAS 20 gives an option to measure non-monetary government grants either at their fair value or at nominal value. Ind AS 20 requires measurement of such grants only at their fair value. Thus, the option to mea sure these grants at nominal value is not available under Ind AS 20.

22. *Grant related to Assets:* IAS 20 gives an option to present the grants related to assets, including non-monetary grants at fair value in the balance sheet either by setting up the grant as deferred income or by deducting the grant in arriving at the carrying amount of the asset. Ind AS 20 requires presentation of such grants in balance sheet only by setting up the grant as deferred income. Thus, the option to present such grants by deduction of the grant in arriving at the carrying amount of the asset is not available under Ind AS 20.

Other Differences Ind AS 21, IAS 21

23. *In case of Change in Functional Currency:* When there is a change in functional currency, IAS 21 requires disclosure of that fact and the reason for the change in functional currency. Ind AS 21 requires an additional disclosure of the date of change in functional currency.

Other Differences Ind AS 23, IAS 23

24. *Exchange Difference:* IAS 23 provides no guidance as to how the adjustment for exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs (as prescribed in paragraph 6(e)) is to be determined. Ind AS 23 provides guidance in this regard.

Other Differences Ind AS 19, IAS 19

25. *Discount Rate*: According to Ind AS 19, the rate to be used to discount post-employment benefit obligations (both funded and unfunded) shall be determined by reference to the market yields on government bonds. The subsidiaries, associates, joint ventures and branches domiciled outside India shall discount post-employment benefit obligations by reference to market yields on high quality corporate bonds. In case, such subsidiaries, associates, joint ventures and branches are domiciled in countries where there is no deep market in such bonds, the market yields on government bonds of that country shall be used, whereas under IAS 19, the government bonds can be used only where there is no deep market of high quality corporate bonds.

Other Differences Ind AS 33, IAS 33

26. *Consolidated Financial Statements and Separate Financial Statements:* IAS 33 provides that when an entity presents both consolidated financial statements and separate financial statements, it may give EPS related information in consolidated financial statements only, whereas, Ind AS 33 requires EPS related information to be disclosed both in consolidated financial statements and separate financial statements.

27. *Adjustment of Securities Premium:* In Ind AS 33, a paragraph has been added after paragraph 12 on the following lines—

"Where any item of income or expense which is otherwise required to be recognized in profit or loss in accordance with Indian Accounting Standards is debited or credited to securities premium account/other reserves, the amount in respect thereof shall be deducted from profit or loss from continuing operations for the purpose of calculating basic earnings per share."

28. *Amortisation of Discount or Premium:* In Ind AS 33 paragraph 15 has been amended by adding the phrase, 'irrespective of whether such discount or premium is debited or credited to securities premium account' to further clarify that such discount or premium shall also be amortised to retained earnings.

Other Differences Ind AS 27, IAS 27

29. *Separate Financial Statements:* IAS 27 requires to disclose the reason for preparing separate financial statements if not required by law. In India, since the Companies Act mandates preparation of separate financial statements, such requirement has been removed in Ind AS 27.

30. *Option to use Equity Method:* IAS 27 allows the entities to use the equity method to account for investment in subsidiaries, joint ventures and associates in their Separate Financial Statements (SFS). This option is not given in Ind AS 27, as the equity method is not a measurement basis like cost and fair value but is a manner of consolidation and therefore would lead to inconsistent accounting conceptually.

Topic 2

Differences AS & Ind AS

Ind AS 1 and AS 1

(i) ***Explicit Statement of Compliance:*** An enterprise shall make an explicit statement in the financial statements of compliance with all the Indian Accounting Standards. Further, Ind AS 1 allows deviation from a requirement of an accounting standard in case the management concludes that compliance with Ind ASs will be misleading and if the regulatory framework requires or does not prohibit such a departure.

(ii) ***Current and Non-current Classification:*** Ind AS 1 requires presentation and provides criteria for classification of Current/Non-Current assets/liabilities.

(iii) ***Disclosure of Judgments and Assumptions made:*** Ind AS 1 requires disclosure of judgments made by management while framing of accounting policies. Also, it requires disclosure of key assumptions about the future and other sources of measurement uncertainty that have significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within next financial year.

(iv) ***Classification of Expenses:*** Ind AS 1 requires classification of expenses to be presented based on nature of expenses.

(v) ***Presentation of Balance Sheet:*** Ind AS 1 requires presentation of balance sheet as at the beginning of the earliest period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in the financial statements, or when it reclassifies items in its financial statements.

(vi) ***Disclosure of Reclassified of Items:*** In respect of reclassification of items, Ind AS 1 requires disclosure of nature, amount and reason for reclassification in the notes to financial statements.

(vii) ***Statement of Changes in Equity:*** Ind AS 1 requires the financial statements to include a Statement of Changes in Equity to be shown as a separate statement, which, inter alia, includes reconciliation between opening and closing balance for each component of equity.

(viii) ***Statement of Other Comprehensive Income:*** Ind AS 1 requires that an entity shall present a single statement of profit and loss, with profit or loss and other comprehensive income presented in two sections. The sections shall be presented together, with the profit or loss section presented first followed directly by the other comprehensive income section.

(ix) ***Classification of Long-term Loan Arrangement:*** Ind AS 1 clarifies that long term loan arrangement need not be classified as current on account of breach of a material provision, for which the lender has agreed to waive before the approval of financial statements for issue. *(Similar Difference for Ind AS-10)*

Ind AS 8 and AS 5

(i) ***Extraordinary Items*****:** Keeping in view that Ind AS 1, '*Presentation of Financial Statements*', prohibits the presentation of any items of income or expense as extraordinary items, Ind AS 8 does not deal with the same.

(ii) ***Definition of Accounting Policies*****:** Existing AS 5 restricts the definition of accounting policies to specific accounting principles and the methods of applying those principles while Ind AS 8 broadens the definition to include bases, conventions, rules and practices (in addition to principles) applied by an entity in the preparation and presentation of financial statements.

(iii) ***Accounting for Changes in Accounting Policies:*** Ind AS 8 specifically states that an entity shall select and apply its accounting policies consistently for similar transactions, other events and conditions, unless an Ind AS specifically requires or permits categorisation of items for which different policies may be appropriate. Neither existing AS 5 nor any other existing Standard specifically requires accounting policies to be consistent for similar transactions, other events and conditions.

(iv) ***Exceptions in Retrospective Accounting of Changes in Accounting Policies:*** Ind AS 8 requires that changes in accounting policies should be accounted for with retrospective effect subject to limited exceptions viz., where it is impracticable to determine the period specific effects or the cumulative effect of applying a new accounting policy. On the other hand, existing AS 5 does not specify how change in accounting policy should be accounted for.

(v) ***Prior Period Items*:** Existing AS 5 defines prior period items as 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. Ind AS 8 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. Ind AS 8 specifically states that errors include frauds, which is not covered in existing AS 5.

(vi) ***Rectification of Material Prior Period Errors:*** Ind AS 8 requires rectification of material prior period errors with retrospective effect subject to limited exceptions viz., where it is impracticable to determine the period specific effects or the cumulative effect of applying a new accounting policy. On the other hand, existing AS 5 requires the rectification of prior period items with prospective effect.

Ind AS 10 and AS 4

(i) ***Non Adjusting Events if Material*:** In Ind AS 10, material non-adjusting events are required to be disclosed in the financial statements, whereas the existing AS 4 requires the same to be disclosed in the report of approving authority.

(ii) ***Proposed Dividend*:** As per Ind AS 10 dividend proposed or declared after the reporting period, cannot be recognised as a liability in the financial statements because it does not meet the criteria of a present obligation as per Ind AS 37. Such dividend is required to be disclosed in the notes in the financial statements as per Ind AS 1, whereas as per the existing AS 4 the same is required to be recognised in financial statements because of the requirements prescribed in the former Schedule VI to the Companies Act, 1956.

(iii) ***Accounting Treatment and Disclosure in case of Inappropriateness of Fundamental Accounting Assumption of Going Concern:*** If, after the reporting date, it is determined that the fundamental accounting assumption of going concern is no longer appropriate, Ind AS 10 requires a fundamental change in the basis of accounting. Whereas existing AS 4 requires assets and liabilities t o be adjusted for events occurring after the balance sheet date that indicate that the fundamental accounting assumption of going concern is not appropriate.

(iv) In this regard, Ind AS 10 refers to Ind AS 1, which requires an entity to make the following disclosures:

- disclose the fact that the financial statements are not prepared on a going concern basis together with the basis on which the financial statements are prepared
- state the reason why the entity is not regarded as a going concern.

(v) Existing AS 4 does not require any such disclosure. However, existing AS 1 requires the disclosure of the fact in case going concern assumption is not followed.

(vi) ***In case of breach of a material provision of a long-term loan arrangement:*** Consequent to changes made in Ind AS 1, it has been provided in the definition of 'Events after the reporting period' that in case of breach of a material provision of a long-term loan arrangement on or before the end of the reporting period with the effect that the liability becomes payable on demand on the reporting date, if the lender, before the approval of the financial statements for issue, agrees to waive the breach, it shall be considered as an adjusting event.

Ind AS 34 and AS 25

(i) ***Complete set of Financial Statements:*** In Ind AS 34, the term 'complete set of financial statements' appearing in the definition of interim financial report has been expanded as compared to AS 25. Accordingly, the said term (as described in Ind AS 1, '*Presentation of Financial Statements*') includes balance sheet as at the beginning of the preceding 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 and comparative information in respect of the preceding period as specified in paragraphs 38 and 38A of Ind AS 1.

(ii) ***Contents of Interim Report:*** As per the existing standard, the contents of an interim financial report include, at a minimum, a condensed balance sheet, a condensed statement of profit and loss, a condensed cash flow statement and selected explanatory notes. Ind AS 34 requires, in addition to the above, a condensed statement of changes in equity.

(iii) ***Reversal of Impairment Loss:*** Ind AS 34 prohibits reversal of impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost. There is no such specific prohibition in the existing standard.

(iv) ***Accounting Policies:*** The existing standard requires the Notes to interim financial statements, (if material and not disclosed elsewhere in the interim financial report), to contain 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, in case of change in those policies, a description of the nature and effect of the change. Ind AS 34 additionally requires the above information in respect of methods of computation followed.

(v) ***Contingent Liabilities and Contingent Assets:*** While the existing standard requires furnishing of information on contingent liabilities only, Ind AS 34 requires furnishing of information on both contingent liabilities and contingent assets, if they are significant.

(vi) ***Extraordinary Items:*** In comparison to AS 25, reference to extraordinary items (in the context of materiality) is deleted in Ind AS 34 in line with the Ind AS 1.

(vii) ***Change in Accounting Policy:*** Under the existing standard, a change in accounting policy, other than the 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. Ind AS 34 additionally 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 specific provisions when such restatement is impracticable.

Ind AS 12 and AS 22

(i) ***Approach for creating Deferred Tax:*** Ind AS 12 is based on balance sheet approach. It requires recognition of tax consequences of differences between the carrying amounts of assets and liabilities and their tax base. Existing AS 22 is based on income statement approach. It requires recognition of tax consequences of differences between taxable income and accounting income. For this purpose differences between taxable income.

(ii) As per Ind AS 12, subject to limited exceptions, deferred tax asset is recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised. The criteria for recognising deferred tax assets arising from the carry forward of unused tax losses and tax credits are the same that for recognising deferred tax assets arising from deductible temporary differences. However, the existence of unused tax losses is strong evidence that future taxable profit may not be available. Therefore, when an entity has a history of recent losses, the entity recognises a deferred tax asset arising from unused tax losses or tax credits only to the extent that the entity has sufficient taxable temporary differences or there is convincing other evidence that sufficient taxable profit will be available against which the unused tax losses or unused tax credits can be utilised by the entity

(iii) ***Recognition of Current and Deferred Tax:*** As per the existing AS 22, deferred tax assets are recognised and carried forward only to the extent that there is a reasonable certainty that sufficient future taxable income will be available against which such deferred tax assets can be realised. Where deferred tax asset is recognised against unabsorbed depreciation or carry forward of losses under tax laws, it is recognised only to the extent that there is virtual certainty supported by convincing evidence that sufficient future taxable income will be available against which such deferred tax assets can be realised.

(iv) As per Ind AS 12, 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. Existing AS 22 does not specifically deal with this aspect.

(v) ***Disclosure of DTA and DTL in Balance Sheet:*** Existing AS 22 deals with disclosure of deferred tax assets and deferred tax liabilities in the balance sheet. Ind AS 12 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.

(vi) ***Disclosure Requirements:*** Disclosure requirements given in the Ind AS 12 are more detailed as compared to existing AS 22.

(vii) ***DTA/DTL arising out of Revaluation of Assets:*** Ind AS 12 requires that deferred tax asset/liability arising from revaluation of non-depreciable assets shall be measured on the basis of tax consequences from the sale of asset rather than through use. Existing AS 22 does not deal with this aspect.

(viii) ***Virtual Certainty:*** Existing AS 22 explains virtual certainty supported by convincing evidence. Since the concept of virtual certainty does not exist in Ind AS 12, this explanation is not included.

(ix) ***Guidance for Recognition of Deferred Tax in a Tax Holiday Period:*** Existing AS 22 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. Similarly, existing AS 22 provides guidance regarding recognition of deferred tax asset in case of loss under the head 'capital gains'. Ind AS 12does not specifically deal with these situations.

(x) ***Guidance on Certain Issues:*** Existing AS 22 specifically provides guidance regarding tax rates to be applied in measuring deferred tax assets/liabilities in a situation where a company pays tax under section 115JB. Ind AS 12 does not specifically deal with this aspect.

Ind AS 2 and AS 2

(i) ***Machinery Spares:*** The existing AS 2 explains that inventories do not include machinery spares which can be used only in connection with an item of fixed asset and whose use is expected to be irregular; such machinery spares are accounted for in accordance with AS 10, '*Accounting for Fixed Assets'*. Ind AS 2 does not contain specific explanation in respect of such spares as this aspect is covered under Ind AS 16.

(ii) ***Inventories Acquired on Deferred Settlement Terms:*** An entity may purchase inventories on deferred settlement terms. When 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.

(iii) ***Exclusion from its Scope but Guidance given:*** Ind AS 2 excludes from its scope only the measurement of inventories held by producers of agricultural and forest products, agricultural produce after harvest, and minerals and mineral products though it provides guidance on measurement of such inventories. However, the existing AS 2 excludes from its scope such types of inventories.

(iv) ***Cost Formulae:*** The existing AS 2 specifically provides that the formula used in determining the cost of an item of inventory should reflect the fairest possible approximation to the cost incurred in bringing the items of inventory to their present location and condition whereas Ind AS 2 does not specifically state so and requires the use of consistent cost formulas for all inventories having a similar nature and use to the entity.

Ind AS 37 and AS 29

(i) ***Discounting Provisions:*** The existing AS 29 prohibits discounting the amounts of provisions. Ind AS 37 requires discounting the amounts of provisions, if effect of the time value of money is material.

(ii) ***Disclosure of Contingent Assets:*** The existing AS 29 notes the practice of disclosure of contingent assets in the rep ort of the approving authority but prohibits disclosure of the same in the financial statements. Ind AS 37 requires disclosure of contingent assets in the financial statements when the inflow of economic benefits is probable. The disclosure, however, should avoid misleading indications of the likelihood of income arising.

(iii) ***Onerous Contracts:*** Ind AS 37 makes it clear 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. There is no such specific provision in the existing standard

Ind AS 16 and AS 10

(i) ***Criteria for Recognition of Fixed Assets:*** Ind AS 16, apart from defining the term property, plant and equipment, also lays down the following criteria which should be satisfied for recognition of items of property, plant and equipment:

(a) it is probable that future economic benefits associated with the item will flow to the entity, and

(b) the cost of the item can be measured reliably.

(ii) Existing AS 10 does not lay down any specific recognition criteria for recognition of a fixed asset. As per the standard, any item which meets the definition of a fixed asset should be recognised as a fixed asset.

(iii) ***Major Spare-parts:*** Ind AS 16 requires that spare parts, stand-by equipment and servicing equipment are recognised in accordance with this Ind AS when they meet the definition of property, plant and equipment. Otherwise, such items are classified as inventory. As per existing AS 10, only those spares are required to be capitalised which can be used only in connection with a fixed asset and whose use is expected to be irregular.

(iv) ***Component Approach:*** Ind AS 16 is based on the component approach. Under this approach, each major part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately. As a corollary, cost of replacing such parts is capitalised, if recognition criteria are met with consequent derecognition of carrying amount of the replaced part. The cost of replacing those parts which have not been depreciated separately is also capitalised with the consequent derecognition of the replaced parts. If it is not practicable for an entity to determine the carrying amount of the replaced part, it may use the cost of the replacement as an indication of what the cost of the replaced part was at the time it was acquired o r constructed.

(v) Existing AS 10, however, does not mandatorily require full adoption of the component approach. It recognises the said approach in only one paragraph by stating that accounting for a tangible fixed asset may be improved if total cost thereof is allocated to its various parts. Apart from this, neither existing AS 10 nor existing AS 6 deals with the aspects such as separate depreciation of components, capitalising the cost of replacement, etc.

(vi) ***Cost of Major Inspections:*** Ind AS 16 requires that the cost of major inspections should be capitalised with consequent derecognition of any remaining carrying amount of the cost of the previous inspection. Existing AS 10 does not deal with this aspect.

(vii) ***Cost of Dismantling and Removal of the Item of PPE and Restoring the Site:*** In line with the requirement of Ind AS 37, *'Provisions, Contingent Liabilities and Contingent Assets'*, for creating a provision towards the costs of dismantling and removing the item of property, plant and equipment and restoring the site on which it is located at the time the item is acquired or constructed, Ind AS 16 requires that the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located should be included in the cost of the respective item of property plant and equipment. Existing AS 10 does not contain any such requirement.

(viii) ***Cost Model or Revaluation Model as its Accounting Policy:*** Ind AS 16 requires an entity to choose either the cost model or the revaluation model as its accounting policy and to apply that policy to an entire class of property plant and equipment. It requires that under revaluation model, revaluation be made with reference to the fair value of items of property plant and equipment. It also requires that 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.

Existing AS 10 recognises revaluation of fixed assets. However, the revaluation approach adopted therein is ad hoc in nature, as it does not require the adoption of fair value basis as its accounting policy or revaluation of assets with regularity. It also provides an option for selection of assets within a class for revaluation on systematic basis.

(ix) ***Transfers from Revaluation Surplus:*** Ind AS 16 provides that the revaluation surplus included in equity in respect of an item of property, plant and equipment may be transferred to the retained earnings when the asset is derecognised. This may involve transferring the whole of the surplus when the asset is retired or disposed of However, some of the surplus may be transferred as the asset is used by an entity. In such a case, the amount of the surplus transferred would be the difference between the depreciation based on the revalued carrying amount of the asset and depreciation based on its original cost. Transfers from revaluation surplus to the retained earnings are no t made through profit or loss.

As compared to the above, neither existing AS 10 nor existing AS 6 deals with the transfers from revaluation surplus. To deal with this aspect, the Institute issued a Guidance Note on Treatment of Reserve Created on Revaluation of Fixed Assets. The Guidance Note provides that if a company has transferred the difference between the revalued figure and the book value of fixed assets to the 'Revaluation Reserve' and has charged the additional depreciation related thereto to its profit and loss account, it is possible to transfer an amount equivalent to accumulated additional depreciation from the revaluation reserve to the profit and loss account or to the general reserve as the circumstances may permit, provided suitable disclosure is made in the accounts. However, the said Guidance Note also recognises that it would be prudent not to charge the additional depreciation arising due to revaluation against the revaluation reserve.

(x) ***Discounting in Case Payment is Deferred Beyond Normal Credit Terms:*** Ind AS 16 provides that the cost of an item of property, plant and equipment is the cash price equivalent at the recognition date. If payment is deferred beyond normal credit terms, the difference between the cash price equivalent and the total payment is recognised as interest over the period of credit unless such interest is capitalised in accordance with Ind AS 16. Similarly, the concept of cash price equivalent has been followed in case of disposal of fixed assets also. Existing AS 10 does not contain this requirement.

(xi) ***Review of Residual Value and Useful Life:*** Ind AS 16 requires that the residual value and useful life of an asset 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 in accordance with AS 5. Under existing AS 6, such a review is not obligatory as it simply provides that useful life of an asset may be reviewed periodically.

(xii) ***Review of Depreciation Method:*** Ind AS 16 requires that 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. In existing AS 6, change in depreciation method can be made only if the adoption of the new method 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 preparation or presentation of the financial statements.

(xiii) ***Change in Depreciation Method:*** Ind AS 16 requires that change in depreciation method should be considered as a change in accounting estimate and treated accordingly. In existing AS 6, it is considered as a change in accounting policy and treated accordingly.

(xiv) ***Compensation from Third Parties for Items of PPE that were Impaired, Lost or Given up:*** Ind AS 16 requires that 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. Existing AS 10 does not specifically deal with this aspect.

(xv) ***Accounting for Items of Fixed Assets Held for Sale:*** Ind AS 16 does not deal with the assets ‘held for sale’ because the treatment of such assets is covered in Ind AS 105, Non-current Assets Held for Sale and Discontinued Operations. Existing AS 10 deals with accounting for items of fixed assets retired from active use and held for sale.

(xvi) ***PPE acquired in Exchange for a Non-monetary Asset:*** Ind AS 16 requires that if property, plant and equipment is acquired in exchange for a non-monetary asset, it should be recognised at its 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.

The existing standard requires that when a fixed asset is acquired in exchange for another asset, its cost is usually determined by reference to the fair market value of the consideration given. It may be appropriate to consider also the fair market value of the asset acquired if this is more clearly evident. Existing AS 10 also prescribes an alternative accounting treatment that is sometimes used for an exchange of assets, particularly when the assets exchanged are similar, is to record the asset acquired at the net book value of the asset given up; in each case an adjustment is made for any balancing receipt or payment of cash or other consideration.

Ind AS 38 and AS 26

(i) ***Definition of Intangible Assets:*** The existing standard 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 whereas in Ind AS 38, the requirement for the asset to be held for use in the production or supply of goods or services, for rental to others, or for administrative purposes has been removed from the definition of an intangible asset.

(ii) ***Revenue Based Amortisation Method:*** In Ind AS 38 there is a rebuttable presumption that an amortisation method that is based on the revenue generated by an activity that includes the use of an intangible asset is inappropriate. Ind AS 38 allows use of revenue based method of amortisation of intangible asset, in a limited way. Existing AS 26 does not specifically deal with revenue based amortisation method.

(iii) ***Payment Deferred beyond Normal Credit Terms:*** Under Ind AS 38, if payment for an intangible asset is deferred beyond normal credit terms, the difference between this amount and the total payments is recognised as interest expense over the period of credit unless it is capitalised as per Ind AS 23. However, there is no such provision in the existing standard.

(iv) ***Intangible Assets Acquired in Exchange:*** Ind AS 38 requires that if an intangible asset is acquired in exchange of a non-monetary asset, it should be recognised at the fair value of the asset given up 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. However, the existing standard requires the principles of existing AS 10 to be followed which require that when an asset is acquired in exchange for another asset, its cost is usually determined by reference to the fair market value of the consideration given. It may be appropriate to consider also the fair market value of the asset acquired if this is more clearly evident. An alternative accounting treatment to record the asset acquired at the net book value of the asset given up; in each case an adjustment is made for any balancing receipt or payment of cash or other consideration also.

(v) ***Intangible Assets acquired Free of Charge or for a Nominal Consideration by way of Government Grant:*** As per Ind AS 38, 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 in tangible asset at fair value. As per the existing standard, 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.

(vi) ***Useful Life of an Intangible Asset:*** The existing standard is based on the assumption 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. That rebuttable presumption is not there in Ind AS 38.Ind AS 38 recognizes 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.

(vii) ***Valuation Model as Accounting Policy:*** Ind AS 38 permits an entity to choose either the cost model or the revaluation model as its accounting policy, whereas in the existing standard, revaluation model is not permitted.

(viii) ***Change in Method of Amortization:*** As per the existing standard, change in the method of amortisation is a change in accounting policy whereas as per Ind AS 38, this would be a change in accounting estimate.

(ix) ***Annual Impairment Testing:*** The existing standard also requires annual impairment testing of an intangible asset not yet available for use. There is no such requirement in Ind AS 38.

Ind AS 40 and AS 13

AS 13 provides limited guidance on investment properties, as per the existing standard enterprise holding investment properties should account for them as long term investments at cost. However Ind AS 40 is a detailed standard dealing with various aspects of investment property accounting.

Ind AS 36 and AS 28

- **(i)** ***Financial Assets:*** Ind AS 36 applies to financial assets classified as subsidiaries, as defined in Ind AS 110, associates as defined in Ind AS 28, joint ventures as defined in Ind AS 111. The existing AS 28 does not apply to the above assets.
- **(ii)** ***Biological Assets:*** Ind AS 36 specifically excludes biological assets related to agricultural activity. Existing AS 28 does not specifically exclude biological assets.
- **(iii)** ***Impairment Testing for an Intangible Asset with an Indefinite Useful Life:*** Ind AS 36 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. The existing AS 28 does not require the annual impairment testing for the goodwill unless there is an indication of impairment.
- **(iv)** ***Reversal of Goodwill:*** The existing AS 28 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 event whereas Ind AS 36 prohibits the recognition of reversals of impairment loss for goodwill.
- **(v)** ***Bottom up and Top Down Test:*** In the existing AS 28, goodwill is allocated to CGUs only when the allocation can be done on a reasonable and consistent basis. If that requirement is not met for a specific CGU under review, the smallest CGU to which the carrying amount of goodwill can be allocated on a reasonable and consistent basis must be identified and the impairment test carried out at this level. Thus, when all or a portion of goodwill cannot be allocated reasonably and consistently to the CGU being tested for impairment, two levels of impairment tests are carried out, viz., bottom-up test and top-down test.
- **(vi)** In Ind AS 36, 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. There is no bottom-up or top-down approach for allocation of goodwill.

Ind AS 17 and AS 19

- **(i)** ***Land:*** The existing standard excludes leases of land from its scope. Ind AS 17 does not have such scope exclusion. It has specific provisions dealing with leases of land and building applicable.
- **(ii)** ***Treatment of Initial Direct Costs:*** Treatment of initial direct costs under Ind AS 17 differs from the treatment prescribed under the existing standard.
- **(iii)** ***Current/Non-current Classification of Lease Liabilities:*** Ind AS 17 requires current/non-current classification of lease Liabilities if such classification is made for other liabilities. Also, it makes reference to Ind AS 105, '*Non-current Assets Held for Sale and Discontinued Operations*'. These matters are not addressed in the existing standard.
- **(iv)** ***Sale and Leaseback Transaction:*** As per the existing standard, if a sale and leaseback transaction results in a finance lease, excess, if any, of the sale proceeds over the carrying amount shall be deferred and amortised by the seller-lessee over the lease term in proportion to depreciation of the leased asset. While Ind AS 17 retains the deferral and amortisation principle, it does not specify any method of amortisation.

(vi) ***Recognition of Lease Payments:*** Ind AS 17 requires that in case of operating lease, where escalation of lease rentals is in line with the expected general inflation so as to compensate the lessor for expected inflationary cost increases shall not be straight lined. AS 19 does not provide for the same.

Ind AS 105 and AS 24

(i) ***Scope and Objective****:* Ind AS 105 specifies the accounting for non-current assets held for sale, and the presentation and disclosure of *discontinued operations*. The existing AS 24 establishes principles for reporting information about *discontinuing operations*. It does not deal with the non-current assets held for sale; fixed assets retired from active used and held for sale, are dealt in existing AS 10, '*Accounting for Fixed Assets'.*

(ii) ***Discontinued vs Discontinuing Operations****:* Under Ind AS 105, a discontinued operation is a component of an entity that either has been disposed of or is classified as held for sale. In the existing AS 24, there is no concept of discontinued operations but it deals with discontinuing operations.

(iii) ***Time Period****:* As per Ind AS 105, the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification with certain exceptions. The existing AS 24 does not specify any time period in this regard as it relates to discontinuing operations

(iv) ***Initial Disclosure Event****:* The existing AS 24 specifies about the initial disclosure event in respect to a discontinuing operation. Ind AS 105 does not mention so as it relates to discontinued operation.

(v) ***Measurement****:* Under Ind AS 105, 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. The existing AS 24 requires to apply the principles set out in other relevant Accounting Standards, e.g., the existing 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.

Ind AS 24 and AS 18

(i) ***Definition of Relative:*** Existing AS 18 uses the term "relatives of an individual", whereas Ind AS 24 uses the term "a close member of the family of a person".

Existing AS 18 covers 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.

However, definition of close members of family as per Ind AS 24 includes those family members, who may be expected to influence, or be influenced by, that person in their dealings with the entity, including:

a. that person's children, spouse or domestic partner, brother, sister, father and mother;
b. children of that person's spouse or domestic partner; and
c. dependants of that person or that person's spouse or domestic partner.

Hence, the definition as per Ind AS 24 is much wider.

(ii) ***State Controlled Enterprise:*** Existing AS-18 defines state-controlled enterprise as *"an enterprise which is under the control of the Central Government and/or any State Government*(*s*)". However, in Ind AS 24, there is extended coverage of Government Enterprises, as it defines a government-related entity as "an entity that is controlled, jointly controlled or significantly influenced by a government." Further, "Government refers to government, government agencies and similar bodies whether local, national or international."

(iii) ***Key Management Personnel:*** Existing AS 18 covers key management personnel (KMP) of the entity only, whereas, Ind AS 24 covers KMP o f the parent as well. Ind AS 24 also covers the entity, or any member of a group of which it is a part, providing key management personnel services to the reporting entity or to the parent of the reporting entity

(iv) ***Next Most Senior Parent:*** Ind AS 24 requires an additional disclosure as to the name of the next most senior parent which produces consolidated financial statements for public use, whereas the existing AS 18 has no such requirement.

(v) ***Disclosure for compensation:*** Ind AS 24 requires extended disclosures for compensation of KMP under different categories, whereas the existing AS 18 does not specifically require.

(vi) ***Clarification of Control, Substantial Interest and Significant Influence:*** Existing AS 18 includes definition and clarificatory text, primarily with regard to control, substantial interest (including 20% threshold), significant influence (including 20% threshold). However, Ind AS 24 neither defines these terms nor it includes such clarificatory text and allows respective standards to deal with the same.

Ind AS 108 and AS 17

(i) ***Identification of Segments****:* Identification of segments under Ind AS 108 is based on 'management approach' i.e. operating segments are identified based on the internal reports regularly reviewed by the entity's chief operating decision maker. Existing AS 17 requires identification of two sets of segments; one based on related products and services, and the other on geographical areas based on the risks and returns approach. One set is regarded as primary segments and the other as secondary segments.

(ii) ***Basis of Measurement for Amounts to be Reported in Segments****:* Ind AS 108 requires that the amounts reported for each operating segment shall be measured on the same basis as that used by the chief operating decision maker for the purposes of allocating resources to the segments and assessing its performance. Existing AS 17 requires segment information to be prepared in conformity with the accounting policies adopted for preparing and presenting the financial statements. Accordingly, existing AS 17 also defines segment revenue, segment expense, segment result, segment assets and segment liabilities.

(iii) ***Single Reportable Segment****:* An explanation has been given in the existing AS 17 that in case there is neither more than one business segment nor more than one geographical segment, segment information as per this standard is not required to be disclosed. However, this fact shall be disclosed by way of footnote. Ind AS 108 requires certain disclosures even in case of entities having single reportable segment.

(iv) ***Interest Expense****:* An explanation has been given in the existing AS 17 that interest expense relating to overdrafts and other operating liabilities identified to a particular segment should not be included as a part of the segment expense. It also provides that in case interest is included as a part of the cost of inventories and those inventories are part of segment assets of a particular segment, such interest should be considered as a segment expense. These aspects are specifically dealt with keeping in view that the definition of 'segment expense' given in AS 17 excludes interest. Ind AS 108 requires the separate disclosures about interest revenue and interest expense of each reportable segment, therefore, these aspects have not been specifically dealt with.

(v) ***Disclosures****:* Ind AS 108 requires disclosures of revenues from external customers for each product and service. With regard to geographical information, it requires the disclosure of revenues from customers in the country of domicile and in all foreign countries, non-current assets in the country of domicile and all foreign countries. It also requires disclosure of information about major customers. Disclosures in existing AS 17 are based on the classification of the segments as primary or secondary segments. Disclosure requirements for primary segments are more detailed as compared to secondary segments.

Ind AS 115, AS 7 and AS 9

(i) ***Framework of Revenue Recognition****:* Ind AS 115 gives a framework of revenue recognition within a standard. It specifies the core principle for revenue recognition which requires the 'revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services'. AS 7 and AS 9 do not provide any such overarching principle to fall upon in case of doubt.

(ii) ***Comprehensive Guidance on Recognition and Measurement of Multiple Elements within a Contract with Customer****:* Ind AS 115 gives comprehensive guidance on how to recognise and measure multiple elements within a contract with customer. AS 7 and AS 9 do not provide comprehensive guidance on this aspect.

(iii) ***Coverage****:* AS 7 covers only revenue from construction contracts which is measured at consideration received/receivable. AS 9 deals only with recognition of revenue from sale of goods, rendering of services, interest, royalties and dividends. On the other hand, Ind AS 115 comprehensively deals with all types of performance obligation contract with customer. However, it does not deal with revenue from 'interest' and 'dividend' which are covered in financial instruments standard.

(iv) ***Measurement of Revenue****:* As per AS 9, Revenue is the gross inflow of cash, receivables or other consideration arising in the course of the ordinary activities. 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. As per AS 7, revenue from construction contracts is measured at consideration received/receivable and to be recognised as revenue as construction progresses, if certain conditions are met. As per Ind AS 115, revenue is measured at transaction price, i.e., the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties.

(v) ***Recognition of Revenue****:* As per AS 9, revenue is recognised when significant risks and rewards of ownership is transferred to the buyer. As per AS 7, revenue is recognised when the outcome of a construction contract can be estimated reliably, contract revenue should be recognised by reference to the stage of completion of the contract activity at the reporting date. As per Ind AS 115, revenue is recognised when the control is transferred to the customer.

Ind AS 7, AS 3

(i) ***Bank Overdraft Repayable on Demand:*** Ind AS 7 specifically includes bank overdrafts which are repayable on demand as a part of cash and cash equivalents, whereas the existing AS 3 is silent on this aspect.

(ii) ***Treatment of Cash Payments in Specific Cases:*** Ind AS 7 provides the treatment of cash payments to manufacture or acquire assets held for rental to others and subsequently held for sale in the ordinary course of business as cash flows from operating activities. Further, treatment of cash receipts from rent and subsequent sale of such assets as cash flow from operating activity is also provided. The existing AS 3 does not contain such requirements.

(iii) ***Cash Flows associated with Extraordinary Activities:*** The existing AS 3 requires cash flows associated with extraordinary activities to be separately classified as arising from operating, investing and financing activities, whereas Ind AS 7 does not contain this requirement.

(iv) ***Disclosure of the Amount of Cash and Cash Equivalents in Specific Situations:*** As compared to the existing AS 3, Ind AS 7 requires an entity (except an investment entity) to disclose the amount of cash and cash equivalents and other assets and liabilities in the subsidiaries or other businesses over which control is obtained or lost. Ind AS 7 also requires to report the aggregate amount of the cash paid or received as consideration for obtaining or losing control of subsidiaries or other businesses in the statement of cash flows, net of cash and cash equivalents acquired or disposed of as a part of such transactions, events or changes in circumstances. The existing AS 3 does not contain such requirements.

Ind AS 20, AS 12

(i) ***Government Assistance which does not fall within the Definition of Government Grants:*** Ind AS 20 deals with the other forms of government assistance which do not fall within the definition of government grants. It requires that an indication of other forms of government assistance from which the entity has directly benefited should be disclosed in the financial statements. However, AS 12 does not deal with such government assistance.

(ii) ***Grant in respect of Non Depreciable Assets:*** AS 12 requires that in case the grant is in respect of non-depreciable assets, the amount of the grant should b e shown as capital reserve which is a part of shareholders' funds. It further requires that if a grant related to a non-depreciable asset requires the fulfilment of certain obligations, the grant should be credited to income over the same period over which the cost of meeting such obligations is charged to income. AS 12 also gives an alternative to treat such grants as a deduction from the cost of such asset.

As compared to the above, Ind AS 20, is based on the principle that all government grants would normally have certain obligations attached to them and these grants should be recognised as income over the periods which bear the cost of meeting the obligation. It, therefore, specifically prohibits recognition of grants directly in the shareholders' funds.

(iii) ***Government Grants in the Nature of Promoters Contribution:*** AS 12 recognises that some government grants have the characteristics similar to those of promoters' contribution. It requires that such grants should be credited directly to capital reserve and treated as a part of shareholders' funds. Ind AS 20 does not recognise government grants of the nature of promoters' contribution. As stated at (ii) above, Ind AS 20 is based on the principle that all government grants would normally have certain obligations attached to them and it, accordingly, requires all grants to be recognised as income over the periods which bear the cost of meeting the obligation.

(iv) ***Valuation of Non-monetary Grants given Free or at a Concessional Rate:*** AS 12 requires that government grants in the form of non-monetary assets, given at a concessional rate, should be accounted for on the basis of their acquisition cost. In case a non-monetary asset is given free of cost, it should be recorded at a nominal value. Ind AS 20 requires to value non-monetary grants at their fair value, since it results into presentation of more relevant information and is conceptually superior as compared to valuation at a nominal amount.

(v) ***Accounting for Grant Related to Assets including Non-monetary Grant:*** Existing AS 12 gives an option to present the grants related to assets, including non-monetary grants at fair value in the balance sheet either by setting up the grant as deferred income or by deducting the grant from the gross value of asset concerned in arriving at its book value. Ind AS 20 requires presentation of such grants in balance sheet only by setting up the grant as deferred income. Thus, the option to present such grants by deduction of the grant in arriving at its book value is not available under Ind AS 20.

(vi) ***Loans at Concessional Rate:*** Ind AS 20 requires that loans received from a government that have a below-market rate of interest should be recognised and measured in accordance with Ind AS 109 (which requires all loans to be recognised at fair value, thus requiring interest to be imputed to loans with a below-market rate of interest) whereas AS 12 does not require so.

Ind AS 21, AS 11

(i) ***Forward Exchange Contracts and other similar Financial Instruments:*** Ind AS 21 excludes from its scope forward exchange contracts and other similar financial instruments, which are treated in accordance with Ind AS 109. The existing AS 11 does not such exclude accounting for such contracts.

(ii) ***Exchange Differences arising on Translation of Certain Long-term Monetary Items from Foreign Currency to Functional Currency:*** Existing AS 11, gives an option to recognise exchange differences arising on translation of certain long-term monetary items from foreign currency to functional currency directly in equity, to be transferred to profit or loss over the life of the relevant liability/asset if such items are not related to acquisition of fixed assets. Where such items are related to acquisition of fixed assets, the foreign exchange differences can be recognised as part of the cost of the asset.

Ind AS 21 does not give the above option. However, Ind AS 21 does not apply to long-term foreign currency monetary items recognised in the financial statements before the beginning of the first Ind AS financial reporting period as per the previous GAAP, i.e. AS 11. However, as provided in Ind AS 101, such an entity may continue to apply the accounting policy so opted for such long-term foreign currency monetary items as per the previous GAAP.

(iii) ***Approach for Translation:*** The existing AS 11 is based on integral foreign operations and non-integral foreign operations approach for accounting for a foreign operation, whereas Ind AS 21 is based on the functional currency approach. However, in Ind AS 21 the factors to be considered in determining an entity's functional currency are similar to the indicators in existing AS 11 to determine the foreign operations as non –integral foreign operations. As a result, despite the difference in the term, there are no substantive differences in respect of accounting of a foreign operation.

(*iv*) ***Presentation Currency:*** As per Ind AS 21, presentation currency can be different from local currency and it gives detailed guidance in this regard, whereas the existing AS 11 does not explicitly state so.

Ind AS 23, AS 16

(i) ***Qualifying Asset measured at Fair Value:*** Ind AS 23 does not require an entity to apply this standard to borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset measured at fair value, for example, a biological asset whereas the existing AS 16 does not provide for such scope relaxation.

(ii) ***Applicability to Inventories:*** Ind AS 23 excludes the application of this Standard to borrowing costs directly attributable to the acquisition, construction or production of inventories that are manufactured, or otherwise produced, in large quantities on a repetitive basis whereas existing AS 16 does not provide for such scope relaxation and is applicable to borrowing costs related to all inventories that require substantial period of time to bring them in saleable condition.

(iii) ***Inclusion as Borrowing Costs:*** As per existing AS 16, *Borrowing Costs*, inter alia, include the following:

- interest and commitment charges on bank borrowings and other short-term and long-term borrowings;
- amortisation of discounts or premiums relating to borrowings;
- amortisation of ancillary costs incurred in connection with the arrangement of borrowings;

Ind AS 23 requires to calculate the interest expense using the effective interest rate method as described in Ind AS 109 Certain items therein have been deleted, as some of those components of borrowing costs are considered as the components of interest expense calculated using the effective interest rate method.

(iv) ***Explanation of Substantial Period of Time:*** Existing AS 16 gives explanation for meaning of 'substantial period of time' appearing in the definition of the term 'qualifying asset'. This explanation is not included in Ind AS 23.

(v) ***Disclosure of Capitalisation Rate:*** Ind AS 23 requires disclosure of capitalization rate used to determine the amount of borrowing costs eligible for capitalization. The existing AS 16 does not have this disclosure requirement.

Ind AS 19, AS 15

(*i*) ***Constructive Obligations:*** In Ind AS 19, employee benefits arising from constructive obligations are also covered whereas the existing AS 15 does not deal with the same.

(*ii*) ***Definition of Employee:*** As per the existing standard, the term 'employee' includes whole-time directors whereas under Ind AS 19 the term includes directors.

(*iii*) ***Other Definitions:*** Definitions of short-term employee benefits, other long-term employee benefits, and past service cost as per the existing AS 15 have been changed in Ind AS 19.

(*iv*) ***Contractual Agreement between a Multi-employer Plan and its Participants:*** Ind AS 19 deals with situations where there is a contractual agreement between a multi-employer plan and its participants that determines how the surplus in the plan will be distributed to the participants (or the deficit funded). The existing AS 15 does not deal with it.

(*v*) ***Qualified Actuary:*** Ind AS 19 encourages, but does not require, an entity to involve a qualified actuary in the measurement of all material post-employment benefit obligations whereas the existing standard, though does not require involvement of a qualified actuary, does not specifically encourage the same.

(*vi*) ***Recognition of Actuarial Gains and Losses:*** Actuarial valuation is based on certain assumptions. Changes in these assumptions give rise to actuarial gains and losses, for example, changes in estimates of salary or medical cost. Existing AS 15 requires recognition of actuarial gains and losses immediately in the profit and loss but Ind AS 19 requires that the same shall be recognised in other comprehensive income and should not be recognised in profit or loss.

(*vii*) ***Financial Assumptions:*** Ind AS 19 makes it clear that financial assumptions shall be based on market expectations, at the end of the reporting period, for the period over which the obligations are to be settled whereas the existing standard does not clarify the same.

(*viii*) ***Discounting of Post-employment Benefit Obligations:*** As per Ind AS 19, subsidiaries, associates, joint ventures and branches domiciled outside India shall discount post-employment benefit obligations arising on account of post-employment benefit plans using the rate determined by reference to market yields at the end of the reporting period on high quality corporate bonds. In case, such subsidiaries, associates, joint ventures and branches are domiciled in countries where there is no deep market in such bonds, the market yields (at the end of the reporting period) on government bonds of that country shall be used.

As per existing AS 15, the rate used to discount post-employment benefit obligations should always be determined by reference to market yields at the balance sheet date on government bond.

Ind AS 33 and AS 20

(*i*) ***Presentation of Basic and Diluted EPS from Continuing and Discontinued Operations:*** Ind AS 33 requires presentation of basic and diluted EPS from continuing and discontinued operations separately. However, existing AS 20 does not require any such disclosure.

(*ii*) ***Disclosure of EPS with and without Extraordinary Items:*** Existing AS 20 requires the disclosure of EPS with and without extraordinary items. Since as per Ind AS 1, '*Presentation of Financial Statements'*, no item can be presented as extraordinary item, Ind AS 33 does not require the aforesaid disclosure.

Ind AS 28, AS 23

(i) ***Definition of Significant Influence:*** In the existing AS 23, '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'. In Ind AS 28, the same has been 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'. Ind AS 28 defines joint control also.

(ii) ***Potential Equity Shares:*** For considering share ownership for the purpose of significant influence, potential equity shares of the investee held by investor are not taken into account as per the existing AS 23. As per Ind AS 28, 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.

(iii) ***Equity Method:*** Existing AS 23 requires application of the equity method only when the entity has subsidiaries and prepares Consolidated Financial Statements. Ind AS 28 requires application of equity method in financial statements other than separate financial statements even if the investor does not have any subsidiary.

(iv) ***Exemption:*** One of the exemptions from applying equity method in the existing AS 23 is where the associate operates under severe long-term restrictions that significantly impair its ability to transfer funds to the investee. No such exemption is provided in Ind AS 28.

(v) ***Explanation regarding the term 'Near Future':*** An explanation has been given in existing AS 23 regarding the term 'near future' used in another exemption from applying equity method, i.e., where the investment is acquired and held exclusively with a view to its subsequent disposal in the near future. This explanation has not been given in the Ind AS 28 as such situations are covered by Ind AS 105, '*Non-current Assets Held for Sale and Discontinued Operations*'.

(vi) ***Investment Classified as Held for Sale:*** Ind AS 28 requires a portion of an investment in an associate or a joint venture to be classified as held for sale if the disposal of that portion of the interest would fulfill the criteria to be classified as held for sale in accordance with Ind AS 105. AS 23 does not specifically deal with this aspect.

(vii) ***Difference in Reporting Dates:*** The existing AS 23 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. As per Ind AS 28, length of difference in the reporting dates of the associate or joint venture should not be more than three months unless.

(viii) ***Accounting Policies:*** Both the existing AS 23 and Ind AS 28 require that similar accounting policies should be used for preparation of investor's financial statements and in case an associate uses different accounting policies for like transactions, appropriate adjustments shall be made to the accounting policies of the associate. The existing AS 23 provides exemption to this that if it is not possible to make adjustments to the accounting policies of the associate, the fact shall b e disclosed along with a brief description of the differences between the accounting policies. Ind AS 28 provides that the entity's financial statements shall be prepared using uniform accounting policies for like transactions and events in similar circumstances unless, in case of an associate, it is impracticable to do so.

(ix) ***Share in Losses:*** As per existing AS 23, investor's share of losses in the associate is recognised to the extent of carrying amount of investment in the associate. As per Ind AS 28, carrying amount of investment in the associate or joint venture determined using the equity method together with any long term interests that, in substance form part of the entity's net investment in the associate or joint venture shall be considered for recognising entity's share of losses in the associate or joint venture.

Ind AS 103 and AS 14

(i) ***Scope****:* Ind AS 103 defines a business combination which has a wider scope whereas the existing AS 14 deals only with amalgamation.

(ii) ***Methods for Accounting****:* Under the existing AS 14 there are two methods of accounting for amalgamation viz - the pooling of interest method and the purchase method. Ind AS 103 prescribes only the acquisition method for every business combination.

(iii) ***Assets and Liabilities****:* Under the existing AS 14, the acquired assets and liabilities are recognised at their existing book values or at fair values under the purchase method. Ind AS 103 requires the acquired identifiable assets liabilities and non-controlling interest to be recognised at fair value under acquisition method.

(iv) ***Minority/Non–controlling****:* Ind AS 103 requires that for each business combination, 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. On other hand, the existing AS 14 states that the minority interest is the amount of equity attributable to minorities at the date on which investment in a subsidiary is made and it is shown outside shareholders' equity.

(v) ***Amortisation of Goodwill****:* Under Ind AS 103, the goodwill is not amortised but tested for impairment on annual basis in accordance with Ind AS 36.The existing AS 14 requires that the goodwill arising on amalgamation in the nature of purchase is amortised over a period not exceeding five years.

(vi) ***Reverse Acquisitions****:* Ind AS 103 deals with reverse acquisitions whereas the existing AS 14 does not deal with the same.

(vii) ***Contingent Consideration****:* Ind AS 103 deals with the contingent consideration in case of business combination, i.e., an obligation of the acquirer to transfer additional assets or equity interests to the former owners of an acquiree as part of the exchange for control of the acquiree if specified future events occur or conditions are met. The existing AS 14 does not provide specific guidance on this aspect.

(viii) ***Bargain Purchase Gain****:* Ind AS 103 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. Under existing AS 14 the excess amount is treated as capital reserve.

Ind AS 110 and AS 21

(i) ***Mandatory preparation of Consolidated Financial Statements****:* Ind AS 110 makes the preparation of Consolidated Financial Statements mandatory for a parent. Existing AS 21 does not mandate the preparation of Consolidated Financial Statements by a parent.

(ii) ***Control****:* As per AS 21, control is the ownership of more than one-half of the voting power of an enterprise or control of the composition of the board of directors or governing body. However, unlike rule based definition given in AS 21, definition of control in Ind AS 110 is principle based which states that, 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.

(iii) ***Clarification on more than one Parent of a Subsidiary****:* Under AS 21 there can be more than one parent of a subsidiary therefore existing AS 21 provides clarification regarding consolidation in case an entity is controlled by two entities. No clarification has been provided in this regard in Ind AS 110, keeping in view that as per the definition of control given in Ind AS 110, control of an entity could be with one entity only.

(iv) ***Difference in Reporting Dates****:* As per AS 21, difference between the date of the subsidiary's financial statements and that of the consolidated financial statements shall not exceed 6 months. However, as per Ind AS 110 the difference shall not be more than three months.

(v) ***Uniform Accounting Policies****:* Both the existing AS 21 and Ind AS 110, require the use of uniform accounting policies. However, existing AS 21 specifically states that if it is not practicable to use uniform accounting policies in preparing the consolidated financial statements, that fact should be disclosed together with the proportions of the items in the consolidated financial statements to which the different accounting policies have been applied. However, Ind AS 110 does not recognise the situation of impracticability.

(vi) ***Presentation of Non-controlling Interest in CFS****:* As per existing AS 21 minority interest should be presented in the consolidated balance sheet separately from liabilities and equity of the parent's shareholders. However, as per Ind AS 110 non-controlling interests shall be presented in the consolidated balance sheet within equity separately from the parent shareholders' equity.

(vii) ***Exclusion from Consolidation****:* As per existing AS 21, subsidiary is excluded from consolidation when control is intended to be temporary or when subsidiary operates under severe long term restrictions. Ind AS 110 does not give any such exemption from consolidation.

Ind AS 110 andAS 27

(i) ***Types of Joint Arrangement/Joint Venture****:* Existing AS 27 recognises three forms of joint venture namely: (a) jointly controlled operations, (b) jointly controlled assets and (c) jointly controlled entities. As per Ind AS 111, a joint arrangement is either a joint operation or a joint venture. Such classification of joint arrangement depends upon the rights and obligations of the parties to the arrangement and disregards the legal structure.

(ii) ***Joint Control****:* Existing AS 27 provides that in some exceptional cases, an enterprise by a contractual arrangement establishes joint control over an entity which is a subsidiary of that enterprise within the meaning of AS 21, '*Consolidated Financial Statements'*. In those cases, the entity is consolidated under AS 21 by the said enterprise, and is not treated as a joint venture. Ind AS 111 does not recognise such cases keeping in view the definition of control given in Ind AS 110.

(iii) ***Equity Method****:* Ind AS 111 provides that a venturer can recognise its interest in joint venture using only equity method as per Ind AS 28. Existing AS 27 prescribes the use of proportionate consolidation method only.

(iv) ***Interest in Jointly Controlled Entity****:* In case of separate financial statements under existing AS 27, interest in jointly controlled entity is accounted for as per AS 13, Accounting for Investments, i.e., at cost less provision for other than temporary decline in the value of investment. Ind AS 111 requires that the joint operator shall recognise its interest in joint operation and a joint venture in accordance with Ind AS 28, *'Investments in Associates and Joint Ventures'*.

(v) ***Near Future****:* An explanation has been given in existing AS 27 regarding the term 'near future' used in an exemption given from applying proportionate consolidation method, i.e., where the investment is acquired and held exclusively with a view to its subsequent disposal in the near future.

This explanation has not been given in the Ind AS 111, as such situations are now covered by Ind AS 105, '*Non-current Assets Held for Sale and Discontinued Operations'*.

(vi) ***Application of the Proportionate Consolidation Method****:* Existing AS 27 requires application of the proportionate consolidation method only when the entity has subsidiaries and prepares Consolidated Financial Statements. Ind AS 111 requires application of equity method in financial statements other than separate financial statements in case of a joint venture, even if the venturer does not have any subsidiary in the financial statements.

Topic 3

Others Ind AS

Ind AS 29: Financial Reporting in Hyperinflationary Economies

1. **This Standard shall be applied to any entity whose functional currency is the currency of a hyperinflationary economy.**
2. It is a matter of judgment when restatement of financial statements in accordance with this Standard becomes necessary. Hyperinflation is indicated by following:
   (a) the general population prefers to keep its wealth in non-monetary assets
   (b) the general population regards monetary amounts in terms of a relatively stable foreign currency.
   (c) interest rates, wages and prices are linked to a price index;
   (d) the cumulative inflation rate over three years is approaching, or exceeds, 100%.
3. In a hyperinflationary economy, financial statements, whether they are based on a historical cost approach or a current cost approach, are useful only if they are expressed in terms of the measuring unit current at the end of the reporting period.
4. **Historical cost financial statements**
   (i) Balance sheet amounts not already expressed in terms of the measuring unit current are restated
   (ii) Monetary items are not restated
   (iii) Some non-monetary items are carried at amounts current at the end of the reporting period, such as net realisable value and fair value, so they are not restated. All other non-monetary assets and liabilities are restated.
   (iv) property, plant and equipment, inventories of raw materials and merchandise, goodwill, patents, trademarks and similar assets are restated from the dates of their purchase.
   (v) A general price index may not be available use estimate on the movements in the exchange rate between the functional currency and a relatively stable foreign currency.

   Statement of profit and loss

   (vi) This Standard requires that all items in the statement of profit and 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.

   Gain or loss on net monetary position

   (vii) an excess of monetary assets over monetary liabilities loses purchasing power This gain or loss on the net monetary position may be derived as the difference resulting from the restatement of non-monetary assets, owners' equity and items in the statement of profit and loss and the adjustment of index linked assets and liabilities.

   The gain or loss on the net monetary position is included in profit or loss.

5. Current cost financial statements

(i) Items stated at current cost are not restated because they are already expressed in terms of the measuring unit current at the end of the reporting period. Other items in the balance sheet are restated

(ii) all amounts need to be restated into the measuring unit current at the end of the reporting period by applying a general price index.

6. The following disclosures shall be made:

(a) the fact that the financial statements and the corresponding figures for previous periods have been restated

(b) whether the financial statements are based on a historical cost approach or a current cost approach; and

(c) the duration of the hyperinflationary situation existing in the economy.

Ind AS 40: Investment Property

1. IAS 40 prescribes the accounting treatment for investment property and the related disclosure requirements.
2. It also applied to the measurement of investment properties:
   - held by a lessee under a finance lease; and
   - held by a lessor and leased out under an operating lease.
3. The standard does not apply to:
   - biological assets with respect to agricultural activity; or
   - mineral rights and reserves and similar non-regenerative resources.
4. **Definition**

   A. Investment property : Property (land or a building, or part of a building, or both) held (by the owner or by the 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

   B. Owner-occupied property: property held by the owner (or by the lessee under a finance lease) for use in the production or supply of goods or services or for administrative purposes.

   Examples of investment property include:

   - land held for long-term capital appreciation rather than for short-term sale in the ordinary course of business;
   - land held for a currently undetermined future use;
   - a building owned by the reporting entity (or held under a finance lease) and leased out under operating lease);
   - property which is being constructed or developed for future use as an investment property.

   Note: A property that is owned by a parent but occupied by a subsidiary, or *vice versa*, will be treated as investment property (under IAS 40) in the financial statements of the single entity but as property (under IAS 16) in the consolidated financial statements as the asset is owner-occupied from a group perspective.

5. Recognition

Investment property is recognised as an asset when:

- it is probable that the future economic benefits which are attributable to the investment property will flow to the entity; and
- the cost of the investment property can be measured reliably.

6. Initial Recognition

An investment property is measured initially at its cost which is the fair value of the consideration given for it, including transaction costs.

Note: Meaning of cost

The cost of a purchased investment property comprises its purchase price and any directly attributes expenditure (e.g. Professional fees for legal services and property transfer taxes).

If an investment property is acquired through a finance lease, the initial cost recognised must be in accordance with IAS 17 Leases.

7. Subsequent Recognition

(i) Day-to-day costs of running the investment property are expenses as incurred.

(ii) If a part of an investment property requires replacement during the useful life of the property, the replacement part is capitalised when the cost in incurred a long as the recognition criteria are met. Any value remaining with respect to the replace part will be derecognised as the new cost is capitalised.

(iii) An entity chooses either the fair value model or the cost model and applies that policy to all its investment properties.

(iv) Fair value is assessed using the fair value hierarchy in IFRS 13 Fair Value Measurements

(v) A gain or loss arising from a change in the fair value of investment property is included in profit or loss for the period in which it arises.

Note: There is a "rebuttal presumption" that an entity will be able to measure the fair value of an investment property reliably

(i) After initial recognition, an entity measures all investment properties using the cost model in IAS 16 Property, Plant and Equipment (i.e. at cost less any accumulated depreciation and impairment losses).

(ii) An investment property which is subsequently held for sale is measured in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations.

8. Transfers

Transfers to and from investment property are made when, and only when, there is a changed in use evidenced by:

- the commencement of owner-occupation (for a transfer from investment property to owner-occupied property);
- the commencement of development with a view to sale (for a transfer from investment property to inventories);
- the end of owner-occupation (for a transfer from owner-occupied property to investment property);

9. Disposal

Any gains or losses on the retirement of an asset are calculated as the difference between the carrying value of the asset and the disposal proceeds and are included in the profit or loss for the period.

10. Disclosure

(i) The amounts included in the statement of profit or loss for:

- rental income;
- direct operating expenses (including repairs)

(ii) The depreciation method used.

The useful lives or the depreciation rates used.

A reconciliation of the carrying amount at the beginning and end of the period and the movements in the period.

(iii) The fair value of the property or a note stating that the fair value giving a description of the property.

Ind AS 41: Agriculture

1. IAS 41 prescribes the accounting treatment and the presentation and disclosures related to agricultural activity, including:

- biological assets;
- agricultural produce at the point of harvest; and
- related government grants.

2. Definition

(i) **Biological asset:** a living animal or plant,

(ii) **Harvest:** the detachment of produce from a biological asset or the cessation of a biological asset's life.

(iii) **Agricultural produce:** the product harvested from a biological asset.

3. This Standard does not apply to:

(a) land related to agricultural activity

(b) Bearer plants however, this Standard applies to the produce on those bearer plants.

(c) Government grants related to bearer plants

4. The table below provides examples of biological assets, agricultural produce, and products that are the result of processing after harvest:

5. Recognition and Measurement

5.1 Recognition

A biological asset should be recognised when, and only when:

- the asset is controlled as a result of a past event;
- it is probable that future economic benefits associated with the asset will flow to the entity; and
- fair value can be measured reliably.

6. Recognition and measurement

An entity shall recognise a biological asset or agricultural produce when, and only when:

(a) The entity controls the asset

(b) It is probable that future economic benefits will flow to the entity; and

(c) The fair value or cost of the asset can be measured reliably.

7. Measurement

A biological asset should be measured at its fair value less costs to sell:

- on initial recognition; and
- at the end of each reporting period

Note: A gain or loss arising on initial recognition of a biological asset or Agricultural produce should be included in profit or loss for the period in which it arises.

Note: Any changes in fair value less costs to sell of Biological Asset arising at the end of each reporting period are similarly recognised in profit or loss for the period.

8. Agricultural produce harvested from an entity's biological assets shall be measured at its fair value less costs to sell at the point of harvest. Such measurement is the cost at that date when applying Ind AS 2 Inventories.

Note: In all cases, an entity measures agricultural produce at the point of harvest at its fair value less costs to sell. This Standard reflects the view that the fair value of agricultural produce at the point of harvest can always be measured reliably.

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

1. Scope

An entity shall apply this Ind AS in:

(a) its first Ind AS financial statements; and

(b) each interim financial report, if any, that it presents in accordance with Ind AS 34, 'Interim Financial Reporting', for part of the period covered by its first Ind AS financial statements.

2. Recognition and Measurement

Opening Ind AS Balance Sheet: An entity shall prepare and present an opening Ind AS Balance Sheet at the date of transition to Ind ASs. This is the starting point for its accounting in accordance with Ind ASs.

An entity shall, in its opening Ind AS 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; and

(d) apply Ind ASs in measuring all recognised assets and liabilities.

3. Accounting Policies

An entity shall use the same accounting policies in its opening Ind AS Balance Sheet and throughout all periods presented in its first Ind AS financial statements. The accounting policies in opening Ind AS Balance Sheet may differ from those that it used for the same date using previous GAAP. The resulting adjustments arise from events and transactions before the date of transition to Ind ASs shall be recognised directly in retained earnings.

Those accounting policies shall comply with each Ind AS effective at the end of its first Ind AS reporting period, subject to:

- Mandatory Exceptions
- Optional Exemptions

4. Exceptions to the Retrospective Application of Other Ind ASs

4.1 Mandatory Exceptions

1. ***Estimates:*** An entity's estimates in accordance with Ind ASs at the date of transition to Ind ASs shall be consistent with estimates made for the same date in accordance with previous GAAP (after adjustments to reflect any difference in accounting policies), unless there is objective evidence that those estimates were in error.
2. ***Derecognition of Financial Assets or Financial Liabilities:*** A first-time adopter shall apply the derecognition requirements in Ind AS 109 prospectively for transactions occurring on or after the date of transition to Ind ASs.
3. ***Hedge Accounting:*** An entity shall 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.
4. ***Non-controlling Interests:*** A first-time adopter shall apply the following requirements of Ind AS 110 prospectively from the date of transition to Ind ASs:
   (a) Total comprehensive income is 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) Accounting for changes in the parent's ownership interest in a subsidiary that do not result in a loss of control; and
   (c) Accounting for a loss of control over a subsidiary, and the related requirements of paragraph 8A of Ind AS 105, *'Non-current Assets Held for Sale and Discontinued Operations'*.
5. ***Classification and Measurement of Financial Assets****:* An entity shall assess whether a financial asset meets the conditions in paragraph 4.1.2 or the conditions in paragraph 4.1.2A of Ind AS 109 on the basis of the facts and circumstances that exist at the date of transition to Ind ASs.
6. ***Impairment of Financial Assets:*** An entity should seek to approximate the credit risk on initial recognition by considering all reasonable and supportable information that is available without undue cost or effort.
7. ***Embedded Derivatives:*** A first-time adopter shall assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative on the basis of the conditions that existed at the later of the date it first became a party to the contract and the date of a reassessment.
8. ***Government Loans:*** A first-time adopter shall classify all government loans received as a financial liability or an equity instrument in accordance with Ind AS 32.

5. Optional Exemptions

1. ***Exemptions for Business Combinations:*** A first-time adopter may elect not to apply Ind AS 103 retrospectively to past business combinations (business combinations that occurred before the date of transition to Ind ASs).

   However, if a first-time adopter restates any business combination to comply with Ind AS 103, it shall restate all later business combinations and shall also apply Ind AS 110 from that same date.
2. ***Share-based Payment Transactions:*** A first-time adopter is encouraged, but not required, to apply Ind AS 102 '*Share-based Payment*' to equity instruments that vested before date of transition to Ind ASs.

3. ***Insurance Contracts:*** An entity shall apply Ind AS 104 *'Insurance Contracts'* for annual periods beginning on or after date of transition to Ind ASs. Earlier application is encouraged. If an entity applies this Ind AS 104 for an earlier period, it shall disclose that fact.

4. ***Deemed Cost:*** An entity may elect to measure an item of property, plant and equipment at the date of transition to Ind ASs at its fair value and use that fair value as its deemed cost at that date.

   A first-time adopter may elect to use a previous GAAP revaluation of an item of property, plant and equipment at, or before, the date of transition to Ind ASs as deemed cost at the date of the revaluation, if the revaluation was, at the date of the revaluation, broadly comparable to:

   (a) fair value; or

   (b) cost or depreciated cost in accordance with Ind ASs, adjusted to reflect, for example, changes in a general or specific price index.

5. ***Leases:*** A first-time adopter may apply paragraphs 6-9 of the Appendix C of Ind AS 17 Determining whether an Arrangement contains a Lease to determine whether an arrangement existing at the date of transition to Ind ASs contains a lease on the basis of facts and circumstances existing at the date of transition to Ind AS, except where the effect is expected to be not material.

6. ***Cumulative Translation Differences:*** Ind AS 21 requires an entity:

   (a) to recognise some translation differences in other comprehensive income and accumulate these in a separate component of equity; and

   (b) on disposal of a foreign operation, to reclassify the cumulative translation difference for that foreign operation (including, if applicable, gains and losses on related hedges) from equity to profit or loss as part of the gain or loss on disposal.

7. ***Long-term Foreign Currency Monetary Items:*** A first-time adopter may continue the policy adopted for accounting for exchange differences arising from translation of long-term foreign currency monetary items recognised in the financial statements for the period ending immediately before the beginning of the first Ind AS financial reporting period as per the previous GAAP.

8. ***Investments in Subsidiaries, Joint Ventures and Associates:*** When an entity prepares separate financial statements, Ind AS 27 requires it to account for its investments in subsidiaries, joint ventures and associates either:

   (a) at cost; or

   (b) in accordance with Ind AS 109.

9. ***Compound Financial Instruments:*** Ind AS 32 *'Financial Instruments: Presentation'* requires an entity to split a compound financial instrument at inception into separate liability and equity components. If the liability component is no longer outstanding, retrospective application of Ind AS 32 involves separating two portions of equity. The first portion is in retained earnings and represents the cumulative interest accreted on the liability component. The other portion represents the original equity component.

10. ***Revenue from Contracts with Customers:*** A first-time adopter may use one or more of the following practical expedients when applying Ind AS 115 retrospectively:

    (a) for completed contracts, an entity need not restate contracts that begin and end within the same annual reporting period;

    (b) for completed contracts that have variable consideration, an entity may use the transaction price at the date the contract was completed rather than estimating variable consideration amounts in the comparative reporting periods; and

(c) for all reporting periods presented before the beginning of the first Ind AS reporting period, an entity need not disclose the amount of the transaction price allocated to the remaining performance obligations and an explanation of when the entity expects to recognise that amount as revenue.

11. ***Non-current Assets Held for Sale and Discontinued Operations:*** Ind AS 105 requires non-current assets (or disposal groups) that meet the criteria to be classified as held for sale, non-current assets (or disposal groups) that are held for distribution to owners and operations that meet the criteria to be classified as discontinued and carried at lower of its carrying amount and fair value less cost to sell on the initial date of such identification. A first time adopter can:

(a) measure such assets or operations at the lower of carrying value and fair value less cost to sell at the date of transition to Ind ASs in accordance with Ind AS 105; and

(b) recognise directly in retained earnings any difference between that amount and the carrying amount of those assets at the date of transition to Ind ASs determined under the entity's previous GAAP.

Ind AS 104: Insurance Contracts

1. 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. (See Appendix B for guidance on this definition.)

2 An entity shall apply this Ind AS to:

(a) insurance contracts *reinsurance contracts*

(b) financial instruments that it issues with a *discretionary participation*

3 An entity shall not apply this Ind AS to:

(a) product warranties

(b) employee benefit

(c) contractual rights or contractual obligations

(d) financial guarantee

(e) contingent consideration payable

4 Some insurance contracts contain both an insurance component and a *deposit component.*

(a) unbundling is required if both the following conditions are met:

(i) the insurer can measure the deposit component.

(ii) the insurer's accounting policies do not otherwise require it to recognise all obligations and rights arising from the deposit component.

(b) unbundling is prohibited if an insurer cannot measure the deposit component separately

Note: an insurer shall:

(a) apply this Ind AS to the insurance component.

(b) apply Ind AS 109 to the deposit component.

5 an insurer:

(a) shall not recognise as a liability any provisions for possible future claims, such as catastrophe provisions

(b) shall carry out the *liability adequacy test*

(c) shall remove an insurance liability when, and only when, it is extinguished

(d) shall not offset:

(i) *reinsurance assets* against insurance liabilities;

Note (i): Liability adequacy test

An insurer shall assess at the end of each reporting period whether its recognised insurance liabilities are adequate, current estimates of future cash flows under its insurance contracts. If that assessment shows that the carrying amount of its insurance liabilities is inadequate in the light of the estimated future cash flows, the entire deficiency shall be recognised in profit or loss.

If an insurer applies a liability adequacy test that meets specified minimum requirements, this Ind AS imposes no further requirements.

Note (ii): liability adequacy test: assessment of whether the carrying amount of an **insurance liability** needs to be increased based on a review of future cash flows.

6 If a cedant's reinsurance asset is impaired, the cedant shall reduce its carrying amount accordingly and recognise that impairment loss in profit or loss. A reinsurance asset is impaired if, and only if:

(a) there is objective evidence, that the cedant may not receive all amounts due to it under the terms of the contract; and

(b) that event has a reliably measurable impact on the amounts that the cedant will receive from the reinsurer.

Note: Cedant: The **policyholder** under a **reinsurance** contract.

Ind AS 106: Exploration for and Evaluation of Mineral Resources

1. Exploration for and evaluation of mineral resources

The search for mineral resources, including minerals, oil, natural gas and similar non-regenerative resources after the entity has obtained legal rights to explore in a specific area, as well as the determination of the technical feasibility and commercial viability of extracting the mineral resource.

2. Exploration and evaluation expenditures

Expenditures incurred by an entity in connection with the **exploration for and evaluation of mineral resources** before the technical feasibility and commercial viability of extracting a mineral resource are demonstrable.

3. An entity shall apply this Ind AS to exploration and evaluation expenditures that it incurs.

An entity shall not apply this Ind AS to expenditures incurred:

(a) before the exploration for and evaluation of mineral resources, expenditures incurred has obtained the legal rights to explore a specific area.

(b) after the technical feasibility and commercial viability of extracting a mineral resource are demonstrable.

4. Exploration and evaluation assets shall be measured at cost.

Note: An entity shall determine an accounting policy specifying which expenditures are recognised as exploration and evaluation assets and apply the policy consistently.

Note: examples of expenditures that might be included in the initial measurement of exploration and evaluation assets:

(a) acquisition of rights to explore;

(b) topographical, geological, geochemical and geophysical studies;

(c) exploratory drilling;

(d) trenching;

(e) sampling;

(f) activities in relation to evaluating the technical feasibility and commercial viability of extracting a mineral resource.

Note: In accordance with Ind AS 37, *Provisions, Contingent Liabilities and Contingent Assets,* an entity recognises any obligations for removal and restoration that are incurred during a particular period as a consequence of having undertaken the exploration for and evaluation of mineral resources.

cost model revaluation model exploration and evaluation assets.

Note: An entity may change its accounting using the criteria in Ind AS 8.

5. Presentation

(i) Classification of exploration and evaluation assets

An entity shall classify exploration and evaluation assets as tangible or intangible according to the nature of the assets.

(ii) Reclassification of exploration and evaluation assets

An exploration and evaluation asset shall no longer be classified as such when the technical feasibility and commercial viability of extracting a mineral resource are demonstrable.

6. Recognition and measurement

(i) Exploration and evaluation assets shall be assessed for impairment when facts and circumstances suggest that the carrying amount of an exploration and evaluation asset may exceed its recoverable amount.

(ii) following facts and circumstances indicate that an entity should test exploration and evaluation assets for impairment

(a) the period for which the entity has the right to explore in the specific area has expired or will expire

(b) substantive expenditure on further exploration for and evaluation of mineral resources in the is neither budgeted nor planned.

(c) exploration for mineral resources have not led to the discovery of quantities of mineral resources

(d) sufficient data exist is unlikely to be recovered in full from successful development or by sale.

7. An entity shall disclose information that identifies and explains the amounts recognised in its financial statements arising from the exploration for and evaluation of mineral resources.

Ind AS 114: Regulatory Deferral Accounts

1. Objective

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

2. Scope

(i) An entity is permitted to apply the requirements of this Standard in its first Ind AS financial statements if and only if it:

(a) conducts rate-regulated activities; and

(b) recognised amounts that qualify as regulatory deferral account balances in its financial statements in accordance with its previous GAAP (Guidance Note)

(ii) An entity that is within the scope of, and that elects to apply, this Standard shall apply all of its requirements to all regulatory deferral account balances that arise from all of the entity's rate-regulated activities.

3. Regulatory Deferral Account Balance

A 'Regulatory Asset' or a 'Regulatory Liability' as defined in the *Guidance Note on Accounting for Rate Regulated Activities*.

Rate-Regulated Activities: An entity's activities that are subject to rate regulation.

Rate Regulation: 'Cost of Service Regulation' as defined in the Guidance Note on Accounting for Rate Regulated Activities.

4. Continuation of Existing Accounting Policies

On initial application of this Standard, an entity shall continue to apply previous GAAP accounting policies for the recognition, measurement, impairment and derecognition of regulatory deferral account balances, except for any changes permitted by paragraphs 13 –15.

5. Changes in Accounting Policies (Para 13-15)

An entity shall not change its accounting policies in order to start to recognise regulatory deferral account balances. An entity may only change its accounting policies for the recognition, measurement, impairment and derecognition of regulatory deferral account balances if the change makes the financial statements more relevant.

6. Interaction with Other Standards

Any specific exception, exemption or additional requirements related to the interaction of this Standard with other Standards are specified in Appendix to this Standard. In the absence of any such exception, exemption or additional requirements, other Standards shall apply to regulatory deferral account balances in the same way as they apply to assets, liabilities, income and expenses that are recognised in accordance with other Standards.

7. Classification of Regulatory Deferral Account Balances

An entity shall present separate line items in the balance sheet for:

(a) the total of all regulatory deferral account debit balances; and

8. Classification of Movements in Regulatory Deferral Account Balances

(i) An entity shall present, in the other comprehensive income section of the statement of profit and loss, the net movement in all regulatory deferral account balances for the reporting period

(ii) An entity shall present a separate line item in the profit or loss section of the statement of profit and loss, for the remaining net movement in all regulatory deferral account balances

9. Disclosures

An entity that elects to apply this Standard shall disclose information that enables users to assess:

(a) the nature of, and the risks associated with, the rate regulation; and

(b) the effects of that rate regulation on its financial position, financial performance and cash flows.

Ind AS 115: Revenue from Contracts with Customers

1. Scope

An entity shall apply this Standard to all contracts with customers, except the following:

(i) Lease contracts

(ii) Insurance contracts

(iii) Financial instruments and other contractual rights or obligations

2. Application of AS

Step 1: Identify the contract with the customer

Step 2: Identify the performance obligation Steps

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to the performance obligations

Step 5: Recognise Revenue when the entity satisfies a performance obligation

3. STEP 1: Identifying the Contract

An entity shall account for a contract with a customer only when all of the following criteria are met:

(a) the parties to the contract have approved the contract and are committed to perform obligations;

(b) the entity can identify each party's rights regarding the goods or services to be transferred;

(c) the entity can identify the payment terms for the goods or services to be transferred;

(d) the contract has commercial substance (i.e. the risk, timing or amount of the entity's future cash flows is expected to change as a result of the contract); and

(e) it is probable that the entity will collect the consideration

Note: Combination of Contracts: An entity shall combine two or more contracts entered into at or near the same time with the same customer if one or more of the following criteria are met:

(a) the contracts are negotiated as a package;

(b) consideration to be paid in one contract depends on the price or of the other contract; or

(c) the goods or services promised in the contracts are a single performance obligation.

Note: Contract Modifications

1. **As a Separate Contract:** both of the following conditions are present:

   (a) the scope of the contract increases; and

   (b) the price of the contract increases

2. **Accounting when not treated as a Separate Contract:** if the remaining goods or services are distinct from the goods or services transferred on or before the date of the contract modification.

4. STEP 2: Identifying Performance Obligations

At contract inception, an entity shall assess the goods or services promised in a contract with a customer and shall identify as a performance obligation each promise to transfer to the customer either:

(a) a good or service (or a bundle of goods or services) that is distinct; or

(b) a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer.

Note: Satisfaction of Performance Obligations: An entity shall recognise revenue when (or as) the entity satisfies a performance obligation by transferring a promised good or service (i.e. an asset) to a customer.

1. **Performance Obligations satisfied over time*:*** An entity transfers control of a good or service over time and, therefore, satisfies a performance obligation and recognises revenue over time, if one of the following criteria is met:
   (a) the customer simultaneously receives and consumes the benefits provided by the entity's performance as the entity perform;
   (b) the entity's performance creates or enhances an asset (for example, work in progress) that the customer controls as the asset is created or enhanced; or
   (c) the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.
2. **Performance Obligations satisfied at a point in time**
   (a) The entity has a present right to payment for the asset
   (b) The customer has legal title to the asset
   (c) The entity has transferred physical possession of the asset
   (d) The customer has the significant risks and rewards of ownership of the asset
   (e) The customer has accepted the asset

5. STEP 3: Determining the Transaction Price

Measurement: performance obligation is satisfied, an entity shall recognise as revenue the amount of the transaction price (which excludes estimates of variable consideration that are constrained) that is allocated to that performance obligation.

Note:

1. ***Variable Consideration*:** If the consideration promised in a contract includes a variable amount, an entity shall estimate the amount of consideration to which the entity will be entitled in exchange for transferring the promised goods or services to a customer.
2. ***Constraining Estimates of Variable Consideration*:** An entity shall include in the transaction price some or all of an amount of variable consideration estimated only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved.
3. ***The Existence of a Significant Financing Component in the Contract*:** In determining the transaction price, an entity shall adjust the promised amount of consideration for the effects of the time value of money if the timing of payments agreed to by the parties to the contract (either explicitly or implicitly) provides the customer or the entity with a significant benefit of financing the transfer of goods or services to the customer.
4. ***Non-cash Consideration*:** To determine the transaction price for contracts in which a customer promises consideration in a form other than cash, an entity shall measure the non-cash consideration (or promise of non-cash consideration) at fair value.

5. ***Consideration Payable to a Customer*:** Consideration payable to a customer includes cash amounts that an entity pays, o r expects to pay, to the customer. Consideration payable to a customer also includes credit or other items (for example, a coupon or voucher) that can be applied against amounts owed to the entity (or to other parties that purchase the entity's goods or services from the customer).

6. STEP 4: Allocating the Transaction Price to Performance Obligations

The objective when allocating the transaction price is for an entity to allocate the transaction price to each performance obligation (or distinct good or service) in an amount that depicts the amount of consideration to which the entity expects to be entitled in exchange for transferring the promised goods or services to the customer.

Note:

Allocation based on Stand-alone Selling Prices: To allocate the transaction price to each performance obligation on a relative stand-alone selling price basis, an entity shall determine the stand-alone selling price at contract inception of the distinct good or service underlying each performance obligation in the contract and allocate the transaction price in proportion to those stand-alone selling prices.

7. STEP 5: Recognise Revenue as each Performance Obligation is Satisfied

When a performance obligation is satisfied, an entity shall recognise as revenue the amount of transaction price that is allocated to that performance obligation.

The entity shall recognise revenue only to the extent of the recovered costs incurred.

Topic 4 (***Revised***)

Accounting and Reporting of Financial Instruments

[Based on Ind AS 32, 107 & 109]

Question 1

Classify following items as financial or non-financial items

(a) Trade accounts receivable and payable

(b) Notes receivable and payable

(c) Loans receivable and payable

(d) Bonds receivable and payable

Solution:

All are Financial Assets & Financial Liabilities

Question 2

Entity A holds an option to purchase equity shares in a listed entity B for ₹ 100 per share at the end of a 90 day period. Evaluate the contract whether a financial asset or a financial liability? What if the entity A has written the option?

Solution:

The above call option gives entity A, a contractual right to exchange cash of ₹ 100 for an equity share in another entity and will be exercised if the market value of the share exceeds ₹100 at the end of the 90 day period. If the market value of a share will be such that the entity

A will gain on the exercise date, it will exercise the call option.

Since entity A stands to gain if the call option is exercised, the exchange is potentially favourable to the entity. Therefore, the option is a derivative financial asset from the time the entity becomes a party to the option contract.

On the other hand, if entity A writes an option under which the counterparty can force the entity to sell equity shares in the listed entity B for ₹ 100 per share at any time in the next 90 days, then entity A will be said to have a contractual obligation to exchange its equity shares to another entity for cash of ₹ 100 per share on potentially unfavourable terms i.e. if the holder exercises the option, on account of the market price per share being above the exercise price of ₹ 100 per share at the end of the 90 day period.

Since entity A stands to lose if the option is exercised, the exchange is potentially unfavourable and the option is a derivative financial liability from the time the entity becomes a party to the option contract.

Question 3

Classify following items as financial liability, equity, financial asset or non-financial items

A. 'Perpetual' debt instruments (such as 'perpetual' bonds, debentures and capital notes):

Perpetual debt instruments normally provide the holder with the contractual right to receive payments on account of interest at fixed dates extending into the indefinite future, either with no right to receive a return of principal or a right to a return of principal under terms that make it very unlikely or very far in the future. Hence it is a financial Liability.

B. Leases

A finance lease is regarded as primarily an entitlement of the lessor to receive, and an obligation of the lessee to pay, a stream of payments that are substantially the same as blended payments of principal and interest under a loan agreement.

The lessor accounts for its investment in the amount receivable under the lease contract rather than the leased asset itself.

An operating lease, on the other hand, is regarded as primarily a n uncompleted contract committing the lessor to provide the use of an asset in future periods in exchange for consideration similar to a fee for a service. The lessor continues to account for the leased asset itself rather than any amount receivable in the future under the contract.

Accordingly, a finance lease is regarded as a financial instrument and an operating lease is not regarded as a financial instrument (except as regards individual payments currently due and payable).

C. Physical assets (such as inventories, property, plant and equipment), leased assets and intangible assets (such as patents and trademarks)

Physical assets, leased assets and intangible assets are not financial assets because control of such physical and intangible assets creates an opportunity to generate an inflow of cash or another financial asset, but it does not give rise to a present right to receive cash or another financial asset.

D. Assets (such as prepaid expenses):

Future economic benefit from prepaid expenses is the receipt of goods or services, rather than the right to receive cash or another financial asset. Therefore, such prepaid expenses shall not be considered as financial assets.

Similarly, items such as deferred revenue and most warranty obligations are not financial liabilities because the outflow of economic benefits associated with them is the delivery of goods and services rather than a contractual obligation to pay cash or another financial asset.

E. Liabilities or assets that are not contractual:

Non contractual liabilities or assets are not financial liabilities or financial assets. Income taxes that are created as a result of statutory requirements imposed by Governments are accounted in accordance with Ind AS 12.

Similarly, constructive obligations, a s defined in Ind AS 37, "Provisions, Contingent Liabilities and Contingent Assets", do not arise from contracts and hence are not financial liabilities.

F. Puttable Financial Instrument:

A Puttable Financial Instrument includes a contractual obligation for the issuer to repurchase or redeem that instrument for cash or another financial asset on exercise of the put. Therefore, it is a financial liability.

G. Preference Shares

Preference shares may be issued with various rights.

In determining whether a preference share is a financial liability or an equity instrument, an issuer assesses the particular rights attaching to the share to determine whether it exhibits the fundamental characteristic of a financial liability.

Redemption option:

1. A preference share that provides for redemption on a specific date or at the option of the holder contains a financial liability because the issuer has an obligation to transfer financial assets to the holder of the share

Note: The potential inability of an issuer to satisfy an obligation to redeem a preference share when contractually required to do so, whether because of a lack of funds, a statutory restriction or insufficient profits or reserves, does not negate the obligation.

2. An option of the issuer to redeem the shares for cash does not satisfy the definition of a financial liability because the issuer does not have a present obligation to transfer financial assets to the shareholders.

Question 4

A Company has issued 6% mandatorily redeemable preference shares with mandatory fixed dividends. Evaluate whether such preference shares are an equity instrument or a financial liability to the issuer entity?

Solution:

In determining whether a mandatorily redeemable preference share is a financial liability or an equity instrument, it is necessary to examine the particular contractual rights attaching to the instrument's principal and return components.

The instrument in this example provides for mandatory periodic fixed dividend payments and mandatory redemption by the issuer for a fixed amount at a fixed future date. Since there is a contractual obligation to deliver cash (for both dividends and repayment of principal) to the shareholder that cannot be avoided, the instrument is a financial liability in its entirety.

Question 5

A Company issued non-redeemable preference shares with mandatory fixed dividends. Evaluate whether such preference shares are an equity instrument or a financial liability to the issuer entity?

Solution:

When preference shares are non-redeemable, the appropriate classification is determined by the other rights attached to them. Classification is based on an assessment of the contractual arrangement's substance and the definitions of a financial liability and an equity instrument.

It is necessary to examine the particular contractual rights attaching to the instrument's principal and return components. In this example, the shares are non-redeemable and thus the amount of the principal has equity characteristics, but the entity has a contractual obligation to pay dividends that provides the shareholders with a lender's return. This obligation is not negated if the entity is unable to pay the dividends because of lack of funds or insufficient distributable profits. Therefore, the obligation to pay the dividends meets the definition of a financial liability.

The overall classification is that the shares may be a compound instrument, which may require each component to be accounted for separately. It would be a compound instrument if the coupon was initially set at a rate other than the prevailing market rate or the terms specified payment of discretionary dividends in addition to the fixed coupon. If the coupon on the preference shares was set at market rates at the date of issue and there were no provisions for the payment of discretionary dividends, the entire instrument would be classified as a financial liability, because the stream of cash flows is in perpetuity.

Question 6

A company issued Non-redeemable preference shares with dividend payments linked to ordinary shares. Evaluate whether such preference shares are an equity instrument or a financial liability to the issuer entity?

Solution:

An entity issues a non-redeemable preference shares on which dividends are payable only if the entity also pays a dividend on its ordinary shares.

The dividend payments on the preference shares are discretionary and not contractual, because no dividends can be paid if no dividends are paid on the ordinary shares, which are an equity instrument. As the perpetual preference shares contain no contractual obligation ever to pay dividends and there is no obligation to repay the principal, they should be classified as equity in their entirety.

Where the dividend payments are also cumulative, that is, if no dividends are paid on the ordinary shares, the preference dividends are deferred, the perpetual shares will be classified as equity only if the dividends can be deferred indefinitely and the entity does not have any contractual obligations whatsoever to pay those dividends.

A liability for the dividend payable would be recognised once the dividend is declared.

Question 7

C Ltd wishes to purchase a new ride for their 'Animation Galaxy' theme park. In order to fund this, they have had to obtain extra funding. On 30 September 2015, C Ltd issued the following preference shares:

- 1 Lakh preference shares for ₹ 3 each. No dividends are payable. Coasters will redeem the preference shares in three years' time by issuing ordinary shares worth ₹ 3 Lakh. The exact number of ordinary shares issuable will be based on their fair value on 30 September 2017.
- 2 lakh preference shares for ₹ 2.80 each. No dividends are payable. The preference shares will be redeemed in two years' time by issuing 3 lakh ordinary shares.
- 4 lakh preference shares for ₹ 2.50 each. They are not mandatorily redeemable. A dividend is payable if, and only if, dividends are paid on ordinary shares.

Required:

Discuss whether these financial instruments should be classified as financial liabilities or equity in the financial statement of C Ltd for the year ended 30 September 2015.

Question 8

On 30th March 2015 an entity enters into an agreement to purchase a Financial Asset for ₹ 100 which is the Fair Value on that date.

On Balance Sheet date i.e. 31/3/2015 the Fair Value is 102 and on Settlement date i.e. 2/4/2015 Fair Value is 103.

Pass necessary Journal entries on trade date and settlement date when the asset acquired is measured at

(a) Amortised cost

(b) FVTPL

(c) FVTOCI

Solution:

Financial Asset at Amortised Cost – Trade Date Accounting

Dates	Journal Entry	Amount	Amount
30/3/2015	Financial Asset Dr.	100	
	To Payables		100
31/3/2015	No Entry		
2/4/2015	Payables Dr.	100	
	To Cash		100

Financial Asset at Amortised Cost – Settlement Date Accounting

Dates	Journal Entry	Amount	Amount
30/3/2015	No Entry		
31/3/2015	No Entry		
2/4/2015	Financial Asset Dr.	100	
	To Cash		100

Financial Asset at FVTPL – Trade Date Accounting

Dates	Journal Entry	Amount	Amount
30/3/2015	Financial Asset Dr.	100	
	To Payables		100
31/3/2015	Financial Asset Dr.	2	
	To P&L		2
2/4/2015	Financial Asset Dr.	1	
	To P&L		1
	Payables Dr.	100	
	To Cash		100

Financial Asset at FVTPL– Settlement Date Accounting

Dates	Journal Entry	Amount	Amount
30/3/2015	No Entry		
31/3/2015	Fair Value Change Dr.	2	
	To P&L		2
2/4/2015	Fair Value Change Dr.	1	
	To P&L		1
	Financial Asset Dr.	103	
	To Cash		100
	To Fair Value Change		3

Financial Asset at FVTOCI – Trade Date Accounting

Dates	Journal Entry	Amount	Amount
30/3/2015	Financial Asset Dr.	100	
	To Payables		100
31/3/2015	Financial Asset Dr.	2	
	To OCI		2
2/4/2015	Financial Asset Dr.	1	
	To OCI		1
	Payables Dr.	100	
	To Cash		100

Financial Asset at FVTOCI – Settlement Date Accounting

Dates	Journal Entry	Amount	Amount
30/3/2015	No Entry		
31/3/2015	Fair Value Change Dr.	2	
	To OCI		2
2/4/2015	Fair Value Change Dr.	1	
	To OCI		1
	Financial Asset Dr.	103	
	To Cash		100
	To Fair Value Change		3

Question 9

A Company invested in Equity shares of another entity on 15th March for ₹ 10,000. Transaction Cost = ₹ 200 (not included in ₹10,000)

Fair Value on Balance Sheet date i.e. 31st March 2015 = ₹ 12,000. Pass necessary Journal Entries assuming financial asset is accounted at FVTPL

Solution:

Date	Particulars	Dr	Cr
15/3/2015	Investment A/c	10,000	
	Transaction Cost A/c	200	
	To Bank		10,200
31/3/2015	Investment A/c	2,000	
	To P&L A/c		2,000
31/3/2015	P&L A/c	200	
	To Transaction Cost A/c		200

Question 10

A Company invested in Equity shares of another entity on 15th March for ₹ 10,000. Transaction Cost = ₹ 200 (not included in ₹ 10,000). Fair Value on Balance Sheet date i.e. 31st March 2015 = ₹ 12,000. Pass necessary Journal entries. Assuming financial asset is accounted at FVTOCI

Solution:

Date	Particulars	Dr	Cr
15/3/2015	Investment A/c	10,200	
	To Bank		10,200
31/3/2015	Investment A/c	1,800	
	To Fair Value Gain A/c		1,800
31/3/2015	Fair Value Gain A/c	1,800	
	To OCI A/c		1,800
31/3/2015	OCI A/c	1,800	
	To Fair Value Reserve A/c		1,800

Why T/F?

Question 11

A Company lends ₹ 100 lacs to another company on 1/4/2015. It incurs ₹ 40,000 incremental costs for documentation.

Loan tenure = 5 years

Pass necessary Journal entries. Assuming Financial Asset Accounted at Amortised Cost

Solution:

Date	Particulars	Dr	Cr
1/4/2015	Loan A/c	100 lacs	
	To Bank A/c		100 lacs
1/4/2015	Loan Processing Expense A/c	40,000	
	To Bank A/c		40,000
1/4/2015	Loan A/c	40,000	
	To Loan Processing Expense A/c		40,000

Question 12

An entity is about to purchase a portfolio of fixed rate assets that will be financed by fixed rate debentures. Both financial assets and financial liabilities are subject to the same interest rate risk that gives rise to opposite changes in fair value that tend to offset each other. Should financial asset & financial liabilities be measured at FVTOCI/FVTPL or Amortised Cost?

Solution:

The entity may have classified the fixed rate assets as FVTOCI with gains and losses on changes in fair value recognised in other comprehensive income and the fixed rate debentures at amortised cost. Reporting both the assets and the liabilities at fair value through profit and loss i.e. FVTPL corrects the measurement inconsistency and produces more relevant information.

Question 13

Journalise for Reclassifications

1. Bonds for ₹ 1,25,000 at amortised cost is being reclassified as FVTPL

Solution:

Fair Value on reclassification ₹ 99,000

Bonds (FVTPL) A/c	99,000	
P&L A/c	35,000	
To Bonds (Amortised Cost) A/c		1,25,000

2. Bonds for ₹ 1,25,000 at amortised cost now being reclassified as FVTOCI

Solution:

Fair Value on reclassification ₹ 99,000

Bonds (FVTOCI) A/c	99,000	
OCI A/c	35,000	
To Bonds (Amortised Cost) A/c		1,25,000

3. Bonds for ₹ 1,25,000 at FVTPL now reclassified at amortised cost

Solution:

Fair Value on reclassification ₹ 99,000

Bonds (Amortised Cost) A/c	99,000	
Impairment Loss (Charged to P&L A/c)	35,000	
To Bonds (FVTPL) A/c		1,25,000

4. Bonds for ₹ 1,25,000 at FVTPL now reclassified at FVTOCI

Solution:

Fair Value on reclassification ₹ 99,000

Bonds (FVTOCI) A/c	99,000	
Impairment loss (Taken to OCI A/c)	35,000	
To Bonds (FVTPL) A/c		1,25,000

5. Bonds for ₹ 1,25,000 at FVTOCI now reclassified at Amortised Cost

Solution:

Fair Value on reclassification ₹ 99,000

Bonds (Amortised Cost) A/c	99,000	
Loss Allowance (Taken to OCI A/c)	35,000	
To Bonds (FVTOCI) A/c		1,25,000

6. Bonds for ₹ 1,25,000 at FVTOCI now reclassified at FVTPL

Solution:

Fair Value on reclassification ₹ 99,000

Bonds (FVTPL) A/c	Dr.	99,000	
Reclassification Loss (Taken to OCI A/c)	Dr.	35,000	
To Bonds (FVTOCI) A/c			1,25,000

Question 14

Sea Ltd. has lent a sum of ₹10 lakhs @ 18% per annum for 10 years. The loan had a Fair Value of ₹ 12,23,960 at the effective interest rate of 13%. To mitigate prepayment risks but at the same time retaining control over the loan. Sea Ltd. transferred its right to receive the Principal amount of the loan on its maturity with interest, after retaining rights over 10% of principal and 4% interest that carries Fair Value of ₹ 29,000 and ₹ 1,84,620 respectively. The consideration for the transaction was ₹ 9,90,000. The interest component retained included a 2% fee towards collection of principal and interest that has a Fair Value of ₹ 65,160. Defaults if any are deductible to a maximum extent of the company's claim on Principal portion. You are required to show the Journal Entries to record derecognition of the Loan.

Solution:

(i) Calculation of securitized component of loan

		₹	₹
Fair Value			12,23,960
Less: Principal strip receivable (fair value)		29,000	
Less: Interest strip receivable (fair value)	1,19,460		
Less: Value of service asset (fair value)	65,160	1,84,620	2,13,620
			10,10,340

(ii) Appointment of carrying amount in the ratio of fair values

	Fair value (₹)		Appointment (₹)
Securitized component of loan	10,10,340	$\frac{10,10,340 \times 10,00,000}{12,23,960}$	8,25,468
Principal strip receivable	29,000	$\frac{29,000 \times 10,00,000}{12,23,960}$	23,694
Interest strip receivable	1,19,460	$\frac{1,19,460 \times 10,00,000}{12,23,960}$	97,601
Servicing asset	65,160	$\frac{65,160 \times 10,00,000}{12,23,960}$	53,237

(iii) Entries to record the derecognition of the Loan

	₹	₹	₹
Bank A/c	Dr.	9,90,000	
To Loan A/c			8,25,468
To Profit & Loss A/c			1,64,532
(Being entry for securitization of 90% principal with 14% interest)			
Interest strip a/c	Dr.	97,601	
Servicing asset A/c	Dr.	53,237	
Principal strip A/c	Dr.	23,694	
To Loan A/c			1,74,532
(Being entry for interest, servicing asset and principal strips received)			

Question 15

Entity A (the transferor) holds a portfolio of receivables with a carrying value of ₹1,000,000. It enters into a factoring arrangement with entity B (the transferee) under which it transfers the portfolio to entity B in exchange for ₹ 900,000 of cash.

Entity B will service the loans after their transfer and debtors will pay amounts due directly to entity B. Entity A has no obligations whatsoever to repay any sums received from the factor and has no rights to any additional sums regardless of the timing or the level of collection from the underlying debts.

Solution:

Entity A has transferred its rights to receive the cash flows from the asset via an assignment to entity B. Furthermore, as entity B has no recourse to entity A for either late payment risk or credit risk, entity A has transferred substantially all the risks and rewards of ownership of the portfolio.

Hence, entity A derecognises the entire portfolio. The difference between the carrying value of ₹1,000,000 and cash received of ₹ 900,000 i.e. ₹ 100,000 is recognised immediately as a financing cost in profit or loss.

Had Entity A not transferred its rights to receive the cash flows from the asset or there would have been any credit default guarantee given by entity A, then it would have not led to complete transfer of risk and rewards and entity A could not derecognise the portfolio due to the same.

Question 16

Entity XYZ enters into a fixed price forward contract to purchase 10,00,000 kilograms of copper in accordance with its expected usage requirements.

The contract permits XYZ to take physical delivery of the copper at the end of 12 months or to pay or receive a net settlement in cash, based on the change in fair value of copper. Is the contract covered under Financial Instruments standard?

Solution:

The above contract needs to be evaluated to determine whether it falls within the scope of the financial instruments standards.

The contract is a derivative instrument because there is no initial net investment, the contract is based on the price of copper and it is to be settled at a future date.

However, if XYZ intends to settle the contract by taking delivery and has no history for similar contracts of settling net in cash, or of taking delivery of the copper and selling it within a short period after delivery for the purpose of generating a profit from short term fluctuations in price or dealer's margin, the contract is not accounted for as a derivative under Ind AS 109.

Instead, it is accounted for as an executory contract and if it becomes onerous then Ind AS 37 would apply.

Question 17

On 1 April, 2015, Delta Ltd. issued ₹ 30,00,000, 6 % convertible debentures of face value of ₹ 100 per debenture at par. The debentures are redeemable at a premium of 10% on 31.03.19 or these may be converted into ordinary shares at the option of the holder, the interest rate for equivalent debentures without conversion rights would have been 10%.

Being compound financial instrument, **you are required** to separate equity and debt portion as on 01.04.15.

Solution:

Computation of Equity and Debt Component of Convertible Debentures as on 1.4.2015

Present value of the principal repayable after four years	22,44,000
[30,00,000 x .680 at 10% Discount factor]	
Present value of Interest	5,70,600
[1,80,000 x 3.17 (4 years cumulative 10% discount factor)]	
Value of debt component	28,14,600
Value of equity component	1,85,400
Proceeds of the issue	30,00,000

Question 18

A Limited buys back 1,00,000 of its own equity shares in the market for ₹ 5 per share. The shares will be held as treasury shares to enable A Limited to satisfy its obligations under its employee share option scheme. The following entry will be made to recognise the purchase of the treasury shares as a deduction from equity: ***Journalise***

Solution:

Dr Equity	₹ 5,00,000	
Cr Cash		₹ 5,00,000

Question 19

Entity B places its privately held ordinary shares that are classified as equity with a stock exchange and raises loan. It also simultaneously raises new capital by issuing new ordinary shares on the stock exchange.

Transaction costs are incurred in respect of both transactions. Determine the treatment of the incurred transactions costs?

Solution:

Since the issue of new shares is the issue of an equity instrument, but the placing of the existing equity instruments with the exchange is considered raising of loans. The transaction costs will need to be allocated between the two transactions.

Transaction costs in respect of the new shares issued will be recognised in equity whereas the transaction costs incurred in placing the existing shares with the stock exchange will be recognised in profit or loss.

Question 20

An entity issues a non-redeemable callable *subordinated* bond with a fixed 6% coupon. The coupon can be deferred in perpetuity at the issuer‘s option. The issuer has a history of paying the coupon each year and the current bond price is predicated on the holders expectation that the coupon will continue to be paid each year. In addition the stated policy of the issuer is that the coupon will be paid each year, which has been publicly communicated. Evaluate?

Solution:

Although there is both pressure on the issuer to pay the coupon, to maintain the bond price, and a constructive obligation to pay the coupon, there is no contractual obligation to do so. Therefore the bond is classified as an equity instrument.

Question 21

A zero coupon bond is an instrument where no interest is payable during the instrument's life and that is normally issued at a deep discount to the value at which it will be redeemed. Evaluate?

Solution:

Although there are no mandatory periodic interest payments, the instrument provides for mandatory redemption by the issuer for a determinable amount at a fixed or determinable future date. Since there is a contractual obligation to deliver cash for the value at which the bond will be redeemed, the instrument is classified as a financial liability.

Question 22

Company X owes Company Y ₹20 million at the end of 31 March. As part of another contract, Company Y owes Company X ₹15 million at 31 March. Company X has the legal right to set off the asset and liability but historically, Company X has settled one month after Company Y settles.

Can Company X offset the asset and liability?

Solution:

No, since Company X cannot demonstrate the intention to settle net or simultaneously for all payments.

Question 23

XYZ ltd grants loans to its employees at 4% amounting to ₹ 10,00,000 at the beginning of 2015-16. The principal amount is repaid over a period of 5 years whereas the accumulated interest computed on reducing balance at simple interest is collected in 2 equal annual instalments after collection of the principal amount.

Assume the benchmark interest rate is 8%.

Show the accounting entries on 1 -4-2015 and 31-3-2016.

Solution:

Computation of Fair Value at Initial Recognition

Year	Estimated Cash Flows	PVIF @8%	Present Value
1/4/2015		1	Nil
31/3/2016	2,00,000	0.9259	1,85,185
31/3/2017	2,00,000	0.8573	1,71,468
31/3/2018	2,00,000	0.7938	1,58,766
31/3/2019	2,00,000	0.7350	1,47,006
31/3/2020	2,00,000	0.6806	1,36,117
31/3/2021	60,000 See Working note	0.6302	37,810
31/3/2022	60,000 See Working note	0.5835	35,009
Fair Value of Loan			8,71,361

Working Notes:

Computation of Interest to be paid on 31/3/2021 and 31/3/2022

Year	Cash Flows	Principal outstanding	Interest	Cumulative Interest
31/3/2016	2,00,000	8,00,000	40,000	40,000
31/3/2017	2,00,000	6,00,000	32,000	72,000
31/3/2018	2,00,000	4,00,000	24,000	96,000
31/3/2019	2,00,000	2,00,000	16,000	1,12,000
31/3/2020	2,00,000	Nil	8,000	1,20,000
31/3/2021	60,000			
	(1,20,000/2)			
31/3/2022	60,000 (1,20,000/2)			

Computation of Fair Value Loss

Fair Value of Loan	8,71,361
Loan Amount	10,00,000
Fair Value Loss	1,28,639

Journal Entry at Initial Recognition

Date	Particulars	Dr	Cr
1/4/2015	Loans to Employee A/c	8,71,361	
	Employee Benefits A/c	1,28,639	
	To Bank A/c		10,00,000

Note: Employee benefit is transferred to Statement of Profit and Loss.

Computation of Interest on Amortised Cost

Year	Opening Balance (1)	Interest @ 8% (2)	Repayment (3)	Closing Balance (1+2-3)
1/4/2015				8,71,361
31/3/2016	8,71,361	69,709	2,00,000	7,41,070
31/3/2017	7,41,070	59,286	2,00,000	6,00,356
31/3/2018	6,00,356	48,028	2,00,000	4,48,384
31/3/2019	4,48,384	35,871	2,00,000	2,84,255
31/3/2020	2,84,255	22,740	2,00,000	1,06,995
31/3/2021	1,06,995	8,560	60,000	55,555
31/3/2022	55,555	4,445	60,000	Nil

Journal Entry on 31/3/2016

Date	Particulars	Dr	Cr
31/3/2016	Loans to Employee A/c	69,709	
	To Interest Accrued A/c		69,709
31/3/2016	Bank A/c	2,00,000	
	To Loan to Employees		2,00,000

Note: Similar entries would be done at the end of each year.

Question 24

ABC Ltd. Issued Debentures amounting to ₹ 100 lacs.

As per the terms of the issue it has been agreed to issue sufficient equity shares whose market worth is ₹150 lacs to redeem the debentures at the end of 3rd year.

Assume comparable market yield is 10% for year 0 and 1, and 10.5% for Year 2 end. Show accounting entries.

Solution:

Value of Debentures to be recorded at initial:

Present Value of 150 lacs at 10%

= 150 lacs x PVIF (10% at the end of 3rd year)

= 150 lacs x 0.7513

= 112,69,500

Journal Entries at Inception:

Date	Particulars	Dr	Cr
1st Year	Bank A/c	100,00,000	
Beg	Profit & Loss A/c	12,69,500	
	To Debentures		112,69,500

Journal Entries at 1st Year End:

Date	Particulars	Dr	Cr
1st Year End	Interest A/c To Debentures A/c (10% of 112,69,500)	11,26,950	11,26,950

Journal Entries at 2nd Year End:

Date	Particulars	Dr	Cr
2nd Year End	Interest A/c To Debentures A/c	11,78,550	11,78,550

Working Note:

Present Value of 150 lacs at 10.5% compared to Book Value

i.e. 150 lacs x 0.905 = 135,75,000 compared to 123,96,450 = 11,78,550

Journal Entries at 3rd Year End:

Date	Particulars	Dr	Cr
3rd Year End	Interest A/c To Debentures A/c	14,25,000	14,25,000

Working Note:

Present Value of 150 lacs at 10.5% compared to Book Value

i.e. 150 lacs x 1 = 150,00,000 compared to 135,75,000 = 14,25,000

On conversion to Equity Shares

Date	Particulars	Dr	Cr
3rd Year End	Debentures A/c To Equity Share Capital To Securities Premium	150,00,000	100,00,000 50,00,000

Question 25

As point of staff welfare measures, Y Co. Ltd. has contracted to lend to its employees sums of money at 5 percent per annum rate of interest. The amounts lent are to be repaid along with the interest in five equal annual instalments. The market rate of interest is 10 per cent per annum.

Y lent ₹ 16,00,000 to its employees on 1st January, 2015.

Following the principles of recognition and measurement as laid down in Ind AS 109, you are required to record the entries for the year ended 31st December, 2015 for the transaction and also calculate the value of the loan initially to be recognized and the amortized cost for all the subsequent years.

For purposes of calculation, the following discount factors at interest rate of 10 percent may be adopted

At the end of year

1	.909
2	.827
3	.751
4	.683
5	.620

Solution:

(i) Calculation of initial recognition amount of loan to employees

	Cash Inflow		*Total*	*P.V. factor @10%*	*Present value*
Year end	*Principal* ₹	*Interest @ 5%* ₹	₹		₹
2015	3,20,000	80,000	4,00,000	0.909	3,63,600
2016	3,20,000	64,000	3,84,000	0.827	3,17,568
2017	3,20,000	48,000	3,68,000	0.751	2,76,368
2018	3,20,000	32,000	3,52,000	0.683	2,40,416
2019	3,20,000	16,000	3,36,000	0.620	2,08,320
Present value or Fair value					14,06,272

(ii) Calculation of amortised cost of loan to employees

Year	*Amortised cost (Opening balance)* [1] ₹	*Interest to be recognised@10 %* [2] ₹	*Repayment (including interest)* [3] ₹	*Amortised Cost (Closing balance)* [4]=[1]+ [2]–[3] ₹
2015	14,06,272	1,40,627	4,00,000	11,46,899
2016	11,46,899	1,14,690	3,84,000	8,77,589
2017	8,77,589	87,759	3,68,000	5,97,348
2018	5,97,348	59,735	3,52,000	3,05,083
2019	3,05,083	30,917*	3,36,000	Nil

* ₹ 3,05,083 x 10% = ₹ 30,508. The difference of ₹ 409 (₹ 30,917 – ₹ 30,508) is due to approximation in computation.

(iii) Journal Entries in the books of Y Ltd.

For the year ended 31st December, 2015 (regarding loan to employees)

	Dr. Amount (₹)	*Cr. Amount* (₹)
Staff loan A/c	16,00,000	
To Bank A/c		16,00,000
(Being the disbursement of loans to staff)		
Staff cost A/c ₹ (16,00,000 –14,06,272) [Refer part (ii])	1,93,728	
To Staff loan A/c		1,93,728
(Being the write off of excess of loan balance over present value thereof in order to reflect the loan at its present value of ₹ 14,06,272)		

	Dr. Amount (₹)	*Cr. Amount* (₹)
Staff loan A/c	1,40,627	
To Interest on staff loan A/c		1,40,627
(Being the charge of interest @ market rate of 10% on the loan)		
Bank A/c	4,00,000	
To Staff loan A/c		4,00,000
(Being the repayment of first instalment with interest for the year)		
Interest on staff loan A/c	1,40,627	
To Profit and loss A/c		1,40,627
(Being transfer of balance of staff loan Interest account to profit and loss account)		

Question 26

K Ltd. issued 5,00,000, 6% Convertible Debentures of ₹ 10 each on the 1st April 2015. The debentures are due for redemption on 31st March, 2019 at a premium of 10% convertible into equity shares to the extent of 50% and the balance to be settle d in cash to the debenture holders. The interest rate on equivalent debentures without conversion rights was 10%. You are required to separate the debt & equity components at the time of the issue and show the accounting entry in the company's books at initial recognition.

The following Present Values of ₹ 1 at 6% and at 10% are supplied to you.

Interest Rate	Year 1	Year 2	Year3	Year 4
6%	0.94	0.89	0.84	0.79
10%	0.91	0.83	0.75	0.68

Solution:

Computation of Debt Component of Convertible Debentures as on 1.4.2015

Particulars	₹
Present value of the principal repayable after four years	18,70,000
[50,00,000 x 50%× 1.10 × 0.68 (10% Discount factor)] (a)	9,51,000
Present value of Interest [3,00,000 x 3.17 (4 years cumulative 10% discount factor)](b)	28,21,000
Total present Value of debt component (I) (a + b) Issue proceeds from convertible debenture (II)	50,00,000
Value of equity component (II – I)	21,79,000

Journal entry at initial recognition

	Dr. (₹)	*Cr.* (₹)
Cash/Bank A/c Dr.	50,00,000	
To 6% Debenture (Liability component) A/c		28,21,000
To 6% Debenture (Equity component) A/c		21,79,000
(Being the disbursement recorded at fair value)		

Definitions

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

A financial asset is any asset that is:

- Cash
- An equity instrument of another entity
- A contractual right to receive cash or another financial asset from another entity
- A contractual right to exchange financial instruments with another entity under conditions that are potentially favourable
- A contract that will or may be settled in the entity's own equity instruments, and is a non-derivative for which the entity is or may be obliged to receive a variable number of the entity's own equity instruments
- A contract that will or may be settled in the entity's own equity instruments, and is a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments.

A financial liability is any liability that is a:

- Contractual obligation to deliver cash or another financial asset to another entity
- Contractual obligation to exchange financial instruments with another entity under conditions that are potentially unfavourable.
- A contract that will or may be settled in the entity's own equity instruments, and is a non-derivative for which the entity is or may be obliged to deliver a variable number of the entity's own equity instruments.
- A contract that will or may be settled in the entity's own equity instruments, and is derivative that will or may be settled other than by exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments.

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

Question 27

A company borrowed ₹ 50 lacs @ 12% p.a. Tenure of the loan is 10 years. Interest is payable every year and the principal is repayable at the end of 10th year. The company defaulted in payment of interest for the year 4, 5 and 6.

A loan reschedule agreement took place at the end of 7 year. As per the agreement the company is required to pay ₹ 90 lacs at the end of 8th year. Calculate the additional amount to be paid on account of rescheduling and also the book value of loan at the end of 8th year when reschedule agreement took place.

Solution:

Assumption: Interest is compounded in case of default.

Outstanding Amount at the end of 8th year

= ₹ 50,00,000 x 1.12 x 1.12 x 1.12 x 1.12 x 1.12

= ₹ 88,11,708 (i.e. adding interest for 4th to 8th year)

Rescheduled amount to be paid at the end of the 8th year = ₹ 90,00,000

Additional amount to be paid on rescheduling

= ₹ 90,00,000 - ₹ 88,11,7081 = ₹ 1,88,291