10. Other topics

Summary

This chapter covers:

- Ind AS 1, *Presentation of Financial Statements*
- Ind AS 7, *Statement of Cash Flows*
- Ind AS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*
- Ind AS 20, *Accounting for Government Grants and Disclosure of Government Assistance*
- Ind AS 23, *Borrowing Costs*
- Ind AS 24, *Related Party Disclosures*
- Ind AS 27, *Separate Financial Statements*
- Ind AS 33, *Earnings per Share*
- Ind AS 37, *Provisions, Contingent Liabilities and Contingent Assets*
- Ind AS 108, *Operating Segments*
- Applicability of Ind AS
- Other opinions by EAC
- Other EMs

Presentation of Financial Statements

Financial statements are required to present fairly the financial position, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out by standards.

Key principles

- Ind AS 1 prescribes the basis for presentation of general purpose financial statements[1] to ensure comparability both with the entity's financial statements of previous periods and with the financial statements of other entities. It sets out overall requirements for the presentation of both Consolidated Financial Statements (CFS) and Standalone Financial Statements (SFS), guidelines for their structure and their content.
- Entities are required to prepare financial statements on a going concern basis unless management intends to either liquidate the entity or to cease trading, or has no realistic alternative but to do so.
- The standard requires specific disclosures in the balance sheet, the statement of profit and loss, or the statement of changes in equity and requires additional disclosures (wherever required) to be made either in those statements or in the notes.
- A statement of changes in equity (and related notes) reconciles opening to closing amounts for each component of equity.
- All owner-related changes in equity are presented in the statement of changes in equity separately from non-owner changes in equity.
- Generally, the entity presents its balance sheet classified between current and non-current assets and liabilities.
- An asset is classified as current if it is expected to be realised in the normal operating cycle or within 12 months, it is held for trading or is cash or a cash equivalent.
- A liability is classified as current if it is expected to be settled in the normal operating cycle, it is due within 12 months, or there are no unconditional rights to defer its settlement for at least 12 months.
- A liability that is payable on demand because certain conditions are breached is not classified as current if the lender has agreed, after the reporting date but before the financial statements are authorised for issue, not to demand repayment.

Schedule III to the Companies Act, 2013 (2013 Act)

- On 1 October 2018, Ministry of Corporate Affairs (MCA) through its notification has amended Schedule III to the 2013 Act. The Schedule III to the 2013 Act provides general instructions for preparation of financial statements of a company under both Accounting Standards (AS) and Ind AS Currently, Schedule III is divided into three divisions as follows:
  - **Division I:** This is applicable to a company whose financial statements are prepared in accordance with AS.
  - **Division II:** This is applicable to a company whose financial statements are prepared in accordance with Ind AS (other than Non-Banking Financial Companies (NBFCs)[2]).
  - **Division III:** This is applicable only to NBFCs which are required to prepare financial statements in accordance with Ind AS.

1. For entities operating in sectors such as banking, insurance, electricity, etc., specific formats for presentation of financial statements may be prescribed, accordingly Ind AS 1 may not be applicable to that extent.
2. NBFC means a NBFC as defined in Section 45-I(f) of the Reserve Bank of India Act, 1934 and includes housing finance companies, merchant banking companies, micro finance companies, mutual benefit companies, venture capital fund companies, stock broker or sub-broker companies, nidhi companies, chit companies, securitisation and reconstruction companies, mortgage guarantee companies, pension fund companies, asset management companies and core investment companies.

ICAI Guidance Note

i. ICAI Revised Guidance Note on Division II-Ind AS Schedule III to the 2013 Act (GN) (Revised in July 2019)

- The ICAI on 3 July 2019 issued a revised GN to provide guidance in the preparation and presentation of financial statements in accordance with Ind AS Schedule III, for entities adopting Ind AS. The disclosure requirements under Ind AS including Ind AS 115, *Revenue from Contracts with Customers* and Ind AS 116, Leases the 2013 Act, other pronouncements of the ICAI, other statutes, etc., would be in addition to the guidance provided in this GN.

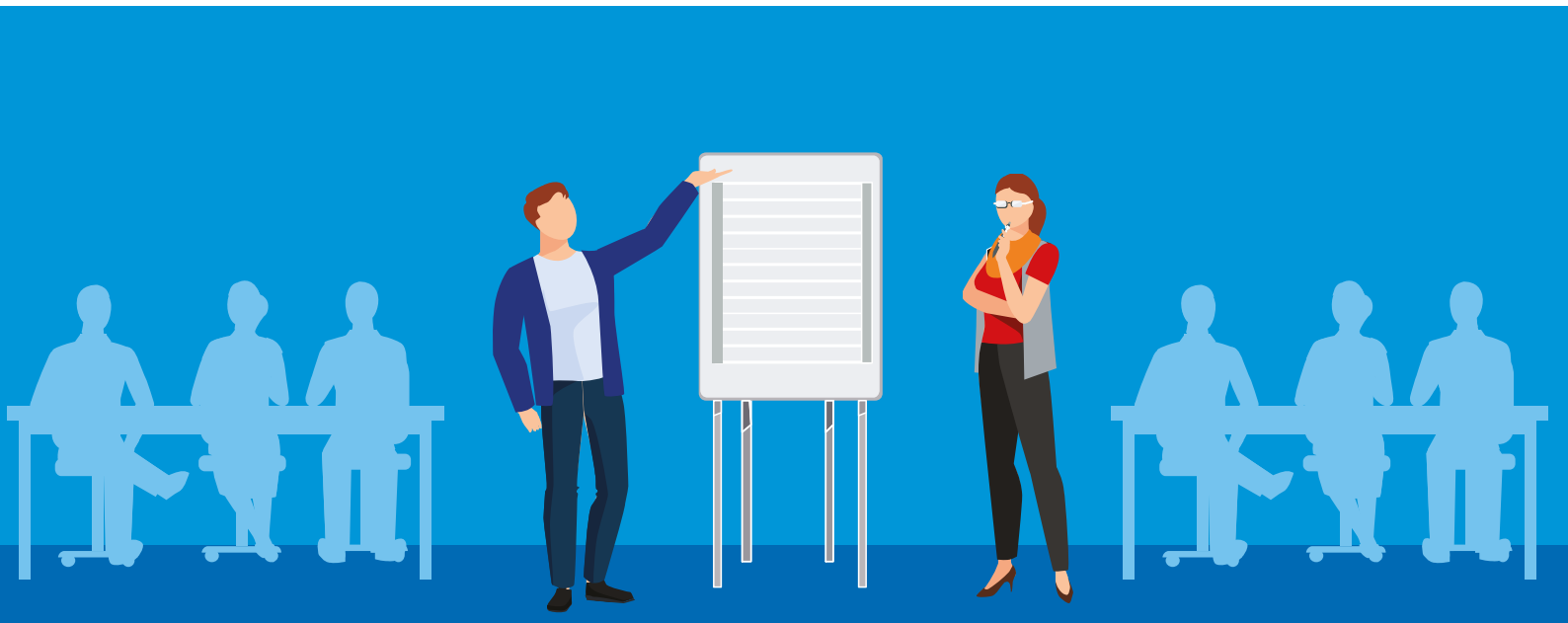
ii. ICAI Guidance Note on Division III-Ind AS Schedule III to the 2013 Act for NBFCs

- The ICAI on 5 November 2019 issued a GN to provide guidance in the preparation and presentation of financial statements in accordance with Ind AS Schedule III, for NBFC adopting Ind AS. The disclosure requirements under Ind AS, the 2013 Act, other pronouncements of the ICAI, other statutes, etc., would be in addition to the guidance provided in this GN. Further, where any Act, Regulation, guidelines or circulars issued by the relevant regulators from time to time requires specific disclosures to be made in the standalone financial statements of an NBFC, the said disclosures need to be made in addition to those required under this Schedule.

Significant differences from IFRS[3]

- IAS 1, *Presentation of Financial Statements,* 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, even if the breach is rectified after the balance sheet date. However, 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.
- With regard to presentation of statement of profit and loss, IAS 1 allows either the single statement approach or to follow the two statement approach. Ind AS 1 allows only the single statement approach with profit or loss and other comprehensive income presented in two sections.
- 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 entity whichever provides information that is reliable and more relevant. Ind AS 1 requires only nature-wise classification of expenses in the statement of profit and loss.

3. Indian Accounting Standards (Ind AS): An Overview (Revised 2019) issued by ICAI



Guidance from ITFG clarifications

Presentation and classification

Presentation of operating profit as a separate line item not permitted

Division II of Ind AS based Schedule III requires disclosure of aggregate of 'revenue from operations' and 'other income' on face of the statement of profit and loss. Revenue from operations is to be separately disclosed in the notes, showing revenue from:

- Sale of products (including excise duty)
- Sale of services and
- Other operating revenues.

The aggregate of 'other income' is to be disclosed on face of the statement of profit and loss. In accordance with the Note 5 of general instructions for the preparation of statement of profit and loss 'other income' is required to be classified as:

- Interest income
- Dividend Income and
- Other non-operating income (net of expenses directly attributable to such income).

Division II of Schedule III does not define the term 'other operating revenue'. Additionally, it does not specifically require disclosure of 'operating profit'.

The ICAI issued a GN and according to the GN, 'other operating revenue' would include revenue arising from a company's operating activities, i.e., either its principal or ancillary revenue- generating activities, but which is not revenue arising from sale of products or rendering of services.

> Accordingly, an entity should decide classification of an income based on the facts of each case and detailed understanding of the company's activities.

In addition, Schedule III to the 2013 Act sets out the minimum requirements for disclosure in the financial statements including notes. It states that line items, sub-line items and sub-totals shall be presented as an addition or substitution on the face of the financial statements when such presentation is relevant to the understanding of the company's financial position or performance or to cater to industry/sector-specific disclosure requirements, apart from, when required for compliance with amendments to the 2013 Act or Ind AS.

The GN illustrates certain financial measures e.g. Earnings before Interest, Tax, Depreciation and Amortisation (EBITDA) as an additional line item on the face of the statement of profit and loss.

However, applying the same analogy in respect of operating profit disclosure may not be appropriate since certain items which are credited to the statement of profit and loss may not form part of operating profit measure. As a result giving a separate line item for disclosure of the operating profit may not be appropriate and would result in change in the format of statement of profit and loss as prescribed by Division II of Schedule III.

Moreover, Division II of Schedule III and Ind AS 1 require classification of expense by nature and not by function. The operating profit measure sub-total may result in a more appropriate presentation of performance for entities classifying expenses by function, but such a classification of expenses by function is not permitted. Therefore, a company would not be able to present an operating profit measure sub-total as part of the statement of profit and loss. However, the entity may provide such additional information in the financial statements. *(ITFG 13, Issue 5)*

Classification of interest related to delay in payment of taxes

In accordance with Note 4 of the general instructions for the preparation of the statement of profit and loss, Division II of Schedule III to the 2013 Act, the finance costs are classified as below:

a. Interest

b. Dividend on redeemable preference shares

c. Exchange differences regarded as an adjustment to borrowing costs

d. Other borrowing costs (specify nature).

ITFG considered an issue related to payment of taxes levied by a local authority. Interest was levied at a variable rate ranging from one per cent to three per cent per month depending upon the length of period of delay.

The above issue was considered from the perspective of classification of interest levied due to delay in payment of taxes in the statement of profit and loss i.e. whether it would form part of finance cost or would be classified as part of 'other expenses'.

In this case, local taxes not paid by due date represent interest bearing liabilities. Therefore, it was clarified that the entity would need to evaluate whether the interest payable for delay in payment of taxes is compensatory in nature for time value of money or penal in nature. Thus, judgement is required to be exercised based on the evaluation of facts and circumstances of each case.

On the basis of evaluation, if an entity concluded that interest was compensatory in nature then such interest would be required to be included in finance cost. On the other hand, if interest on delayed payment of taxes was penal in nature, then it would be classified as 'other expenses'. *(ITFG 17, Issue 8)*

(Please refer chapter 5, Income Taxes for a discussion on the treatment of income tax related interest and penalties under Ind AS *vis-à-vis* IFRS *(ITFG 16 Issue 2))*

Classification of security deposits accepted by utility companies as current liabilities

In one of the earlier ITFG clarifications, which was subsequently withdrawn, items such as security deposits accepted by utility entities were required to be classified as 'current liabilities' since the entities do not have the unconditional right to defer their repayment for a period of 12 months after the reporting date. This is regardless of whether an entity expects to settle such deposits within this time frame.

This view was consistent with the view provided in the Education Material on Ind AS 1 issued by the Ind AS committee of ICAI. However, previously, under the Revised Schedule VI to the Companies Act, 1956, companies were permitted in specific cases based on commercial practice (such as in the case of utility companies) to classify security deposits collected as non-current. Therefore, entities that have followed a different practice prior to Ind AS implementation would need to evaluate presentation of such deposits.

Presentation and accounting treatment of waiver of interest on the loan taken

The ITFG considered an issue related to the accounting treatment of interest on the loan for the year 2018-19.

An entity A has an outstanding loan as at the year end 2018-19 in its Ind AS financial statements. The outstanding loan (repayable on demand and not related to a qualifying assets) was taken from one of its directors during the year 2015-16. In previous years, the interest was charged and paid to the directors. However, in respect of interest on the loan for the year, 2018-19, a waiver was obtained from the director without amendment of the loan agreement.

ITFG noted that entity A is contractually obligated to pay interest on the loan obtained from the director but the same has been waived off in the current year.

In accordance with Ind AS 1, presentation of true and fair view requires the faithful representation of the effects of transaction, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the Framework.

ITFG clarified that in order to achieve fair presentation, appropriate accounting treatment would be to recognise contractual obligation for payment of interest as well as the waiver thereof. Thus, Entity A would be required to recognise interest as an expense and the waiver thereof as an item of income. Further, the same would also require to be disclosed as related party transactions. *(ITFG 22, Issue 7)*

Opinions by EAC

Classification of consumer deposit repayable in full anytime at the time of surrender of the connection by the entity engaged in supply of liquid petroleum gas (LPG) to customers in cylinders[4]

Deposits to be considered as financial liability

If in accordance with an agreement, a customer could surrender the connection anytime and an entity is obliged to repay the full deposit amount, then there is a contractual obligation to deliver cash in terms of guidance contained in Ind AS 32, *Financial Instruments* irrespective of the type of customers. Accordingly, such deposits should be classified as financial liability by the company.

Classification as current/non-current

In accordance with guidance contained in Ind AS 1, if an entity does not have an unconditional right to defer the settlement of a liability beyond 12 months then the same should be classified as current liability.

Further, General Instructions for Preparation of Balance Sheet Under Division II - Ind AS Schedule III to the 2013 Act provides similar definition of the current liability.

4. EAC Opinion published in the October 2019 edition of the Journal 'The Chartered Accountant'

In this case, the company is required to refund the deposits as and when the connection is surrendered by the customer and do not have an unconditional right to defer such settlement. The EAC clarified that such deposits received from customers should be classified as current liability.

Additionally, for better presentation and disclosure, it was suggested that the company disclose the amount expected to be recovered or settled after more than 12 months for each asset and liability.

Disclosure of government grants[5]

Grant of funds is a government grant

It was clarified that the government grants (being receipts from a source other than shareholders) should not be recognised in equity. Rather, it should be recognised in statement of profit and loss in appropriate periods. Further, Ind AS 20, *Accounting for Government Grants and Disclosure of Government Assistance* requires all government grants to be recognised in the statement of profit and loss on a systematic basis over the periods in which the entity recognises as expenses the related costs for which the grant is intended to compensate. Ind AS 20 is based on the income approach.

Accordingly, the unamortised portion of the grant represents unfulfilled obligation which is expected to result in outflow of resources in future (even though the same may not be refundable in future) and thus it meets the definition liability.

Therefore, it was clarified that the government grant should be classified and presented under the head 'non-current liabilities' and 'current liabilities' in the balance sheet in accordance with the requirements of the Schedule III to the 2013 Act as well as Ind AS 1.(The requirements of classification as current/non-current liability of both the Schedule III to the 2013 Act as well as Ind AS 1 are similar).

Additionally, the above classification and presentation would be continued till the same is recognised in the statement of profit and loss on a systematic basis over the periods in which the company would recognise as expenses the related costs which are intended to be compensated by the grant.

Disclosure of impairment loss on long-term investments as an exceptional item[6]

The EAC deliberated the topic of disclosure of impairment loss on long-term equity investments in the joint venture and the associate as an exceptional item on the face of the statement of profit and loss.

In the given situation, the investments in the joint venture and associate are accounted for at cost in the SFS of the entity in accordance with Ind AS 27. Accordingly, these are outside the scope of Ind AS 109, and their impairment would be in accordance with Ind AS 36.

Further, EAC clarified that Ind AS 36 does not deal with presentation of impairment loss in the statement of profit and loss rather merely requires, *inter alia,* disclosure of the line item(s) of the statement of profit and loss in which the impairment losses are included. On the other hand, though, Ind AS 1 requires, *inter alia,* presentation of impairment losses (including reversals of impairment losses or impairment gains) determined in accordance with Section 5.5 of Ind AS 109 as a line item, it does not specify a similar requirement for presentation of impairment losses determined in accordance with Ind AS 36.

Additionally, Division II to the 2013 Act does not specify impairment loss either as a separate line item in the statement of profit and loss or as part of any other line item.

Hence, EAC clarified that only if the impairment loss on long-term investments is material, it should be disclosed separately. It quoted that an item in Ind AS 1 para 98(a) represents impairment of inventories and property, plant and equipment and also reversals of such write-downs. These items are examples only. The EAC mentioned that impairment of long-term investments should also be disclosed, if material, as required by Ind AS 1 para 98.

Further, in the given situation, assuming that impairment loss is *both* material and expected not to occur regularly, the long-term equity investments could be presented on the face of the statement of profit and loss as below:

- Exceptional item or
- Part of exceptional items (if there is any other exceptional item) with disclosure of individual items in the notes to accounts.

5. EAC Opinion published in the September 2019 edition of the Journal 'The Chartered Accountant'

6. EAC Opinion published in the September 2018 edition of the Journal 'The Chartered Accountant'

Refer to educational material on Ind AS 1 for the following issues/topics:

Issue number	Topic
1	Guidance on format for the presentation of the general purpose financial statements
2	Guidance on whether it is acceptable to disclose information required by Ind AS 1 in management/directors' report forming part of annual report without making such disclosures in the financial statements
3	Guidance on disclosure of non-compliance with selective Ind AS
4	Guidance on disclosure by an entity making an explicit and unreserved statement of compliance with Ind ASs in a situation when auditor's report contains a qualification
5	Guidance on offsetting of revenue against expenses when an entity is acting as an agent
6	Guidance on offsetting of certain inter-company reimbursements, sale of assets and service arrangements
7	Guidance on whether it is appropriate to conclude that restatement of comparative amounts is impracticable on the basis of undue costs involved
8	Guidance on whether an entity can adopt different levels of rounding off for different disclosures that are made in the financial statements
9	Guidance on 'Cash and Cash Equivalent' having a similar definition as per Ind AS 1 and Ind AS 7, *Statement of Cash Flows*
10	Guidance on mandatory classification in the balance sheet of assets and liabilities as current/non-current
11	Guidance on basis for classification of assets as current/non-current
12	Guidance on classification of inventory and trade receivables as current/non-current
13	Guidance on classification of construction work-in-progress as current/non-current
14	Guidance on classification of an asset/liability as current/non-current where an entity has different operating cycles for different types of businesses
15	Guidance on disclosure requirements of receivables to be realised before 12 months and after twelve months of the reporting period
16	Guidance on classification of a loan given to subsidiary by a holding company that is recoverable on demand as current/non-current in the books of the holding company as well as in the books of the subsidiary
17	Guidance on classification of various deposits as current/non-current such as electricity deposit, tender deposit, earnest money deposit, sales tax, excise deposit paid under dispute
18	Guidance on classification as current/non-current of certain items such as receivables, advance to suppliers, income tax receivables, insurance spares
19	Guidance on classification as current/non-current for derivative assets/liabilities
20	Guidance on classification as current/non-current of security deposit received by a gas agency in the books of the gas agency (Refer EAC Opinion published in October 2019)
21	Guidance on classification as current/non-current for 'income received in advance' by an entity
22	Guidance on classification as current/non-current in relation to sales tax deferrals
23	Guidance on classification as current/non-current with respect to provision for warranty
24	Guidance on classification as current/non-current of borrowing from banks (roll-over of loan)

25	Guidance on classification as current/non-current with respect to breach of non-financial covenant of a loan liability which becomes repayable on demand before the reporting period
26	Guidance on classification as current/non-current with respect to breach of covenant on bank loan (quarterly/annually)
27	Guidance on classification as current/non-current with respect to breach of covenant (promoters' minimum contribution) on bank loan on grant of grace period
28	Guidance on classification as current/non-current with respect to an expected breach of covenant in the next 12 months from reporting date
29	Guidance on disclosure requirements by an entity in case shares in the entity are held by the entity or by its subsidiaries or associates
30	Guidance on disclosure of the share of the profit or loss of associates and joint ventures accounted for using the equity method
31	Guidance on presentation of investment income in the statement of profit and loss in case of entities whose principal activity is not investment
32	Guidance on disclosure of 'material' exceptional items

Statement of Cash Flows

Information about the cash flows of an entity is useful in providing users of financial statements with a basis to assess the ability of the entity to generate cash and cash equivalents and the needs of the entity to utilise those cash flows.

Key principles

- Ind AS 7 requires an entity to provide information about historical changes in its cash and cash equivalents in a statement of cash flows[1] which classifies cash flows during the period into those from operating, investing and financing activities.
- Cash comprises cash on hand and demand deposits. Cash equivalents are short-term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.
- Cash and cash equivalents for the purposes of the statement of cash flows include certain short-term investments and in some cases, bank overdrafts.
- The statement of cash flows presents cash flows during the period, classified by operating, investing and financing activities.
- The entity presents its cash flows in the manner most appropriate to its business.
- Taxes paid are separately disclosed and classified as operating activities unless it is practicable to identify them with, and therefore, classify them as, financing or investing activities.
- Cash flows from operating activities may be presented under either the direct method or the indirect method.[2]
- Generally, all financing and investing cash flows are reported gross. Cash flows are offset only in limited circumstances.
- Foreign currency cash flows are translated at the exchange rates at the date of the cash flows (or using averages when appropriate).
- Unrealised gains and losses arising from changes in foreign currency exchange rates are not cash lows.
- The effect of exchange rate changes on cash and cash equivalents held or due in a foreign currency is reported in the statement of cash flows in order to reconcile cash and cash equivalents at the beginning and the end of the period.
- An entity is required to disclose the components of cash and cash equivalents and present a reconciliation of the amounts in its statement of cash flows with equivalent items reported in the balance sheet.
- Additionally, it is required to disclose, together with a commentary by management, the amount of significant cash and cash equivalents which are restricted for specific purposes.
- An entity is required to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.
- Accordingly, an entity is required to disclose the following changes in liabilities arising from financing activities:
  - Changes from financing cash flows,
  - Changes arising from obtaining or losing control of subsidiaries or other businesses,
  - The effect of changes in foreign exchange rates,
  - Changes in fair values and
  - Other changes.

  The above disclosures also apply to changes in financial assets (for example, assets that hedge liabilities arising from financing activities) if cash flows from those financial assets were, or future cash flows will be included in cash flows from financing activities.

1. The 2013 Act defines the term 'financial statements' to include cash flow statement for the financial year. Therefore, preparation of cash flow statements is mandatory under the 2013 Act. However, its preparation would be in accordance with the requirements of this standard. Additionally, in case of a one person company, small company and dormant company, financial statements may not include the cash flow statement.
2. In case of listed entities, the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 require the use of the indirect method in preparing the cash flow statement. Additionally, SEBI has mandated disclosure of cash flow statement on a half yearly basis for all listed entities for financial results from 1 April 2019.

Significant differences from IFRS[3]

- In case of entities other than financial entities, IAS 7, Statement of Cash Flows 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 item of financing activity and investing activity, respectively.
- 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.

3. Indian Accounting Standards (Ind AS): An Overview (Revised 2019) issued by ICAI.

Guidance from ITFG clarifications

Classification of investments made in units of money-market mutual funds as cash equivalents

Ind AS 7 prescribes the following three cumulative conditions, which are to be met for an investment to be classified as a 'cash equivalent':

i. The investment must be for meeting short-term cash commitments

ii. It must be highly liquid, i.e. readily convertible to cash

iii. The amount that would be realised from the investment must be known, with no more than an insignificant risk of change in value of the investment.

An assessment of the above mentioned three cumulative conditions is required to classify investment in units of money-market mutual funds[4] as cash equivalents under Ind AS. The assessment is as follows:

- *Investment must be for meeting short-term cash commitments:* Whether an investment has been held for meeting short-term cash commitments depends on the management's intent which could be evidenced from documentary sources such as investment policy, investment manuals, etc. It could also be corroborated by the actual experience of buying and selling those investments. However, such investments should be held only as a means of settling liabilities, and not as an investment or for any other purposes. Therefore, this condition requires an assessment of facts and circumstances of each case.
- *Investment must be highly liquid:* Generally, the units of a money market mutual fund that are traded in an active market or that can be put back by the holder at any time to the fund at their Net Asset Value (NAV) could meet the condition of the investment being highly liquid.
- *Amount that would be realised from the investment must be known, with no more than an insignificant risk of change in value of the investment:* This condition requires that the amount of cash that would be received should be known at the time of initial investment as well as the purpose of holding the instrument should be clear from its terms and conditions. Additionally, an entity would have to ensure that the investment is subject to insignificant risk of changes in value for it to be classified as cash equivalent.

The units of money-market funds would not be able to meet the last condition as their value keeps changing primarily due to changes in interest rates. Therefore, ITFG clarified that the amount of cash that would be received from redemption or sale of the units could be known at the time of the initial investment and the value of such units could be subject to a more insignificant risk of change during the period of their holding.

However, there could be situations wherein this last condition could be met for instance, units of money-market mutual funds have been acquired for a very brief period before the end of tenure of a mutual fund and the maturity amounts of the mutual funds are pre-determined and known. In such a case, it could be argued that the redemption amount of the units is known and subject only to an insignificant change in value. *(ITFG 16, Issue 4)*

4. Those investing in money-market instruments such as treasury bills, certificates of deposit and commercial paper.

Refer to educational material on Ind AS 7 for the following issues/topics:

Issue number	Topic
1	Guidance on scope and exemptions of Ind AS 7
2	Guidance on periodicity of preparation of statement of cash flow
3	Guidance on when an item qualifies to be a cash equivalent
4	Guidance on whether demand deposits should be included in cash
5	Guidance on meaning and treatment of term deposits
6	Guidance on what constitutes a cash inflow/outflow as per Ind AS 7
7	Guidance on the difference between bank overdraft and cash credit
8	Guidance and examples of cash flows arising from taxes on income and whether the same should be separately disclosed under cash flows from investing or financing activities
9	Guidance on examples of cash flows which can be reported on a net basis
10	Guidance on the preferred method to report cash flows from operating activities
11	Guidance on translation and treatment of cash flows denominated in a foreign currency
12	Guidance on classification of interest and dividend paid and presentation of lease payments under finance lease and acquisition of a fixed asset on deferred payment basis
13	Guidance and examples of cash and cash equivalent balances held by the entity that are not available for use
14	Illustrative examples where reconciliation statement is required to be disclosed between the amounts in the statement of cash flows with the equivalent items reported in the balance sheet
15	Guidance on reporting of sale proceeds from a sale and leaseback transaction
16	Guidance on classification of debt securities purchased at a discount/premium
17	Guidance on presentation of cash flows arising out of payments for manufacture or acquisition of assets held for rental to others and subsequently held for sale in the ordinary course of business
18	Guidance on whether comparative figures are required to be presented in the statement of cash flows
19	Guidance on classification of purchase and sale of securities in the statement of cash flows
20	Guidance on classification of cash receipts and payments arising out of future contracts, forward contracts, option contracts and swap contracts
21	Guidance on treatment of interest income in the statement of cash flows from bond over the period of bond by an entity which is not in the business of dealing in securities
22	Guidance and examples on disclosure of non-cash transactions in the financial statements
23	Guidance on meaning of 'contributed equity' used in the definition of financing activities
24	Guidance on meaning of the term 'Financial Institution'

Accounting Policies, Changes in Accounting Estimates and Errors

This standard is intended to enhance the relevance and reliability of an entity's financial statements, and the comparability of those financial statements over time and with the financial statements of other entities.

Key principles

- Ind AS 8 prescribes the criteria for selecting and changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates and corrections of errors.
- Accounting policies are the specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements.
- Ind AS 8 prescribes a two-step approach in selection and application of the accounting policies – when an Ind AS specifically covers a particular issue then an accounting policy is determined by applying the Ind AS and in the absence of an Ind AS, an entity applies judgement based on the hierarchy of accounting literature.
- An entity is required to select and apply the 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. If an Ind AS requires or permits such categorisation, an appropriate accounting policy should be selected and applied consistently to each category.
- An entity is permitted to change an accounting policy only if the change is required by an Ind AS or results in the financial statements providing reliable and more relevant information.
- In case an entity has not applied a new Ind AS that has been issued but is not yet effective, it is required to disclose this fact along with known or reasonably estimable information relevant to assessing the possible impact that application of the new Ind AS will have on the entity's financial statements in the period of initial application.
- A change in depreciation method used by an entity should reflect the pattern in which the asset's future economic benefits are expected to be consumed by the entity. A change in depreciation method would be accounted for as a change in an accounting estimate of the entity.
- The effect of change in an accounting estimate is required to be recognised prospectively by including it in profit or loss in the period of the change, if it affects that period only or the period of the change and future periods, where it affects both.
- Prior period errors are omissions from, and misstatements in, an entity's financial statements for one or more prior periods.
- Errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.
- When it is impracticable to determine either the period specific effects or the cumulative effect of the error, Ind AS 8 requires to correct material prior period errors retrospectively in the first set of financial statements approved for issue after their discovery by:
  - Restating the comparative amounts for the prior period(s) presented in which the error occurred or
  - If the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and equity for the earliest prior period presented.
- Omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions that users make on the basis of the financial statements.

- Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor.
- If the classification and presentation of items in the financial statements is changed, then the entity should restate the comparatives unless this is impracticable.
- Disclosure is required for judgements that have a significant impact on the financial statements and for key sources of estimation uncertainty.

Significant differences from IFRS[1]

- IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors* provides that IFRS are accompanied by guidance to assist entities in applying their requirements. Guidance that is an integral part of IFRS is mandatory. Guidance that is not an integral part of IFRS does not contain requirements for financial statements. Ind AS 8, relevant paragraph has been modified by not including the text given in the context of the guidance forming non-integral part of the Ind AS as such guidance has not been given in the Ind AS.

1. Indian Accounting Standards (Ind AS): An Overview (Revised 2019) issued by ICAI

Guidance from ITFG clarifications

Disclosure of impact of new standard not yet effective

In a situation where an entity has not applied a new Ind AS that has been issued but is not yet effective, Ind AS 8 requires the disclosure of the fact that the issued Ind AS (not yet effective) has not been applied. Additionally, disclosure is required of known or reasonably estimable information relevant to assess the possible impact that application of the new Ind AS is likely to have on an entity's financial statements in the period of initial application. *(ITFG 8, Issue 2)*

Uniform accounting policies vs uniform accounting estimates

Under Ind AS, the method of depreciation is treated as an accounting estimate, alignment of method of depreciation for CFS is not necessary, i.e. the method of depreciation as applied by the subsidiary in the SFS can continue to be applied in the CFS, even in cases where such method is different from that of the parent.

In a situation, where a parent and a subsidiary have adopted different methods of depreciation, a subsidiary can have a different method of estimating depreciation for its PPE, if its expected pattern of consumption is different. The method once selected in the SFS of the subsidiary should not be changed while preparing the CFS. *(ITFG 11, Issue 6)*

However, it is important to note that in cases, where the carrying value (as of the date of transition) as per previous Indian GAAP has been considered as the deemed cost of the PPE, in those cases, the written down value of the assets of the subsidiary may continue to be different in the SFS of the subsidiary and the CFS of the parent.

Financial guarantee by parent for a loan taken by its subsidiary that is repaid earlier than the scheduled term

For further discussion on the above topic, please refer chapter 3, Financial instruments. *(ITFG 16, Issue 7)*

Accounting of non-monetary asset grant

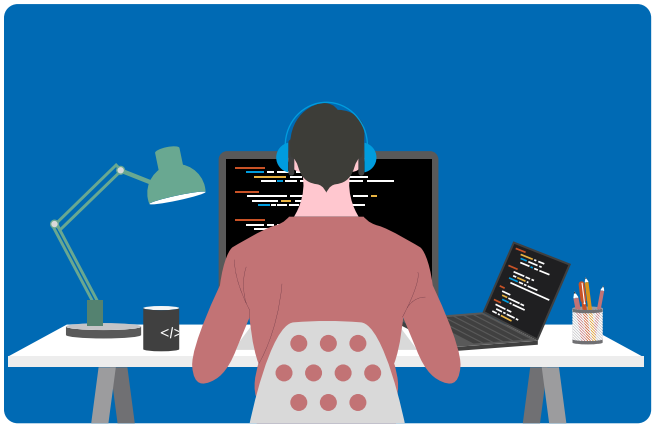
For further discussion on the above topic, please refer chapter 10, Other topics - Accounting for Government Grants and Disclosure of Government Assistance. *(ITFG 17, Issue 1 (ii))*

Demerger of business divisions between unrelated companies within the same group

For further discussion on the above topic, please refer chapter 10, Other topics - Separate Financial Statements. *(ITFG 20, Issue 4)*

Measurement of current tax and DTA or DTL to give effect to lower tax rate in accordance with the Ordinance 2019

For further discussion on the above topic, please refer chapter 7, Leases. *(ITFG 23, Issue 1)*



Refer to educational material on Ind AS 8 for the following issues/topics:

Issue number	Topic
1	Guidance on selection and application of accounting policies
2	Examples of changes in accounting policies
3	Guidance on determination of whether a change in inventory cost formula is change in accounting policy or a change in accounting estimate
4	Guidance on changes in accounting policies with respect to reclassification of an item from PPE to investment property
5	Guidance on changes in accounting policies with respect to change in functional currency
6	Guidance on application of change in accounting policy retrospectively and the exceptions
7	Guidance on change in accounting policy of subsequent measurement of PPE from revaluation model to cost model
8	Guidance on voluntarily change of one or more accounting policies with the examples
9	Guidance on changes in accounting policies based on pronouncement of IASB/other standard setting body
10	Guidance on accounting for income tax effects of retrospective application of changes in accounting policies
11	Guidance on requirement to present a third balance sheet as at the beginning of the preceding period
12	Guidance on requirement to present third balance sheet in condensed interim financial statements when there is a change in accounting policy
13	Guidance on disclosure requirements when accounting policy is changed voluntarily
14	Guidance on disclosure requirements for new or revised Ind AS which have been notified by the MCA but are not yet effective. (Refer *ITFG 8, Issue 2*)
15	Examples of changes in accounting estimates
16	Guidance on accounting for change in accounting estimates
17	Guidance on whether change in the depreciation method for an item of PPE a change in accounting policy or a change in accounting estimate
18	Guidance on whether a parent entity needs to align the depreciation method(s) applied by its subsidiaries in their SFS with its own depreciation method(s) in the CFS
19	Guidance on disclosures to be made in respect of changes in accounting estimates
20	Guidance on correction of material prior period errors
21	Guidance on disclosure requirements for correction of prior period errors
22	Guidance on correction of an error with respect to reclassification of liabilities from non-current to current in the comparative amount
23	Guidance on correction of an error with respect to reclassification of expenses from finance cost to other expenses in the comparative
24	Guidance on correction of material error with respect to omission of recognition of expenses and liability

25	Guidance on correction of an error with respect to recognition of an expenses instead of capitalisation under Ind AS 38, *Intangible Assets*
26	Guidance on correction of an error with respect to recognition of goodwill under business combination
27	Guidance on correction of an error detected during interim reporting period but restating the comparatives in the annual financial statements on materiality grounds
28	Guidance on correction of an error which is immaterial based on annual financial statements but material on the basis of interim financial statements
29	Guidance on impracticable in context to accounting estimates and exception to retrospective application of accounting policies
30	Guidance on application of hindsight view while applying a change in an accounting policy retrospectively or correcting a prior period error
31	Example of changes in the presentation or classification of items envisaged in Ind AS 1

Accounting for Government Grants and Disclosure of Government Assistance[1]

This standard is required to be applied in accounting for, and in the disclosure of, government grants and in the disclosure of other forms of government assistance.

Key principles

- Ind AS 20 is applied in accounting for and in the disclosure of government grants and in the disclosure of other forms of government assistance.
- Government grants, including non-monetary grants at fair value, are not recognised until there is reasonable assurance that the entity will comply with the conditions attached to them and the grants will be received.
- A forgivable loan from government is treated as a government grant when there is reasonable assurance that the entity will meet the terms for forgiveness of the loan.
- The benefit of a government loan at a below-market rate of interest is treated as a government grant.
- In case of a government grant which is in the form of transfer of a non-monetary asset (such as land or other resources), both the grant and asset are accounted for at fair value of the non-monetary asset. There is an alternate method for accounting for such non-monetary grants i.e. an entity may record both the asset and the grant at a nominal amount rather than at fair value.[2]

Recognition of government grant

- Government grants shall be recognised in profit or loss on a systematic basis over the periods in which the entity recognises as expenses the related costs for which the grants are intended to compensate.
- A government grant that becomes receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the entity with no future related costs shall be recognised in profit or loss of the period in which it becomes receivable.

Presentation of government grant related to assets

- Government grants related to assets, including non-monetary grants at fair value, are presented 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 (net presentation).
- There are two methods of presentation of the government grants related to assets as follows:
  - One method recognises the grant as deferred income that is recognised in profit or loss on a systematic basis over the useful life of the asset.
  - Another method is to deduct the grant in calculating the carrying value of the asset. Thus, the grant would be recognised in the statement of profit and loss over the useful life of a depreciable asset as a reduced depreciation expense.

Presentation of government grant related to income

- Grants related to income are presented as part of profit or loss, either separately or under a general heading such as 'other income' or alternatively, they are deducted in reporting the related expenses.

1. MCA amended Ind AS 20 on 20 September 2018 and the amendments are effective retrospectively from 1 April 2018
2. MCA notification dated 20 September 2018.

Repayment of government grants

- A government grant that becomes repayable is to be accounted for as a change in accounting estimate.
- Repayment of a grant related to income shall be applied first against any unamortised deferred credit recognised in respect of the grant. To the extent that the repayment exceeds any such deferred credit, or when no deferred credit exists, the repayment is to be recognised immediately in profit or loss.
- Repayment of a grant related to an asset is to be recognised by increasing the carrying amount of the asset or reducing the deferred income balance by the amount repayable. The cumulative additional depreciation that would have been recognised in profit or loss to date in the absence of the grant is to be recognised immediately in profit or loss.
- Further, the amendment envisages that circumstances giving rise to repayment of a grant related to an asset may require consideration of a possible impairment in the new carrying amount of the asset.
- Appendix A of Ind AS 20 prescribes that government assistance to entities meets the definition of government grants in Ind AS 20, even if there are no conditions specifically relating to the operating activities of the entity other than the requirement to operate in certain regions or industry sectors. It, in addition provides that such grants shall not be credited directly to shareholders' interests.

Significant differences from IFRS[3]

- MCA amended Ind AS 20 and the amendments are effective retrospectively from 1 April 2018. Consequently, there are no significant differences in Ind AS 20 as compared with IAS 20, *Accounting for Government Grants and Disclosure of Government Assistance.*

3. Indian Accounting Standards (Ind AS): An Overview (Revised 2019) issued by ICAI

Guidance from ITFG clarifications

Accounting for grants

Accounting treatment for grants in the nature of promoters' contribution

Accounting Standard (AS) 12, *Accounting for Government Grants,* requires grants received with respect to an entity's total investment or total capital outlay, for which no repayment was ordinarily expected (i.e. grants in the nature of promoter's contribution), to be credited directly to the shareholders' funds.

A government entity may have received contributions from the government in the nature of promoter's contribution, such contributions would be recognised in capital reserve and treated as a part of shareholders' funds in accordance with AS 12.

At the time of transition to Ind AS, for determining the relevant accounting treatment for such grants received, it is important to ascertain whether the government has 100 per cent shareholding in the entity. The entity should first determine whether the payment received was a government grant or a shareholder's contribution. Consequently, the accounting treatment that should be applied in the two scenarios is as follows:

- In case, the entity concludes that the contribution is in the nature of a government grant, then it would apply the principles of Ind AS 20 retrospectively, as required by Ind AS 101. Ind AS 20 requires all grants to be recognised as income on a systematic basis over the periods in which the entity recognises as expenses the related costs for which the grants are intended to compensate.

> Unlike AS 12, Ind AS 20 requires the grant to be classified either as a capital or an income grant and does not permit recognition of government grants in the nature of promoter's contribution directly in shareholders' funds.

- In case it concludes that the contribution is in the nature of 'shareholder contribution', then Ind AS 20 would not apply, since it specifically scopes out participation by the government in the ownership of an entity. Thus, in accordance with Ind AS 101, the entity is required to reclassify the contribution received, from capital reserve to an appropriate category under 'other equity' at the date of transition.

The above principles would also apply for contributions received by an entity subsequent to the Ind AS transition date. *(ITFG 9, Issue 3)*

Subsequent to the issue of the above clarification, MCA has revised Ind AS 20 as well as made consequential amendments to certain other Ind AS (e.g. Ind AS 12, Ind AS 16, Ind AS 40, etc.) and the amendments are effective from 1 April 2018. Going forward, the principles for presentation of government grants related to assets as well as those related to repayment of government grants are to be applied as per the amended Ind AS 20.

Accounting of non-monetary asset grant

As explained above Ind AS 20 has been recently amended. It now provides an entity with a choice for accounting of government grants in the form of non-monetary assets. Accordingly, an entity can either present the non-monetary asset and grant at fair value or record both asset and grant at a nominal amount.

In a scenario, X Ltd., a government company[4] in which 100 per cent of its paid-up capital is held by the Government of India, received certain land in the year 2008 from the government to construct and operate a Mass Rapid Transit System (MRTS) in a metropolitan city. The land was received free of cost subject to compliance with specified terms and conditions. In accordance with the then applicable AS 12, the land was recorded at a nominal value of INR1.

Following is the accounting of land under Ind AS:

i. X Ltd. is a first-time adopter of Ind AS and its first Ind AS reporting period is financial year 2018-19

   X Ltd. has a choice of recognising the grant and the asset (i.e. land in this case), initially either at fair value or at a nominal amount.

   Ind AS 101 further states the following with respect to opening Ind AS balance sheet:

   1. An entity is required to prepare and present an opening Ind AS balance sheet at the date of transition to Ind AS.
   2. An entity is required to use the same accounting policies in its opening Ind AS balance sheet and throughout all periods presented in its first Ind AS financial statements. Those accounting policies would comply with each Ind AS effective at the end of its first Ind AS reporting period. Generally, those accounting policies are applied on a retrospective basis.

Accordingly, X Ltd. is required to apply the amended Ind AS 20 for all periods presented in its financial statements for the financial year 2018-19, including in preparing its opening Ind AS balance sheet as at 1 April 2017.

Additionally, under Ind AS 101, there is no mandatory exception or voluntary exemption from retrospective application of Ind AS 20. Consequently, X Ltd. is required to apply the requirements of Ind AS 20, retrospectively at the date of transition to Ind AS (and consequently in subsequent accounting periods).

ii. X Ltd. is not a first time adopter of Ind AS and financial year 2018-19 is its second (or third) reporting period under Ind AS

   As X Ltd. transitioned to Ind AS a few years back, therefore it is following an accounting policy of recognising government grant and the related asset at fair value.

   As Ind AS 20 has been amended recently, therefore, an issue may arise whether for the financial year 2018-19, X Ltd. is required or permitted to change its accounting policy relating to government grant.

In accordance with Ind AS 8, an entity would change an accounting policy only if the change:

1. Is required by an Ind AS or
2. Results in the financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the entity's financial position, financial performance or cash flows.

> Due to the amendment of Ind AS 20, entities are not required to change the accounting policy relating to the grant in preparing its financial statements for the previous financial year. However, the entity is permitted to change its accounting policy voluntarily.

Ind AS 8 lays down following two requirements that must be complied with in order to make a voluntary change in an accounting policy:

1. The information resulting from application of the changed (i.e. the new) accounting policy must be reliable.
2. The changed accounting policy must result in 'more relevant' information being presented in the financial statements.

Whether a changed accounting policy results in reliable and more relevant financial information is a matter of assessment based on the particular facts and circumstances of each case.

In order to ensure that such an assessment is made judiciously (a voluntary change in an accounting policy does not effectively become a matter of free choice), Ind AS 8 further requires an entity making a voluntary change in an accounting policy to disclose, inter alia, the reasons why applying the new accounting policy provides reliable and more relevant information.

In accordance with the above, ITFG clarified that X Ltd. could make a voluntary change in accounting policy provided if such a change results in its financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on its financial position, financial performance or cash flows. *(ITFG 17, Issue 1)*

4. It is pertinent to note here that Ind AS 20 specifically scopes out the participation by the government in the ownership of an entity. In this fact pattern, the Government of India has 100 per cent shareholding in the entity, but it has been assumed that the land provided has been evaluated as not being in the nature of owners' contribution and hence, it is in the nature of a government grant as per Ind AS 20.

   Further, it has also been assumed that the above arrangement has been evaluated as not being within the scope of Appendix D, Service Concession Arrangements of Ind AS 115 or scope of Appendix A, Service Concession Arrangements of Ind AS 18 as the case may be.

Assistance/benefits under government schemes

Exemption of custom duty on capital goods as government grant

An entity may have received grants in the nature of exemption of custom duty on capital goods with certain conditions related to export of goods under Export Promotion Capital Goods (EPCG) scheme of Government of India.

> In accordance with the guidance provided in Ind AS 20, exemption of customs duty is considered as an assistance provided by the government in return for compliance with certain conditions relating to the operating activities of the entity and could be reliably measured.

The accounting of such grants would be determined based on facts and circumstances of each case i.e. whether grants are related to assets or income.

Based on the evaluation of the facts and circumstances, the accounting and presentation of the grant would be as below:

- *Export of goods:* If the grant received is to compensate the import cost of assets, and is subject to export obligation as prescribed in the EPCG scheme, then the recognition of the grant would be linked to fulfilment of the associated export obligations and would be treated as grants related to income and such a grant will be presented in statement of profit and loss, either separately or under a general heading such as 'other income'. Alternatively, it may be deducted in reporting the related expenses.
- *Compensates import cost of an asset:* If the grant received is to compensate the import cost of the asset, and it can be reasonably concluded that conditions relating to export of goods are subsidiary conditions, then it is appropriate to treat such grant as grants related to assets and present it as deferred income by recognising such grants in profit or loss over the life of the underlying asset *(ITFG 11, Issue 5)*.

Export benefits under a scheme of the Government of India

The ITFG has considered and clarified on whether the benefit received by an entity (which is a registered unit in Special Economic Zone (SEZ)) is a government grant or a government assistance other than government grant under Ind AS 20. The benefit from the government may be in the form of exemption from payment of taxes and duties on import/export of goods upon fulfilment of certain conditions under a scheme of the Government of India.

> In accordance with the guidance given in Ind AS 20, the ITFG clarified that the benefit of exemption from payment of taxes and duties levied by the government is a government grant and should be accounted for as per the provisions of Ind AS 20.[5]

Further, classification of a grant as related to an asset or to income would require exercise of judgement and careful examination of the facts, objective and conditions attached to the scheme. The purpose of the grant and the costs for which the grant is intended to compensate would also be required to be ascertained carefully whether it is a grant related to an asset or grant related to an income and how is the same to be accounted for. This issue has earlier been clarified in the preceding scenario as issue 5 in ITFG clarifications' bulletin 1. *(ITFG 17, Issue 3)*

Classification of incentives receivable from government as financial assets

In case of incentives receivable from government on compliance with stipulated conditions (for example, sales tax refunds) whether these would fall within the definition of financial instruments.

ITFG clarified that when the government provides incentives, it may not enter into a one to one agreement with each entity availing those benefits with regard to the rights and obligations of the scheme. Instead there is an understanding between the government and the potential applicant/entity that on complying the stipulated conditions attached with the scheme, the entity would be granted benefits of the scheme. Once the entity has complied with the conditions attached to the scheme then it rightfully becomes entitled to the incentives attached to the scheme. Thus, such an incentive receivable would fall within the definition of financial instruments and accounted for as a financial asset in accordance with Ind AS 109. *(ITFG 15, Issue 3)*

(Please refer chapter 3, Financial instruments for further discussion on the topic.)

5. Education Material on Ind AS 115, Revenue from Contracts with Customers, issued by Ind AS Implementation Group of the ASB of the ICAI in August 2018 has also given guidance on similar lines.

Opinion by EAC

Disclosure of government grants

For further discussion on the above topic, please refer chapter 10, Other topics - Presentation of Financial Statements.

Borrowing Costs[1]

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset form part of the cost of that asset. Other borrowing costs are recognised as an expense.

Key principles

- An entity is required to capitalise borrowing costs that are directly attributable to the acquisition, construction or production of a 'qualifying asset' as part of the cost of that asset.
- A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale.
- Borrowing costs include interest expense calculated using the EIR method as described in Ind AS 109, finance charges in respect of finance leases recognised in accordance with Ind AS 17[2] and exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs.
- Borrowing costs are reduced by interest income from the temporary investment of borrowings.
- Capitalisation of borrowing costs would commence when an entity meets all of the following conditions:
  - Expenditure for the asset is being incurred
  - Borrowing costs are being incurred and
  - Activities that are necessary to prepare the asset for its intended use or sale are in progress.
- Capitalisation of borrowing costs is suspended during the period in which active development of a qualifying asset itself is suspended and altogether ceased when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

Significant differences from IFRS[3]

IAS 23, *Borrowing Costs,* does not provide guidance as to how the adjustment on account of foreign exchange differences is to be determined.

However, paragraph 6(e) of Ind AS 23, provides guidance on treatment of exchange difference as borrowings cost which is given below:

i. The amount of exchange loss, restricted to the extent the exchange loss does not exceed the difference between the cost of borrowing in functional currency and cost of borrowing in a foreign currency is treated as borrowing cost and

ii. Where there was an unrealised exchange loss which was treated as a borrowing cost in an earlier period as mentioned in point (i) above and subsequently, there is a realised or unrealised gain in respect of the settlement or translation of the same borrowing, the gain should also be recognised as an adjustment to the borrowing cost to the extent of loss previously recognised as borrowing cost.

1. MCA has amended Ind AS 23 on 30 March 2019. The amendment clarifies that in computing the capitalisation rate for funds borrowed generally, an entity should exclude borrowing costs applicable to borrowings made specifically for obtaining a qualifying asset, only until the asset is ready for its intended use or sale. Borrowings costs related to specific borrowings that remain outstanding after the related qualifying asset is ready for its intended use or for sale would subsequently be considered as part of the general borrowing cost of the entity.
2. Ind AS 116, *Leases* supersedes Ind AS 17, *Leases* for annual reporting periods beginning on or after 1 April 2019.
3. Indian Accounting Standard (Ind AS): An overview (Revised 2019) issued by ICAI.

Guidance from ITFG clarifications

Capitalisation of Dividend Distribution Tax (DDT) paid on a preference share dividend

An entity may have issued preference shares which are classified as financial liability in accordance with Ind AS 32, *Financial Instruments: Presentation.*

In accordance with the principles laid down in Ind AS 32, interest, dividends, losses and gains relating to a financial instrument or a component that is a financial liability is to be recognised as income or expense in profit or loss.

> The Guidance Note on Ind AS Schedule III provides the guidance in respect of dividend on redeemable preference shares. It states that 'dividend on preferences shares, whether redeemable or convertible, is of the nature of interest expense, only where there is no discretion of the issuer over the payment of such dividends. In such case, the portion of dividend as determined by applying the EIR method should be presented as interest expense under 'finance cost'. Accordingly, the corresponding DDT on such portion of non-discretionary dividends should also be presented in the statement of profit and loss under interest expense.'

Accordingly, in this scenario, if the requirements of Ind AS 23 for capitalisation are met then the dividend on the preference shares that are classified as liability, in accordance with the principles of Ind AS 32 would be treated as an interest and DDT paid thereon would be treated as cost eligible for capitalisation. Thus, DDT is in the nature of incremental cost that an entity incurs in connection with obtaining the funds for a qualifying asset and hence, should be capitalised along with interest.

Therefore, when an entity applies the EIR method, then DDT paid on such preference dividend would form part of the EIR calculation to compute the effective interest expense to be capitalised along with the qualifying asset. *(ITFG 13, Issue 1)*

Capitalisation of processing charges to the cost of the qualifying asset

There can be instances where an entity borrows specifically for a qualifying asset and processing charges are incurred on the loan. An issue can arise whether such processing charges can be capitalised to a qualifying asset.

> In accordance with the principles laid down in Ind AS 23, an entity is required to capitalise borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. Also, an entity is required to recognise other borrowing costs as an expense in the period in which it incurs them.

Additionally, Ind AS 23 states that borrowing costs include interest expense calculated using the EIR as described in Ind AS 109. Ind AS 109 defines EIR method as the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset or to the amortised cost of a financial liability.

Ind AS 109, *inter alia,* provides that in applying the EIR method, an entity identifies fees that are an integral part of the EIR of a financial instrument. Fees that are an integral part of the EIR of a financial instrument are treated as an adjustment to the EIR, unless the financial instrument is measured at fair value, with the change in fair value being recognised in profit or loss. In those cases, the fees are recognised as revenue or expense when the instrument is initially recognised.

In addition, Ind AS 109 provides examples of fees that are an integral part of the EIR of a financial instrument. Origination fees paid on issuing financial liabilities measured at amortised cost is an example of fees that is an integral part of EIR method.

Therefore, the processing fee is required to be included while calculating the EIR. Accordingly, the processing charges to the extent amortised only up to the period of capitalisation of the qualifying asset would be capitalised. *(ITFG 14, Issue 1)*

Clarifications with respect to application of the exemption to continue with the accounting policy under para 46A of AS 11

For further details on the exemption under paragraph D13AA of Ind AS 101 *vis-a-vis* borrowing costs under Ind AS 23, please refer chapter 9, First-time adoption of Ind AS *(ITFG 18, Issue 1)*

Application of capitalisation rate for assets acquired under business combination

ITFG considered a scenario where ABC company has Capital Work in Progress (CWIP) of INR100,000 which meets the definition of a 'qualifying asset' as per Ind AS 23 and capitalised corresponding borrowing cost using capitalisation rate for general borrowings.

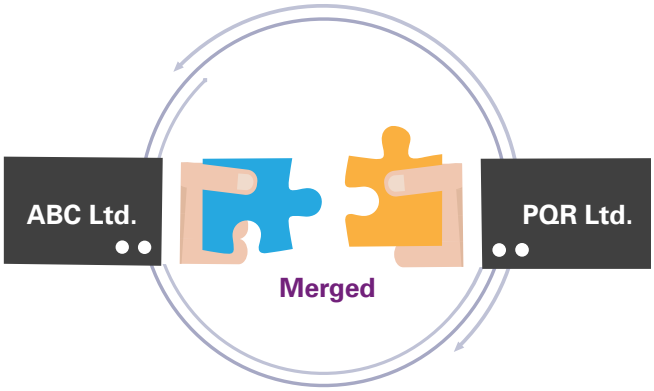
The issue raised to ITFG was what would be the accounting treatment of borrowing cost in following two situations:

i. ABC Ltd. merges with PQR Ltd., an independent entity

ii. PQR Ltd. acquires 100 per cent shares and control of ABC Ltd. but ABC Ltd. remains as a separate legal entity which is consolidated by PQR Ltd.

ITFG considered the issue and discussed the accounting of borrowing cost in two following situations:

Scenario I: ABC Ltd. is merged into PQR Ltd.



ITFG clarified that where ABC Ltd. is merged into PQR Ltd. and merger meets the definition of a 'business combination' as per Ind AS 103, the CWIP would appear as an asset in the separate (and consequently, in the consolidated) financial statements of PQR Ltd. At the time of merger, PQR Ltd. needs to make a fresh, independent assessment to evaluate whether CWIP meets the definition of a qualifying asset from its perspective.

In the given case, PQR Ltd made independent assessment and asserted that the CWIP still meets the definition of a qualifying asset and attributed an amount of INR120,000 as a consideration towards purchase of the CWIP as part of the purchase price.

The value of CWIP and timing of incurrence of the aforesaid expenditure should be determined from the perspective of PQR Ltd. and not from the perspective of ABC Ltd. Consequently, in separate and consolidated financial statements of PQR Ltd., INR120,000 would represent the expenditure incurred by PQR Ltd. on the CWIP and for purposes of applying the requirements of Ind AS 23 relating to capitalisation of borrowing costs.

Scenario II: ABC Ltd. is not merged into PQR Ltd.

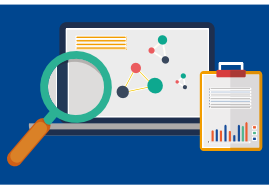
Where PQR Ltd. acquires 100 per cent shares and consequently control of ABC Ltd. which continues to remain in existence. PQR Ltd.'s consolidated financial statements would include the CWIP as an asset but not in its separate financial statements. For the purpose of consolidated financial statements, the determination of whether an asset meets the definition of a 'qualifying asset' and assessment of the amount of expenditure incurred thereon would made from the perspective of the group rather than from the perspective of the subsidiary which owns or holds the CWIP.

In the issue under consideration, the group has incurred an expenditure of INR120,000 to acquire the CWIP from a party outside the group. For the purpose of applying the requirements of Ind AS 23 relating to capitalisation of borrowing costs at the group level, it is determined that the CWIP meets the definition of 'qualifying asset' from the group's perspective and the amount of expenditure on the CWIP would be considered to be INR120,000.

While the separate financial statements of PQR Ltd. would include the investment in ABC Ltd. rather than individual assets and liabilities of ABC Ltd.

As investment is a financial asset SFS, borrowing costs cannot be capitalised as part of carrying amount as per the requirements of Ind AS 23 which specifically provides that financial assets are not qualifying assets. *(ITFG 19, Issue 4)*

Related Party Disclosures



The objective of this standard is to ensure that an entity's financial statements contain the disclosures necessary to draw attention to the possibility that its balance sheet and profit or loss may have been affected by the existence of related parties and by transactions and outstanding balances, including commitments, with such parties.

Key principles

- A related party is a person or an entity that is related to the entity that is preparing its financial statements.
- Key Management Personnel (KMP) are those persons that have authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity.
- KMP and their close family members are also parties related to the entity.
- Related party relationships include those involving control (direct or indirect), joint control or significant influence
- A related party transaction is a transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged.
- Relationships between a parent and its subsidiaries are required to be disclosed irrespective of whether there have been transactions between them.
- Comprehensive disclosures of related party transactions are required for each category of related party relationships.

Significant differences from IFRS[1]

- In India, the accounting standards cannot override legal/regulatory requirements and therefore, disclosures which conflict with confidentiality requirements of statute/ regulations would not be disclosed. For example, banks are obliged by law to maintain confidentiality in respect of their customers' transactions and this standard would not override the obligation to preserve the confidentiality of their customers' dealings.
- In Ind AS 24, the '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.

1. Indian Accounting Standards (Ind AS): An Overview (Revised 2019) issued by ICAI.

Guidance from ITFG clarifications

Disclosure of sitting fees paid to independent and non-executive directors

AS 18, *Related Party Disclosures,* does not include non- executive directors within the definition of 'directors'. Ind AS 24 has brought independent and non-executive directors also within its scope by including them in the definition of KMP.

> In accordance with Ind AS 24, KMP includes all directors (executive or otherwise) of an entity who have direct or indirect authority and responsibility for planning, directing and controlling the activities of the entity. It further requires entities to disclose the compensation of the KMP, including short-term employee benefits in the financial statements of the entity.

In addition, Ind AS 19, *Employee Benefits* defines short-term employee benefits as those items that are expected to be settled wholly before 12 months after the end of the annual reporting period in which the employees/directors render the related services and includes wages, salaries, social security contributions, paid annual and sick-leaves, profit sharing and bonus and other non-monetary benefits.

In the above context, independent directors and non- executive directors would be considered as KMP under Ind AS and sitting fees paid to directors will fall under the definition of 'short-term employee benefits' in accordance with Ind AS 19. Thus, such payments are required to be disclosed in the financial statements in accordance with Ind AS 24. *(ITFG 11, Issue 9)*

Disclosure of related party transactions

In accordance with Ind AS 24, each parent, subsidiary and fellow subsidiary in a 'group' is related to the other members of the group.

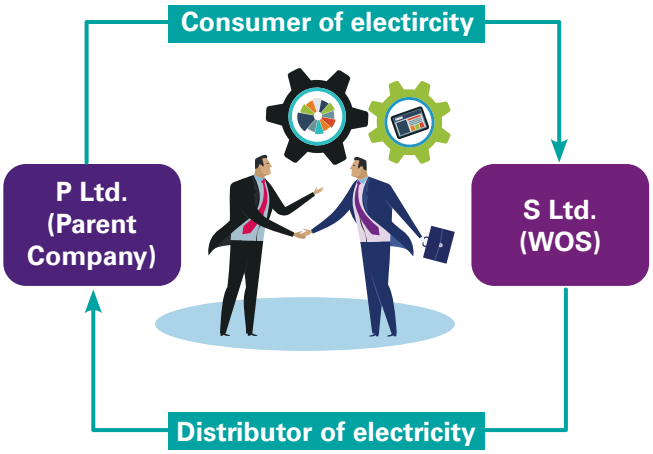
In a scenario, an entity S Ltd., a wholly owned subsidiary (WOS) of another entity P Ltd., is the sole distributor of electricity to consumers in a specified geographical area. A manufacturing facility of P Ltd. was located in the same geographical area. Consequently, P Ltd. is also a consumer of electricity supplied by S Ltd.

The issue considered was whether the above transaction is required to be disclosed as a related party transaction as per Ind AS 24 in the financial statements of S Ltd.

In this case, P Ltd. is a related party of S Ltd. from the perspective of financial statements of S Ltd.

S Ltd. is a public utility (being engaged in distribution of electricity), but it is also a subsidiary of P Ltd. Thus, there is a dual relationship between S Ltd. and P Ltd. as below:

i. A supplier and consumer
ii. Subsidiary and holding (which is a relationship covered within the related party relationships to which the disclosure requirements of Ind AS 24 would apply).



ITFG clarified that the supply of electricity by S Ltd. to P Ltd. is a related party transaction that attracts the disclosure requirements contained in Ind AS 24 even though P Ltd. is charged the electricity tariffs determined by an independent rate-setting authority (i.e. the terms of supply to P Ltd. are at par with those applicable to other consumers).

> Ind AS 24 does not exempt an entity from disclosing related party transactions merely because they have been carried out at an arm's length basis. *(ITFG 17, Issue 6)*

Disclosure of financial guarantee (without any fee) given by a director

Please refer chapter 3, Financial instruments for further details on accounting of financial guarantee. *(ITFG 13, Issue 2)*

Presentation and accounting treatment of waiver of interest on the loan taken

For further discussion on the above topic, please refer chapter 10, Other topics - Presentation of Financial Statements *(ITFG 22, Issue 7)*

Separate Financial Statements

This standard does not mandate which entities prepare separate financial statements. It applies when an entity prepares separate financial statements that comply with Ind AS.

Key principles

- Separate Financial Statements (SFS) are financial statements presented by a parent (i.e., an investor with control of a subsidiary) or an investor with joint control of, or significant influence over, an investee, in which the investments are accounted for using the equity method[1].
- When an entity prepares SFS, it is required to account for its investments in subsidiaries, joint ventures and associates either at cost, or in accordance with Ind AS 109. The entity is required to apply the same accounting for each category of investments.
- When investments accounted for at cost, are classified as held for sale (or included in a disposal group that is classified as held for sale), then these are required to be accounted for in accordance with Ind AS 105, *Non-current Assets Held for Sale and Discontinued Operations.*
- The measurement of investments accounted for in accordance with Ind AS 109 is not changed when these are classified as held for sale.

Significant differences from IFRS[2]

- IAS 27, *Separate Financial Statements,* allows the entities to use the equity method to account for investment in subsidiaries, joint ventures and associates in their SFS. This option is not permitted in Ind AS 27. It only allows cost model or Ind AS 109. The reason for not allowing equity method is that it is not a measurement basis like cost and fair value but is a manner of consolidation and therefore, would lead to inconsistent accounting conceptually.

1. In accordance with Ind AS 28, under the equity method, on initial recognition, the investment in an associate or a joint venture is recognised at cost and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition.

   Ind AS 28 also provides that the investor's share of the investee's profit or loss is recognised in the investor's profit or loss. Distributions received from an investee reduce the carrying amount of the investment.
2. Indian Accounting Standards (Ind AS): An Overview (Revised 2019) issued by ICAI

Guidance from ITFG clarifications

Accounting of profit share from Limited Liability Partnerships (LLPs)

An entity may have a joint control over an LLP, which is assessed as a joint venture. The entity should account for its investment in the joint venture in its SFS in accordance with Ind AS 27, i.e. either at cost or in accordance with Ind AS 109. Therefore, an adjustment of profit share from LLP to the carrying amount of the investment in LLP in its SFS is not permitted. Accounting of return on investment (i.e. profit share from LLP) would depend on the terms of contract between the entity and LLP. The share in profit in LLP should be recognised as an income in the statement of profit and loss as and when the right to receive its profit share is established. *(ITFG 5, Issue 8)*

Deemed cost of an investment in a subsidiary

An entity may elect to apply the deemed cost exemption on transition to Ind AS and accordingly measure its investment in its subsidiary at its fair value on the date of transition. Ind AS 27 permits such an entity to measure its investment in its subsidiary at either its cost or in accordance with Ind AS 109 (i.e. at fair value) in its SFS.

An entity may have used fair value as the measurement basis for the deemed cost on transition. Post transition, the entity would continue to carry its investment in the subsidiary at the transition date fair value, which is deemed to be its cost under Ind AS. *(ITFG 3, Issue 12)*

(Please refer chapter 9, First time Adoption of Ind AS for further details on deemed cost of an investment in a subsidiary) *(ITFG 3, Issue 12)*

Investments in debentures of a subsidiary company

Parent companies may often invest in the debentures of its subsidiary companies. Such investments may be in addition to their investment in respective shares of subsidiary. Practical implications arise regarding accounting of such investments under the provisions of Ind AS 27 and the consequent exemptions in paragraph D15 of Ind AS 101 at the time of transition to Ind AS.

It is noteworthy that Ind AS 109 is not applicable to interest in subsidiaries, associates and joint ventures that are accounted for in accordance with Ind AS 110, Ind AS 27 or Ind AS 28.

As explained earlier, Ind AS 27 permits an entity to account for its investments in subsidiaries, associates or joint ventures either at cost or in accordance with Ind AS 109 in its SFS. In addition, paragraph D15 of Ind AS 101 provides an exemption to measure the cost of such an investment at either the cost determined in accordance with Ind AS 27 or at a 'deemed cost' based on its fair value at the date of transition to Ind AS or its previous GAAP carrying amount.

Above requirements of Ind AS 27 and the exemption in Ind AS 101 would only apply to those investments in a subsidiary, which meets the definition of an equity instruments under Ind AS 32 (from the issuer, i.e. the subsidiary's perspective).

Hence, if the debentures are classified as a financial liability by the subsidiary, the holding company would have to classify its investment as a financial asset and account for it under Ind AS 109. (ITFG 7, Issue 8)

Measurement of investment in subsidiaries, joint ventures and associates at the end of the first Ind AS financial reporting period

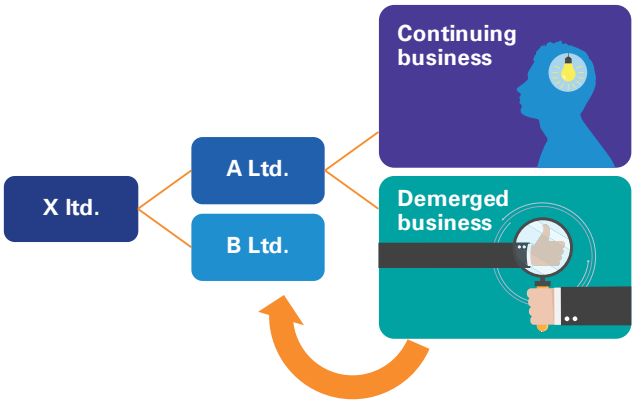
Please refer chapter 9, First time Adoption of Ind AS for further details on measurement of investment in subsidiary, associates and joint ventures *(ITFG 11, Issue 4)*

Accounting by issuer of financial guarantee

Please refer chapter 3, Financial instruments for further details on accounting of financial guarantee by the issuer *(ITFG 16, Issue 1)*

Demerger of business divisions between unrelated companies within the same group

The ITFG considered a situation where a company (X Ltd.) had invested in two operating companies (A Ltd. and B Ltd.), such that both the companies were its associates, but were not under common control within the meaning of Ind AS. X Ltd. carries its investments in associates at cost in its separate financial statements.



As part of a proposed transaction, A Ltd. would demerge an identified business undertaking (representing one or more business divisions), which would vest in B Ltd. As a result, A Ltd. would continue to survive as a separate legal entity with some of its other business divisions. The consideration for the demerger would be determined on the basis of the fair value of the underlying business, and would be issued in the form of fresh shares of B Ltd. to all shareholders of A Ltd. (including to X Ltd.). The query related to the accounting treatment of a demerger in the separate financial statements of X Ltd., which measures investments in associates at cost.

The ITFG noted that the two principal issues to be determined in the present case were:

a. What amount should be derecognised (to give accounting effect of the potential reduction in value of shares held in A Ltd. due to transfer of its business division), and
b. What amount should be recognised (to give effect to the accounting treatment for the receipt of additional shares of B Ltd. pursuant to the demerger)?

Amount to be derecognised

Prior to demerger, X Ltd.'s investment in the shares of A Ltd. represented its interest in both the demerged business undertaking as well as other businesses, whereas post demerger, it was represented only by its interest in businesses retained by A Ltd. Although X Ltd. did not pay any explicit consideration for the shares allotted to it in B Ltd. as part of the demerger scheme, there is an implicit cost associated with them to the extent of reduction of its interest in A Ltd. Currently Ind AS does not deal specifically with this kind of issue, i.e. how the amount to be derecognised should be determined. Thus, reference should be made to Ind AS 8.

Ind AS 8, inter alia, states that in the absence of an Ind AS that specifically applies to a transaction, event or condition, judgement should be applied in developing and applying an accounting policy that provides relevant and reliable information to the users of the financial statements. While applying such judgement, entities should consider the requirements in Ind AS dealing with similar and related issues and guidelines prescribed in the Conceptual Framework[3].

In view of the above, ITFG drew analogy from:

a. Paragraph 2(b) of Ind AS 103, which states that Ind AS 103 does not apply to the acquisition of an asset or a group of assets that does not constitute a business. In such cases, the cost of assets purchased should be allocated to the individual identifiable assets and liabilities on the basis of their relative fair values at the date of purchase.
b. Principles of Ind AS 115, *Revenue from Contracts with Customers,* which require use of standalone selling prices to allocate the transaction price to each performance obligation identified in a customer contract.

In accordance with the above, the carrying amount of X Ltd.'s investment in A Ltd. would be split between the demerged business undertaking and business retained by A Ltd. on the basis of the relative fair values of the two. On demerger, the portion of carrying amount allocated to the demerged business would be derecognised.

Amount to be recognised

In the current case, X Ltd. has adopted an accounting policy of recognising investment in associates at 'cost'. Since Ind AS 27does not define cost, the cost of additional shares in B Ltd. may be represented either by their fair value or by the (allocated) carrying amount of the investment in A Ltd., which is derecognised by X Ltd.

a. Cost represented by fair value: Where the additional shares in B Ltd. represent a new or different investment acquired in exchange for a part of investment in A Ltd., they would be measured initially at their fair value, with consequent recognition of gain or loss on derecognition of part of investment in A Ltd.

However, in order to determine whether these additional shares in B Ltd. represent a new or different investment acquired in exchange for a part of investment in A Ltd., analogy may be drawn to Ind AS 16, *Property, Plant and Equipment* and Ind AS 38, *Intangible Assets,* with regard to determination of cost of property, plant and equipment or of intangible assets acquired in exchange for a non-monetary asset. As per this, the additional shares in B Ltd. may represent a new or a different investment acquired, in exchange for a part of investment in A Ltd., if the demerger results in a more than insignificant[4] change in:

- The risks and rewards associated with the business undertaking transferred from A Ltd. to B Ltd. or those associated with the other businesses carried on by B Ltd. or A Ltd., and/or
- In the extent of X Ltd.'s exposure to the aforesaid risks and rewards.

3. The Conceptual Framework for Financial Reporting sets out the fundamental concepts for financial reporting that guide the International Accounting Standards Board (IASB) in developing IFRS Standards. It helps to ensure that the Standards are conceptually consistent and that similar transactions are treated the same way, so as to provide useful information for investors, lenders and other creditors.
4. What is considered significant or insignificant is a matter of judgement.

b. Cost representing the continuance of the pre-existing investment:

In the present case, there is no 'exchange' of investments. X Ltd. continues to hold the same number and proportion of equity shares in A Ltd. after the demerger as it did before the demerger.

Accordingly, in the given facts of the case, it would be an appropriate view to take that the 'cost' of the additional shares is represented by the amount derecognised by X Ltd. in respect of its investment in A Ltd. while accounting for the demerger. *(ITFG 20, Issue 4)*

Refer to educational material on Ind AS 27 for the following issues/topics:

Issue number	Topic
1.	Guidance on requirement of measurement of investment in subsidiary by investment entity
2.	Guidance on carrying of investments in subsidiaries at cost and investments in associates as financial assets at FVTPL
3.	Guidance on recognition of impairment loss of investments in subsidiary accounted at cost
4..	Guidance on election of different measurement technique by a parent entity for investments in more than one subsidiaries (at FV and Cost)
5.	Guidance on disclosure of the fact that the financial statements are prepared are SFS

Earnings per Share

The objective of this standard is to prescribe principles for the determination and presentation of earnings per share, so as to improve performance comparisons between different entities in the same reporting period and between different reporting periods for the same entity. Even though earnings per share data has limitations because of the different accounting policies that may be used for determining 'earnings', a consistently determined denominator enhances financial reporting. The focus of this standard is on the denominator of the earnings per share calculation.

Key principles

- Basic Earnings Per Share (EPS) is calculated by dividing profit or loss attributable to holders of ordinary equity of the parent (the numerator) by the weighted average number of ordinary shares outstanding (the denominator) during the period.
- Where any item of income or expense which is otherwise required to be recognised in profit or loss in accordance with Ind AS is debited or credited to securities premium account/other reserves, the amount in respect thereof is required to be deducted from profit or loss from continuing operations for the purpose of calculating basic EPS.
- Diluted EPS is calculated by adjusting profit or loss attributable to holders of the ordinary equity of the parent, and the weighted average number of shares outstanding, for the effects of all dilutive potential ordinary shares.
- Potential ordinary shares shall be treated as dilutive when, and only when, their conversion to ordinary shares would decrease EPS or increase loss per share from continuing operations.
- If the number of ordinary or potential ordinary shares outstanding increases as a result of a capitalisation, bonus issue or share split, or decreases as a result of a reverse share split, the calculation of basic and diluted EPS for all periods presented shall be adjusted retrospectively.
- If these changes occur after the reporting period but before the financial statements are approved for issue, the per share calculations for those and any prior period financial statements presented shall be based on the new number of shares.
- Basic and diluted EPS for profit or loss from continuing operations and profit or loss for the period for each class of ordinary shares that has a different right to share in profit for the period, is required to be presented in statement of profit and loss with equal prominence for all periods presented.
- An entity that reports a discontinued operation shall disclose the basic and diluted amounts per share for the discontinued operation either in the statement of profit and loss or in the notes.
- When an entity presents both CFS and SFS in accordance with Ind AS 110 and Ind AS 27 respectively, the disclosures required are to be presented both in the CFS and SFS. In CFS, such disclosures shall be based on consolidated information and in SFS, such disclosures shall be based on information given in SFS. An entity is prohibited from presenting EPS in CFS based on the information given in SFS and *vice versa.*

Significant differences from IFRS[1]

- IAS 33, *Earnings Per Share,* provides that when an entity presents both CFS and SFS, it may give EPS related information in CFS only, whereas, Ind AS 33 requires EPS related information to be disclosed both in CFS as well as SFS.
- In India, the 2013 Act, requires preparation and presentation of both CFS as well as SFS and consequently, for listed entities, EPS is required to be disclosed both in CFS as well as SFS. In addition, such disclosures are required to be in accordance with the information contained in the respective financial statements i.e. in CFS, EPS is to be disclosed based on consolidated information while in case of SFS, it is to be disclosed for information contained in such SFS only.
- The applicability or exemptions to the Ind AS are governed by the 2013 Act and the Rules made there under and consequently Ind AS 33 has been modified to that extent.
- 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.

1. Indian Accounting Standards (Ind AS): An Overview (Revised 2019) issued by ICAI.

Guidance from ITFG clarifications

Consideration of amounts debited to Foreign Currency Monetary Item Translation Difference Account (FCMITDA) for computation of basic EPS

A company may have availed the option given under paragraph D13AA of Ind AS 101. This means, that it continued to apply the accounting treatment permitted by paragraph 46/46A of AS 11, *The Effects of Changes in Foreign Exchange Rates*. Accordingly, the company has accumulated such exchange gains/losses in the reserve FCMITDA.

Ind AS 33 refers to items of income and expenses which are required by Ind AS to be recognised in the statement of profit and loss, but have been debited or credited to securities premium/ other reserves and requires these to be added to/deducted from profit or loss from continuing operations for computing the basic EPS.

In this context, accumulation of the exchange differences arising from translation of long term foreign currency monetary items in FCMITDA is permitted under the optional exemption available in Ind AS 101. Therefore, such exchange differences are not required to be reduced from profit or loss from continuing operations for the purpose of calculating basic EPS. *(ITFG 10, Issue 5)*

Calculation of EPS by a subsidiary company that is not wholly owned by its parent

Ind AS 33, *inter alia,* states that an entity shall calculate basic EPS for profit or loss attributable to ordinary equity shareholders of the parent entity. These requirements in Ind AS 33 have been provided with respect to the calculation of EPS in the CFS of an entity.

Accordingly, a subsidiary company, which is not fully owned by its parent should calculate and disclose its basic EPS as follows:

- **SFS:** In case of SFS, the 'parent entity' mentioned in relevant paragraph will imply the legal entity of which SFS are being prepared. Accordingly, when an entity presents basic EPS in its SFS, then the same shall be calculated based on the profit or loss attributable to its equity shareholders.
- **CFS:** For the purpose of calculating EPS based on CFS, the company would consider profit or loss attributable to the ordinary equity holders of the parent entity and if presented, profit or loss from continuing operations attributable to those equity holders. Profit or loss attributable to the parent entity refers to profit or loss of the consolidated entity after adjusting profit attributable to Non-Controlling Interests (NCI). *(ITFG 11, Issue 3)*

Provisions, Contingent Liabilities and Contingent Assets

The objective of this standard is to ensure that appropriate recognition criteria and measurement bases are applied to provisions, contingent liabilities and contingent assets and that sufficient information is disclosed in the notes to enable users to understand their nature, timing and amount.

Key principles

- A provision is a liability of uncertain timing and amount that arises from a past event that is expected to result in an outflow of the entity's resources.
- A provision is recognised for a legal or constructive obligation if there is a probable outflow of resources and the amount can be estimated reliably. Probable, in this context, means likely than not.
- A constructive obligation arises when an entity's actions create valid expectations of third parties that it will accept and discharge certain responsibilities.
- A provision is measured at the best estimate of the expenditure to be incurred.
- A provision is not recognised for future operating losses.
- A provision is required for a contract that is onerous.
- A provision for restructuring costs is recognised only when the general recognition criteria for provisions are met.
- Contingent liabilities are recognised only if they are present obligations assumed in a business combination i.e. there is uncertainty about the outflows but not about the existence of an obligation.
- Contingent assets are not recognised in the balance sheet. If an inflow of economic benefits is probable, then details are disclosed in the notes to the financial statements.

Guidance from ITFG clarifications

Provision for unspent Corporate Social Responsibility (CSR) expenditure

Section 135(5) of the 2013 Act (including the Companies Amendment Act, 2017) provides that every company with net worth of INR500 crore or more, or turnover of INR1,000 crore or more or a net profit of INR5 crore or more during the immediately preceding financial year should contribute at least two per cent of its average net profits (made during the three immediately preceding financial years) towards CSR. However, in case a company fails to spend the amount earmarked for CSR, then the reasons for not spending the amount is required to be disclosed in the board's report.[1]

A company may be unable to spend the CSR amount i.e. there is a shortfall in the amount that was expected to be spent as per the provisions of the 2013 Act on CSR activities and the amount actually spent at the end of a reporting period. In this case, the company may not be required to recognise a provision for the unspent amount in the financial statements.

However, if a company has already undertaken certain CSR activity for which an obligation has been created, for example, through a contractual obligation, or either a constructive obligation has arisen during the year, then in accordance with Ind AS 37, a provision for the amount of such CSR obligation, needs to be recognised in the financial statements. *(ITFG 8, Issue 1)*

1. On 31 July 2019, the Ministry of Corporate Affairs (MCA) notified the Companies (Amendment) Act, 2019. As per this, in case the CSR amount remains unspent pursuant to any ongoing CSR project undertaken by the company as per its CSR policy, then the company should transfer such unspent amount to a special account within a period of 30 days from the end of the FY. The special account should be opened by the company in any scheduled bank for the specific financial year and would be called the 'unspent CSR account'.

   In other cases, the unspent amount should be transferred to a fund specified in Schedule VII of the Companies Act, 2013 within a period of six months from the expiry of the financial year. The above amendment is not yet effective.

Opinions by EAC

Treatment of disputed amount (principal and interest) in respect of cases pending before various regulatory authorities[2]

The EAC deliberated on the following issues:

- Whether the disclosure of demands raised in respect of cases pending before various tax authorities as 'contingent liability' is correct
- Whether the interest liability that may arise on above cases is also required to be computed and disclosed as contingent liability.

Demands raised in pending cases

In accordance with the requirements of Ind AS 37, the EAC clarified that an element of judgement is required to determine if the demand raised in respect of cases pending before various statutory authorities should be provided for or instead disclosed as contingent liability. In fact, it is for the management of the entity to decide and for the auditor to assess based on the facts and circumstances of each case - whether the demand raised warrants recognition of provision or disclosure of contingent liability.

The EAC suggested that while making this judgement, all facts and circumstances available on the balance sheet date, including the following would be considered:

- The legal opinion of an expert on the possibility and extent of outcome (success or failure) of the company's cases in the court of law
- Experience of the company or other enterprises in similar cases
- Decisions of appropriate authorities, etc. should be considered.

Additionally, the EAC suggested to not merely consider expert opinion in isolation. Other factors prevailing on the balance sheet date (for example, as suggested above) should also be taken into account while making the judgement. Further, the events occurring after the balance sheet date but, before the date of finalisation of accounts would also be taken into consideration in determining whether the demand raised should be provided for or instead treated as a contingent liability.

Accounting treatment of interest that may arise on pending cases

The EAC clarified that with regard to the interest liability that may arise on demands raised in respect of such pending cases, would depend on the decision taken by respective authorities - i.e. whether interest needs to be paid in addition to the principal amount (in case the outcome does not result in favour of the company (which itself is uncertain)).

Additionally, it was clarified that in case no demand has been raised by the authorities, then this fact does not necessarily indicate that demand could not be raised in future. Accordingly, whether interest liability that may arise in respect of cases pending before various authorities requires to be disclosed as contingent liability, requires an element of judgement. The management, on the basis of all facts and circumstances available on the balance sheet date (such as the past decisions taken by the taxation and judicial authorities in similar cases, etc.) should exercise judgement.

Accounting for provision to be created for onerous contract[3]

The EAC clarified that any compensation or penalties arising from failure to fulfil the onerous contract is to be compared with the cost of fulfilling such contract to determine the least net cost of exiting from a contract. Accordingly, although it may be difficult to determine the compensation/penalty payable for failure to fulfil the contract, the same should be determined/estimated on a reasonable basis. This should be considering the contract terms so as to determine whether the contract is onerous or not and in case the contract is onerous, to determine the amount of provision to be made for such onerous contract.

Further, the EAC deliberated on elements of costs to be considered while recognition of provision in respect of onerous contract under Ind AS 37.[4]

In accordance with the principles of Ind AS 37, the EAC clarified that in case of onerous contracts, the amount that an entity would rationally pay to settle the obligation would be the lower of the following:

- The compensation or penalties arising from failure to fulfil the contract and
- The excess of the unavoidable costs of meeting the obligations under the contract from the economic benefits expected to be received under it.

2. EAC Opinion published in the December 2018 edition of the Journal 'The Chartered Accountant'
3. EAC Opinion published in the June 2019 edition of the Journal 'The Chartered Accountant'
4. It was assumed that the compensation/penalty payable for failure to fulfil the contract is more than the expected cost of fulfilling/meeting the obligations under the contract.

As the expression 'unavoidable costs of the meeting the obligations under the contract' is not defined, it was clarified that the expression 'unavoidable costs' means the costs that could not be avoided due to existence of contract. These are the costs that directly relate to the contract for example, direct labour, direct material, allocations of costs that relate directly to contract activities, etc.

Generally, the administrative overheads, finance charges, research and development expenses, sales overhead and head office expenditure etc. should not be considered while creating a provision for onerous contract, since such costs do not relate directly to a contract.

Additionally, the EAC clarified that in a contract to supply the product, the costs should include all costs till supply of the product including the cost of supplying the product (since Ind AS 37 requires an entity to provide for all the costs to fulfil the obligations under the contract).

Refer to educational material on Ind AS 37 for the following issues/topics:

Issue number	Topic
1	Guidance on classification as provisions in the financial statement with respect to: a. Amount payable for utilities like electricity, gas, etc. b. Amount payable for goods received but invoice not received c. Financial guarantee given by the parent to the bank for loan taken by its subsidiary d. Warranty obligation e. Accrued interest payable on borrowings
2	Guidance on determination of present obligation as on reporting date
3	Guidance on determining obligating event to make provisions with respect to condition of restoring the sea bed at the end of the contract period
4	Guidance on determining obligating event to make provisions with respect to promise to buy back the goods at fixed price
5	Guidance on determining obligating event to make provisions with respect to unconditional sales refund within specified period
6	Guidance on determining obligating event to make provisions with respect to uncertain future event
7	Meaning of 'Probable event'
8	Guidance on provision for warranty for repairs
9	Guidance on corresponding debit to a provision
10	Guidance on determination of best estimate
11	Guidance on selection of the discount rate to be used to determine present value of expected expense
12	Guidance on accounting treatment for recognising the impact of unwinding of discounting
13	Guidance on considering the impact of future events while determining the amount of provision
14	Guidance on recognising the reimbursement from third party of some or all of the expenditure required to settle a provision
15	Guidance on accounting for obligation to pay for decommissioning cost to the fund and additional contribution
16	Guidance on accounting for a change in recognised provision once the amount payable under the obligation becomes certain
17	Guidance on onerous contracts where there is an increase in cost of input and penalty for non-performance
18	Guidance on onerous contracts where sales of final product is at profit
19	Guidance on onerous contracts where sales of final product is at loss
20	Guidance on provision for restructuring leading to closure of units resulting in cost such as: a. Cost of employee termination b. Staff training cost c. Recruitment and relocation cost of new manager
21	Guidance on disclosure of contingent Assets
22	Guidance on provision for government levies

Operating Segments

The core principle is the disclosure of information that enables users of an entity's financial statements to evaluate the nature and financial effects of the business activities in which it engages and the economic environment in which it operates. The core principle is considered when forming judgements about how and what information is disclosed.

Key principles

- Ind AS 108 applies to entities to which Ind AS apply as notified under the 2013 Act. It is primarily a disclosure standard.
- Its core principle is that an entity is required to disclose information to enable users of its financial statements to evaluate the nature and the financial effects of the business activities in which it engages and the economic environment in which it operates.
- If a financial report contains both the CFS of a parent that is within the scope of this Ind AS as well as the parent's SFS, segment information is required only in the CFS.
- Operating segments are components of an entity about which separate financial information is available that is evaluated regularly by the Chief Operating Decision Maker (CODM) in deciding how to allocate resources and in assessing performance.
- Generally, financial information is required to be reported on the same basis as is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments.
- It requires an entity to report a measure of operating segment profit or loss and of segment assets. It also requires an entity to report a measure of segment liabilities and particular income and expense items if such measures are regularly provided to the CODM.
- It requires reconciliations of total reportable segment revenues, total profit or loss, total assets, liabilities and other amounts disclosed for reportable segments to corresponding amounts in the entity's financial statements.
- It requires an entity to report information about the revenues derived from its products or services (or groups of similar products and services), about the countries in which it earns revenues and holds assets, and about major customers, regardless of whether that information is used by management in making operating decisions.
- An entity is also required to give descriptive information about the way the operating segments were determined, the products and services provided by the segments, differences between the measurements used in reporting segment information and those used in the entity's financial statements and changes in the measurement of segment amounts from period to period.

Significant differences from IFRS[1]

IFRS 8, *Operating Segments*, requires that it is applied to the separate or individual financial statements of

an entity as well as the CFS of a group with a parent:

a. Whose debt or equity instruments are traded in public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets) or

b. That files, or is in the process of filing its financial statements or CFS with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market.

However, the applicability and exemptions to the Ind AS are governed under the 2013 Act and the Rules made thereunder. Consequently, Ind AS 108 does not include the above applicability requirements as included in IFRS 8.

1. Indian Accounting Standards (Ind AS): An Overview (Revised 2019) issued by ICAI.

Guidance from ITFG clarifications

Information about major customers where an entity operates only in one segment

Ind AS 108 is applicable to entities to which Ind AS applies. According to Ind AS 108, an entity is required to provide information about the extent of its reliance on its major customers. If revenues from transactions with a single external customer amount to 10 per cent or more of an entity's revenues, the entity should disclose that fact, the total amount of revenues from each such customer, and the identity of the segment or segments reporting the revenues. The entity need not disclose the identity of a major customer or the amount of revenues that each segment reports from that customer.

The ITFG clarified that the disclosure requirements as specified in paragraphs 32-34 of Ind AS 108 apply to all entities to which Ind AS applies including entities that have a single reportable segment.

In the case of single reportable segment companies, information regarding customers contributing to more than 10 per cent of total revenue would have to be disclosed. However, the entity need not disclose the identity of a major customer or customers, or the amount of revenues that each segment reports from that customer or those customers. *(ITFG 13, Issue 3)*

Opinion by EAC

Company's policy on transfer price for segment revenue and segment results under segment reporting[2]

The EAC deliberated on measurement principles to be adopted for inter-segment transfer for presenting segment information in accordance with Ind AS 108.

Ind AS 108 requires the amount of each segment item reported should be the measure reported to the CODM for the purposes of making decisions about allocating resources to the segment and assessing its performance. Thus, it uses the 'management approach'. Hence, the information to be reported about each segment should be measured on the same basis as the information used by CODM for purposes of allocating resources to segments and assessing segments' performance rather than that provided in accordance with the same accounting principle and policies used to prepare the financial statements.

The EAC clarified that the measurement principles to be followed for presenting segment information could be different from the accounting principles and policies followed for preparing the general purpose financial statements.

Though Ind AS 108 does not specifically mention as to how this measure should be calculated, nor does it require that the same accounting policies be used as those in preparing the financial statements. The measurement principles are also not required to be in accordance or consistent with those used in an Ind AS.

Additionally, the EAC clarified that in the given case, inter-segment transfer price of one product from particular segment to other segments should be at the measure reported to the CODM for the purposes of making decisions about allocating resources to the segment and assessing its performance. However, in case CODM uses more than one measure of an operating segment's results/assets/liabilities, the reported measures should be those that the management believes are determined in accordance with the measurement principles most consistent with those used in the entity's financial statements as per the requirements of Ind AS 108.

2. EAC Opinion published in the November 2019 edition of the Journal 'The Chartered Accountant'

Refer to educational material on Ind AS 108 for the following issues/topics:

Issue number	Topic
1	Guidance on applicability of Ind AS 108 to entities that are not required to prepare CFS
2	Guidance on whether there is an upper limit on the number of reportable segments which an entity should disclose
3	Guidance on whether an entity can omit disclosure of segment information if the management concludes that disclosing which is seriously prejudicial to the interests of the entity as concluded by management
4	Guidance on voluntary disclosure of some information about segments by entity which is not required to comply with Ind AS 108
5	Guidance on primary and secondary reporting segments
6	Guidance on exclusion of part of an entity under any operating segment inspite of earning revenue and incurring expenditure
7	Guidance on what is meant by discrete financial information
8	Guidance on whether an entity that earns no revenue can be classified as an operating segment
9	Guidance on whether activities of joint ventures or associates to be considered as operating segment
10	Guidance on significant factors for entity to identify chief operating decision maker
11	Guidance on reporting different operating segments for entities in the same industry
12	Guidance on reporting as operating segment where chief operating decision maker only reviews revenue information
13	Guidance on whether an entity is required to provide separate disclosures for each of its operating segments
14	Guidance on aggregation of segments
15	Guidance on the 'economic characteristics' that would need to be 'similar' for the purpose of aggregating operating segments
16	Guidance on when products/services, production processes, customers, distribution methods and regulatory environment are said to be of similar nature
17	Guidance on application of 10 per cent thresholds test based on profitability criteria when certain segments report profits and certain segments report losses
18	Guidance on how an entity should perform the 10 per cent test when different operating segments report different measures of segment profitability and segment assets
19	Guidance on aggregation criteria being different from the aggregation criteria
20	Guidance on selection of operating segments to achieve threshold of 75 per cent. (e.g. reportable segments constitute 72 per cent of consolidated revenue)
21	Guidance on combination of non-reportable operating segment and disclosure along with the reconciliation items under Ind AS 108
22	Guidance on disclosure requirements of an operating segment that no longer meets the quantitative thresholds in the current period but qualified as a reportable segment in the prior period
23	Guidance on disclosure of an operating segment that has never met the quantitative threshold
24	Guidance on aggregation of new businesses with existing businesses

25	Guidance on aggregation of an operating segment that does not meet quantitative threshold individually with a reportable operating segment
26	Guidance on measurement of segment's profit or loss to be reported when the CODM is provided with more than one measure of segment's profit or loss
27	Guidance on key terms such as 'segment profit', 'segment loss', 'segment assets' and 'segment liabilities' in the absence of any definition in Ind AS
28	Guidance on alignment of operating segments reported by subsidiary with that of parent entity
29	Guidance on formula to be used when inconsistent cost formula for inventory valuation, financial reporting and reports to CODM for evaluating performance is used
30	Guidance on treatment of discontinued operation under Ind AS 108
31	Guidance on disclosure requirements under Ind AS 108
32	Guidance on disclosure relating to identity of a customer which accounts for entity's revenue exceeding 10 per cent
33	Guidance on disclosure requirements for entity having only a single operating segment
34	Guidance in case the measurement bases of the information provided to the CODM differs from the measurement bases of the Ind AS financial statements
35	Guidance on 'cost to develop is excessive' in relation to geographical data need not be given if the necessary information is not available and cost to develop is excessive
36	Guidance on term 'entity's country of domicile' in context to Ind AS 108

Applicability of Ind AS

The core principle is the disclosure of information that enables users of an entity's financial statements to evaluate the nature and financial effects of the business activities in which it engages and the economic environment in which it operates. The core principle is considered when forming judgements about how and what information is disclosed.

The ITFG has dealt with a number of issues regarding applicability based on Ind AS road map. Some of the relevant principles opined by ITFG are as follows:

Guidance from ITFG clarifications

Applicability in case of net worth or listing criteria

Once a company met the threshold criteria for applicability of Ind AS, it would then be required to comply with the Ind AS road map irrespective of the fact that at a later date its net worth fell below the applicability criteria. In a situation relating to a debt-listed company, where the company met the net worth criterion on 31 March 2014 (i.e. met the net worth criteria for phase I of road map), but later its net worth fell below the specified threshold. According to ITFG, the net worth of the company should be calculated in accordance with the SFS of the company as on 31 March 2014 (i.e. when the road map for phase I companies became applicable. *(ITFG 6, Issue 1)*

> Ind AS road map would be applicable to a company when it meets the listing criteria. If a company ceased to meet the listing criteria immediately before the mandatory Ind AS application date, then it would not be required to comply with Ind AS even if it met the criteria on a prior date. (ITFG 3, Issue 8)

Certain scenarios regarding applicability of Ind AS to an entity with net worth less than INR250 crore as on 31 March 2018 were considered by the ITFG. Those scenarios are as follows:

a. *Scenario 1:* The entity which was in the process of listing, in the beginning of the year (say, on 1 April 2017) and was listed only towards the end of the financial year (i.e. by March 2018), would be covered within phase II of the corporate road map. Since the process of listing for the entity had begun at the beginning of the financial year, it would be required to prepare Ind AS financial statements for the financial year 2017-18.

b. *Scenario 2:* Where the entity was listed at the beginning of the year but was de-listed during the year, the ITFG clarified that the entity would need to comply with Ind AS from the same year (i.e. prepare Ind AS financial statements for 2017-18). The basis for above clarification was the entity was listed at the beginning of the year (2017-18) irrespective of the fact that it was delisted as at the year end.

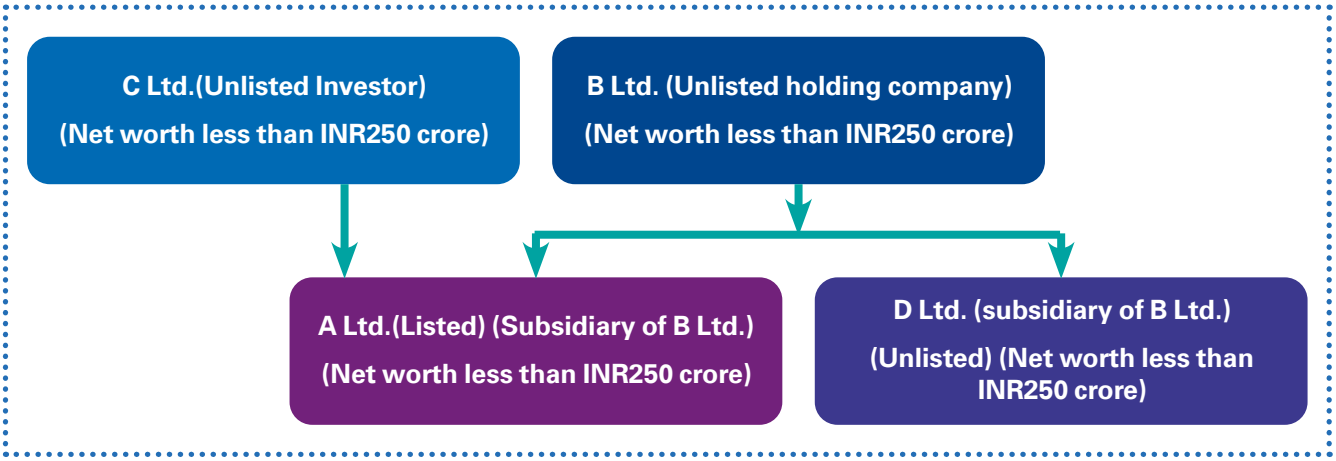
c. *Scenario 3:* If the process of listing began during the year (in May 2017) but the entity could be listed as at the end of the year i.e. March 2018. The process of listing had begun during the year (in May 2017) and the entity was listed at the end of the year. Therefore, the entity was still required to comply with Ind AS from financial year 2017-18. In addition, it was clarified, had the entity been listed during the year, say in November 2017, it would be required to provide Ind AS financial statements for the quarter ending 31 December 2017 and consequently for the year ended 31 March 2018.

d. *Scenario 4:* If an entity began process of listing during the year but was listed post March 2018, then the entity would be required to comply with Ind AS and present Ind AS financial statements for the year ending 31 March 2018.

e. *Scenario 5:* An entity (whose debentures were listed in May 2017) was neither in the process of listing at the beginning nor at the end of the year, but its debentures were de-listed in January 2018. It was clarified that such an entity would not be required to prepare Ind AS financial statements. *(ITFG 15, Issue 4)*

Ind AS applicability to entities in a group (Case no. 1)

A Ltd., a listed entity, was covered in phase II of Ind AS road map (i.e. would be required to prepare Ind AS financial statements for financial year 2017-18 and onwards) while its holding company B Ltd. is an unlisted entity with net worth less than INR250 crore. Additionally, C Ltd. is an unlisted entity which holds 25 per cent in A Ltd (i.e. C Ltd. is an investor company of A Ltd. with a net worth less than INR250 crore). D Ltd. is another fellow subsidiary of A Ltd. i.e. subsidiary of the holding B Ltd.



> In accordance with the road map for applicability of Ind AS, holding, subsidiary, joint venture or associate companies of companies (which meet the specified criteria to apply Ind AS) are required to comply with the Ind AS.

In the given case, since A Ltd. meets the criteria for Ind AS adoption, its holding company i.e. B Ltd. would also be required to adopt Ind AS from the same date.

The applicability of Ind AS to C Ltd. and D Ltd. would be as follows:

- *Applicability of Ind AS to C Ltd.:* It was clarified that as C Ltd. is just an investor, it did not qualify as a holding company of A Ltd. Additionally, it was clarified that C Ltd. was not required to comply with Ind AS simply by virtue of A Ltd. being covered under the threshold of Ind AS applicability (unless C Ltd. itself is within the road map for applicability of Ind AS). Additionally, for consolidation purposes, A Ltd., would be required to provide financial statements' data prepared in accordance with Companies (Accounting Standards) Rules, 2006, for the purpose of preparation of CFS of C Ltd. in accordance with the above said Rules.
- *Applicability of Ind AS to D Ltd.:* D Ltd. is a fellow subsidiary of A Ltd., and the requirement of Ind AS road map do not extend to D Ltd. (another fellow subsidiary of A Ltd.) merely because its holding company (B Ltd.) met the applicability criteria of Ind AS road map on account of one of its subsidiaries (A Ltd. in this case met the listing criteria) meeting the networth or the listing criteria of the applicability of Ind AS road map.

However, B Ltd. (the holding company) would be required to prepare both SFS and CFS mandatorily under Ind AS, because one of its subsidiaries (A Ltd. in this case) meets the specified criteria (either the net worth or the listing criteria) of the Ind AS road map. Therefore, subsidiaries (such as D Ltd. in the given case) may be required by the holding company) to furnish financial statements as per Ind AS for the purpose of preparing holding company's (B Ltd.) consolidated Ind AS financial statements. Such fellow subsidiaries may, however, voluntarily opt to prepare their financial statements as per Ind AS. *(ITFG 15, Issue 10)*

If a fellow subsidiary does not adopt Ind AS then it would need to have two sets of books - one for the purpose of consolidation requirement for parent and another for its own statutory filings. Another approach would be (as pointed out by ITFG) to voluntarily adopt Ind AS for statutory reporting.

Ind AS applicability to entities in a group (Case no. 2)

The Ind AS corporate road map applies to all the companies which meet the specified criteria (as mentioned below) would be required to follow Ind AS from the implementation dates prescribed in the road-map i.e. 1 April 2016 or 1 April 2017 respectively:

In this context, ITFG considered a situation where a parent (ABC Ltd) and its unlisted subsidiary PQR Ltd. (with net worth of INR50 crore) complied with Ind AS beginning 1 April 2017 considering the requirements of the road map. During financial year 2018-19, ABC Ltd. sold off substantially all of its investment in PQR Ltd. to an unrelated unlisted company, XYZ Ltd.

The issue under consideration is after the sale of its shareholding in PQR Ltd. by ABC Ltd., would PQR Ltd. and XYZ Ltd. be required to apply Ind AS.

> ITFG clarified that entity (PQR Ltd.) is required to continue to follow Ind AS, considering the requirements of Rule 9 of Ind AS rules which provides that once a company adopts Ind AS voluntarily or mandatorily would continue to prepare financial statements under the Ind AS for all the subsequent years.

XYZ Ltd. is a holding company of PQR Ltd. XYZ Ltd. does not meet the specified criteria (either the net worth or the listing criteria) of the Ind AS road map. PQR Ltd. is required to comply with Ind AS only for the sole reason that it was earlier subsidiary of ABC Ltd. Ind AS does not apply to XYZ Ltd. simply by virtue of being PQR's parent. However, it may opt to apply Ind AS voluntarily. *(ITFG 19, Issue 6)*

Capital reserve in the nature of promoter's contribution

An entity may have received grant from government, in the nature of promoter's contribution which was included in capital reserve in accordance with the principles of AS 12 . Such a capital reserve (in the nature of promoter's contribution) should be included as a part of net worth only for the purpose to assess applicability of Ind AS.

It is important to note, the definition of net worth for assessing applicability of Ind AS should not be applied by analogy for determining net worth under other provisions of the 2013 Act. *(ITFG 6, Issue 4)*

Employees Stock Option Plan (ESOP) reserve in computation of net worth

In order to compute net worth for assessing applicability of Ind AS, ESOP reserve is required to be included within net worth. The ITFG considered the Guidance Note on Accounting for Employee Share-based Payments, which., *inter alia,* provided that an enterprise should recognise as an expense (except where service received qualifies to be included as a part of the cost of an asset) the services received in an equity-settled employee share-based payment plan when it receives the services, with a corresponding credit to an appropriate equity account, say, 'Stock Options Outstanding Account'. This account is transitional in nature as it gets ultimately transferred to another equity account such as share capital, securities premium account and/or general reserve as recommended in the subsequent paragraphs of this Guidance Note.

> It is important to note that the definition of net worth for assessing applicability of Ind AS should not be applied by analogy for determining net worth under other provisions of the 2013 Act. *(ITFG 11, Issue 1)*

Applicability of Ind AS to a branch of a company incorporated outside India

A company incorporated outside India with limited liability, may have established a branch office in India, with the permission of the Reserve Bank of India (RBI), to provide consultancy services in India. Ind AS road map is applicable to a company as defined in Section 2(20) of the 2013 Act.

> According to the definition, a company means a company incorporated under the 2013 Act or under any previous company law. A branch office of a foreign company established in India does not meet the definition of a company under the 2013 Act.

Hence, Ind AS road map is not applicable to a branch of a company that is not incorporated in India. *(ITFG 12, Issue 6)*

Applicability of Ind AS road map to NBFC performing such a role but not yet registered with the RBI

A company, awaiting its registration as NBFC with the RBI, may in the meanwhile, be performing the role of NBFC. The definition of NBFC included in the Rule 4(1) of the Companies (Indian Accounting Standards) (Amendments) Rules, 2016, laying down the road map for the applicability of Ind AS to NBFCs is very wide. It covers a company which is carrying on the activity of NBFC.

Accordingly, a company which is carrying on the activity of NBFC but not registered with RBI would also be subject to the road map for the applicability of Ind AS applicable to any other NBFC.

However, the requirements with regard to registration, eligibility of a company to operate as NBFC (pending registration), etc., are governed by the RBI Act, 1934, and the Rules laid down thereon and should be evaluated by the entity based on its own facts and circumstances separately. *(ITFG 13, Issue 4)*

Ind AS applicability to NBFC entity which ceased NBFC activities

In a particular scenario, an entity, a registered stock-broker (recognised by SEBI), with a net worth of INR500 crore as on 31 March 2015 (and its debt is listed on the stock exchange) had applied for termination of its membership to the stock exchange in the month of July 2016. The acceptance of termination of membership from SEBI was received in August 2017.

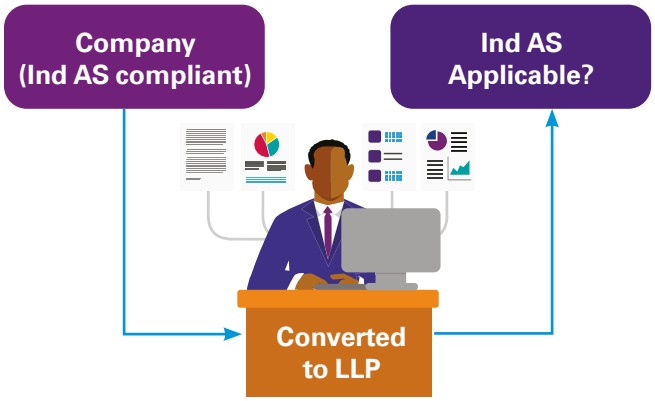
In this case, the stock-broker entity would be covered within the definition of NBFC and based on the net worth criteria, would be expected to comply with Ind AS from 1 April 2018. However, since the entity had applied for termination of its membership as a stock broker in July 2016, following possibilities arose:

- If the entity carried on the activities as NBFC during the period it was awaiting approval, then it should comply with Ind AS in accordance with the **road map applicable to NBFCs.**
- If it ceased to carry on the activities as NBFC, then it would be required to comply with corporate road map **applicable to non-NBFC companies** based on its net worth.

Accordingly, in the given scenario, on the assumption that the entity ceased to carry on the activities as NBFC from July 2016 onwards, it would be required to comply with the requirements of Ind AS from July 2016 onwards. *(ITFG 15, Issue 5)*

Applicability of Ind AS to a Limited Liability Partnership (LLP)

A Ltd. was covered in phase I of the applicability of Ind AS road map and accordingly prepared its first Ind AS financial statements for the year ended 31 March 2017. Its wholly owned subsidiary, B Private (P) Ltd. also prepared its financial statements for the year ended 31 March 2017 and thereafter for 31 March 2018 as per Ind AS even though it did not on its own meet the net worth criterion for applicability of Ind AS road map.



During the financial year 2018-19, A Ltd. undertook a restructuring exercise, pursuant to which it transferred its shareholding in B (P) Ltd. to its promoters (who are individuals and therefore, not required to comply with Ind AS). Subsequently, the promoters converted B (P) Ltd. from a company to a LLP after the due process of law.

ITFG considered whether the LLP needs to continue to prepare its financial statements under Ind AS from the financial year 2018-19 and onwards.

If a company is converted from a company into an LLP, then the 2013 Act and the Rules framed thereunder cease to apply to it. Instead as a LLP, it is governed by the provisions of the Limited Liability Partnership Act, 2008 and the Rules framed thereunder.

Accordingly, in the given case, upon conversion of B (P) Ltd. into an LLP, Ind AS would cease to apply to it. *(ITFG 18, Issue 5)*

Other opinions by EAC

Accounting treatment and disclosure requirement for contribution to exempt provident fund[1]

Defined contribution vs defined benefit plan

In accordance with the definition of defined contribution plan included in Ind AS 19, the liability of an enterprise is restricted only to the amount it contributes to a separate fund for the benefit of its employees and has no further obligation whatsoever beyond its contribution.

In case an entity has an independent exempt provident fund trust which manages its provident fund obligations towards its employees, such an entity is required to mandatorily declare interest rate not below the rate announced by the Employee's Provident Fund Organisation (EPFO). Further, if the trust is unable to meet such interest rate, then the employer has to make good the shortfall. Thus, the employer (company) guarantees a specified rate of return on the contributions made and the liability of the enterprise is not restricted to the contribution it makes to the separate fund but also extends to any deficiency in the rate of interest earned by the separate fund as compared to the rate declared by the EPFO.

Accordingly, it was clarified that in this case, actuarial risk (that benefits will cost more than expected) and investment risk fall, in substance on the company. Therefore, the exempt provident fund set up by the company is a defined benefit plan under Ind AS 19, *Employee Benefits.*

Accounting treatment of plan assets, liability, etc.

In case an employee benefit scheme is treated as defined benefit scheme, all the requirements relating to recognition, measurement and disclosures of the defined benefit expense, obligation and plan assets, etc. as contained in Ind AS 19 should follow. In accordance with Ind AS 19, the plan asset is to be measured at fair value and defined benefit obligation is to be measured at its present value using actuarial technique (projected unit credit method) and the difference between the two is to be recognised as net defined benefit liability (asset) in the balance sheet. However, gains and losses resulting from the remeasurement of net defined liability (asset) including actuarial gains and losses are to be recognised in Other Comprehensive Income (OCI).

Disclosure to be made in financial statements

An entity is required to make all the disclosures in accordance with Ind AS 19 related to the defined benefit plan in the financial statements.

1. EAC – Compendium of Opinions -Volume XXXVI (published in July 2019) -Query 1

Provision for un-encashable portion of half pay leave as per Ind AS 19[2]

The nature of un-encashable leave is similar to that of the encashable leave. The reason is that even an un-encashable leave provides a right to an employee to receive salaries and wages for the period for which he/she avails leave as during that period he/she does not render any services to the employer.

Accumulating Half Pay Leave (HPL) creates an obligation on the company because any unused entitlement increases the employee's entitlement to avail leave in future periods. Thus, a provision needs to be recognised for all these benefits and recorded as part of the cost of service rendered during the period in which the service was rendered which resulted in the entitlement.

In accordance with Ind AS 19, an obligation exists in respect of short-term accumulating compensated absences irrespective of whether these are vesting or non-vesting and is required to be recognised. Similarly, a liability in respect of other long-term compensated absences is required to be provided as per Ind AS 19.

Accordingly, it was clarified that irrespective of whether accumulating HPL could be classified as 'short-term employee benefits' or as 'other long-term employee benefits', a liability on account of compensated absences should be recognised. Additionally, this liability should be reviewed at each reporting date to recognise the effect of any change in estimates in this regard.

Provision for wage revision[3]

In accordance with the Ind AS 19 when an employee has rendered service during a period, the employee benefits which are expected to be paid in exchange for that service are required to be provided for as liability.

Further, as per the requirements of *The Framework for the Preparation and Presentation of Financial Statements in accordance with Indian Accounting Standards* (the Framework), liability is a present obligation arising from past events, the settlement of which is expected to result in an outflow of resources embodying economic benefits and a provision should be recognised where liability could be measured only by using a substantial degree of estimation provided it meets the definition of liability.

But, Ind AS 19 does not provide detailed guidance as to when and in what circumstances, employee benefits should be considered to be expected to be paid and accordingly whether there is any need to provide for the same in the financial statements. Similarly, the Framework also does not give detailed guidance on present obligation and when can it be considered to exist.

In the above regard, however, Ind AS 37, *Provisions, Contingent Liabilities and Contingent Assets* provides detailed guidance on present obligation and the circumstances in which liability/provision should be recognised. A company should determine whether there exists a present obligation and therefore, whether a provision needs to be recognised or not in the specific facts and circumstances, considering all the evidences/factors available at the reporting date.

If it is determined that a present obligation (legal or constructive) exists and other conditions as per Ind AS 37 are met, provision should be recognised. However, where it is determined that 'present obligation' does not exist or due to any other reason, provision could not be recognised, then, the company should also consider whether there is any need for disclosure as a 'contingent liability' (unless the possibility of an outflow of resources embodying economic benefits is remote).

Amortisation of goodwill in respect of subsidiaries and jointly controlled entities recognised as an asset in Consolidated Financial Statements (CFS)[4]

On the date of transition, the carrying amount of goodwill arising on consolidation of subsidiary or jointly controlled entity as per Ind AS cannot be amortised under Ind ASs. In accordance with the principles of Ind AS, the carrying amount of goodwill or goodwill acquired under business combination should be tested for impairment periodically as per the guidance under Ind AS 36.

2. EAC- November 2018 edition of ICAI Journal 'The Chartered Accountant'
3. EAC- April 2019 edition of ICAI Journal 'The Chartered Accountant'
4. EAC-June 2018 edition of ICAI Journal 'The Chartered Accountant'

Other EMs

Refer to educational material on Ind AS 2 for following issues/topics:

Issue number	Topic
1	Difference between 'Net Realisable Value (NRV)' and 'Fair Value (FV)'
2	Applicability of measurement criteria for certain type of inventories
3	Packing material and publicity material whether covered by the term 'materials and supplies awaiting use in the production process'
4	Exclusion of distribution costs from inventory
5	Recognition and disclosure of amount of reversal of any write-down of inventories
6	Free choice between First-In-First-Out (FIFO) and weighted average methods
7	Different cost formulae for inventories held at different geographical locations having similar nature and uses to it
8	Costs to be considered while determining the NRV
9	Disclosure of the carrying amount of inventories pledged as security for liabilities - whether pledge covers other kinds of charges/encumbrances
10	Accounting treatment of machinery spares- Similar to I*TFG 2, Issue 4* included in chapter 4, Tangible and intangible assets
11	Accounting treatment of excise duty[1] for the purpose of valuation of inventories

1. This issue would apply to few companies e.g. petroleum products and tobacco.

Refer to educational material on Ind AS 10 for further issues/topics:

1	Date of approval for issue of the financial statements
2	Adjustment of events occurring between end of the interim financial report and date of approval by BOD
3	Date of approval for issue as per Ind AS 10 in the event of reopening of books of accounts by the BOD
4	Events are adjusting or non-adjusting events and their treatment for financial statements for the year 2016-17 when an entity receives a demand notice for an additional amount from the Excise Department on 15 June 2017
5	Provisions to be made in the following cases for financial statements of the year 2016-17: Scenario 1 For a debtor which suffered heavy losses due to an earthquake in February 2017 and consequently became bankrupt in April 2017 Scenario 2 For a debtor which suffered heavy losses due to an earthquake after March 2017
6	Adjusting event- cost of project and profit to be adjusted in case of an adjusting event
7	Entity approached for arbitration in a case before the end of the reporting period. Whether this event is an adjusting event and treatment of contingent asset (i.e. costs which were charged to the statement of profit and loss as an expense for the year 2016-17)
8	Treatment of duty drawback credit where application not filed within time
9	Selling of goods at a discount if payments received within 15 days- whether discount would be adjusted from the sales at the end of the reporting period
10	Exception to the principle that adjusting events are those that provide evidence of conditions that existed at the end of the reporting period
11	Treatment of the fraud related to a prior financial year discovered after the end of the reporting period but before the date of approval of financial statements
12	The value of investment found fraudulently inflated after the end of the reporting period but before the approval of the financial statements
13	Disclosure requirements regarding significant non-adjusting events occurring after the end of the reporting period
14	Disclosure of proposed dividend under Ind AS
15	Difference in the treatment of interim dividend declared and paid during the year *vis-a-vis* proposed dividend
16	Treatment for dividends declared to redeemable preference shareholders after the reporting period but before the financial statements are approved for issue
17	Preparation of financial statements on a going concern basis
18	Disclosure of a significant non-adjusting event-fire in a plant after the reporting date of 31 March 2017 and expected financial effect known