Voices on Reporting

19 August 2015

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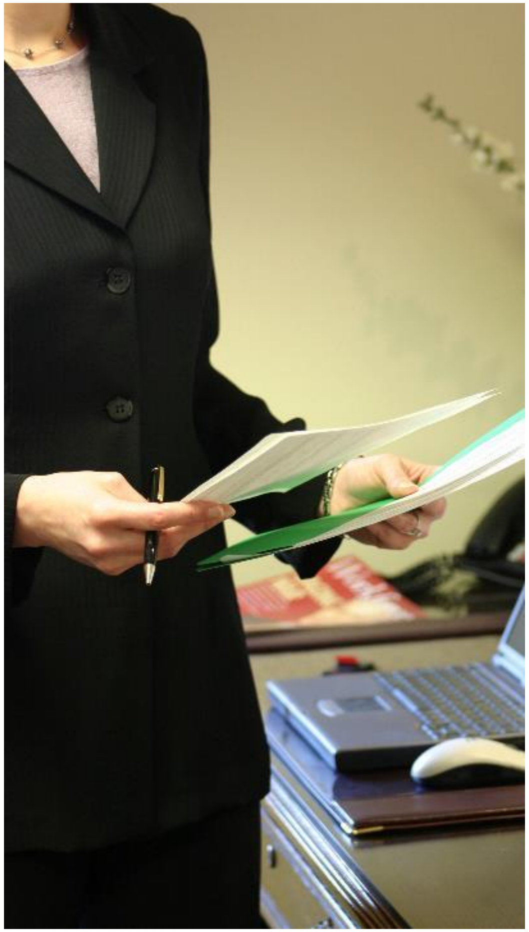
Welcome



- Series of knowledge sharing calls
- Covering current and emerging reporting issues
- Scheduled towards the end of each month
- Look out for our Accounting and Auditing Update, IFRS Notes and First Notes publications

Your speaker

Nirav Patel
Director
Accounting Advisory Services
KPMG in India

Agenda

1. **Overview of Ind AS 28, *Investment in Associates and Joint Ventures,* Ind AS 111*, Joint Arrangements* and Ind AS 112, *Disclosure of Interests in Other Entities***

2. Key differences between AS 23, *Accounting for Investment in Associates in Consolidated Financial Statements* and Ind AS 28 and between AS 27, *Financial Reporting of Interests in Joint Ventures* and Ind AS 111

3. Overview of key clarifications to IFRS 15, *Revenue from Contracts with Customers* proposed by the IASB

Agenda

1 **Overview of Ind AS 28, *Investment in Associates and Joint Ventures,* Ind AS 111*, Joint Arrangements* and Ind AS 112, *Disclosure of Interests in Other Entities***

Accounting for associates and joint ventures

Accounting for joint arrangements

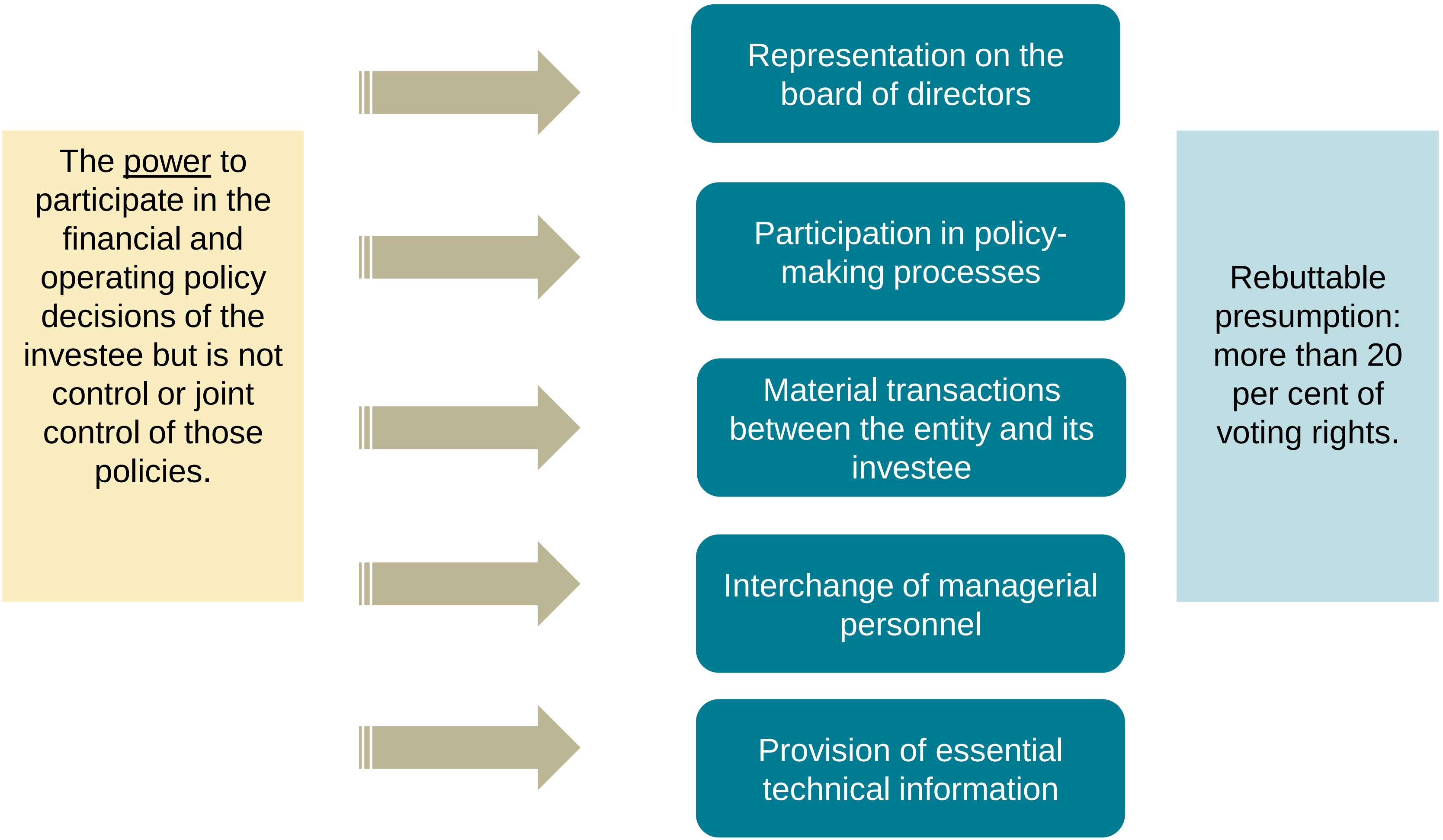
Disclosure of interests in other entities

Overview

Control	Joint control	Significant influence	No control
Consolidation	Depends on type of joint arrangement	Equity method	Financial asset

Significant influence

An **associate** is an entity over which the investor has **significant influence**.



Exemptions from applying equity method

Investment entities	Venture capital	Held for sale
Mandatory	Optional by investment	Mandatory
Fair value	Fair value	Lower of carrying amount and fair value
Profit or loss	Profit or loss	Profit or loss

Equity method

Carrying amount = Initial cost + Share of comprehensive income − Dividends paid

Includes income arising from:

- Revaluation of property
- Revaluation of plant and equipment and
- Foreign exchange translation difference.

- Many procedures for application of equity method are similar to the consolidation procedures as per Ind AS 110.

- Concepts used in accounting for the acquisition of a subsidiary are also adopted in accounting for acquisition of associates/ joint ventures.

Equity method: Loss making associate

Investment in associate

- Carrying amount
- Long-term interests that, in substance form part of the net investment

Investor recognises its share of losses

Investor discontinue recognising its share of losses unless:

- It has an obligation.
- It has made payments.

1

Overview of Ind AS 28, *Investment in Associates and Joint Ventures,* Ind AS 111*, Joint Arrangements* and Ind AS 112, *Disclosure of Interests in Other Entities*

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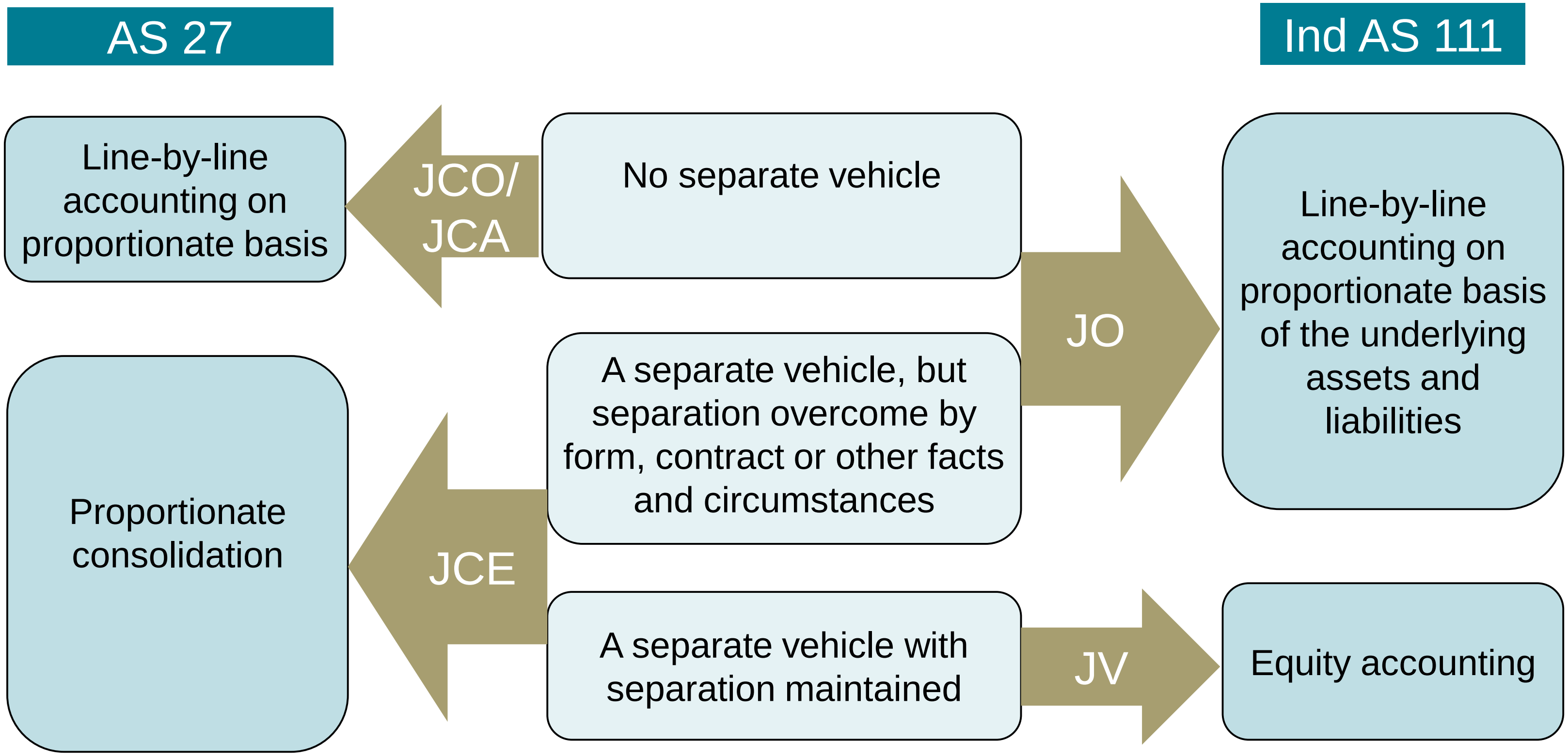
From AS 27 to Ind AS 111



JCO: Jointly controlled operation
JCA: Jointly controlled asset
JCE: Jointly controlled entity
JO: Joint operation
JV: Joint venture

Joint arrangement

A **joint arrangement** is an arrangement of which two or more parties have **joint control**.

Collective control	The parties must act together to direct the relevant activities.
Joint control	Decisions about the relevant activities require unanimous consent of the parties sharing control (contractually agreed).

Joint venture vs joint operation
Four tests

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1 Structure

Is arrangement structured through a vehicle that is separate from the parties?

No → **Joint operation**

Yes ↓

2 Legal form

Does the legal form of the separate vehicle give the parties a right to the assets, and an obligation for the liabilities, relating to the arrangement?

Yes → **Joint operation**

No ↓

3 Contractual arrangement

Do contractual arrangements give parties a right to the assets and obligations for the liabilities of arrangement?

Yes → **Joint operation**

No ↓

4 Other facts and circumstances

Do parties have rights to substantially all economic benefits of the assets of the arrangement?

Does the arrangement depend on the parties on a continuous basis for settling its liabilities?

Yes → **Joint operation**

No ↓

Joint venture

Asset side + Liability side

Other facts and circumstances test

Asset side	+	Liability side	=	Joint operation

Joint arrangements must give parties rights to substantially all economic benefits relating to the arrangement **(asset side).**

Joint arrangements must cause the arrangement to depend on the parties on a continuous basis for settling its liabilities **(liability side).**

Accounting for a joint venture

Particulars	Consolidated financial statements	Separate financial statements
Joint venturer	Equity method (Ind AS 28)	Cost or Ind AS 109
Other party to a joint venture	Equity method (if significant influence); otherwise Ind AS 109, *Financial Instruments*	Cost or Ind AS 109 (if significant influence); otherwise Ind AS 109

Accounting for a joint operation

Particulars	Consolidated financial statements	Separate financial statements
Joint operator	In effect, proportionate consolidation	
Other party to a joint operator	Account for interest in accordance with relevant Ind AS - as individual rights and obligations or as an investment	

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1 Overview of Ind AS 28, *Investment in Associates and Joint Ventures,* Ind AS 111*, Joint Arrangements* and Ind AS 112, *Disclosure of Interests in Other Entities*

Accounting for associates and joint ventures

Accounting for joint arrangements

Disclosure of interests in other entities

Objectives

Disclosure that helps users of financial statements to evaluate:

- the nature of, and risks associated with, an entity's *interests in other entities*, and
- the effects of those interests on the entity's financial position, financial performance and cash flows.

Interests in another entity refers to the contractual or non-contractual involvement that exposes an entity to variability of returns from the performance of that other entity.

Examples:

- **Equity instruments**
- **Debt instruments**
- **Provisioning of funding**
- **Liquidity support**
- **Credit enhancement**
- **Guarantees**

Scope

Interests in subsidiaries

Interests in joint arrangements and associates

An interest in unconsolidated structured entities

Sponsoring unconsolidated structured entities

Subsidiaries, Joint ventures and associates

Extended disclosure requirements, including:

Subsidiaries, JVs and associates:
Summarised financial information
Significant restrictions

JVs and associates:
Reconciliation to investor's financial statements
Fair value adjustments for acquisition of interests and adjustments for differences in accounting policies

JVs only:
Additional summarised financial information (for each material JV)
Commitments

Significant judgements and assumptions

Disclose information about significant judgements and assumptions in determining:

- That an entity controls another entity
- That an entity has joint control of an arrangement
- The types of joint arrangement when the arrangement has been structured through a separate vehicle
- That an entity has significant influence over another entity.

Disclosure is also required for changes in judgements and assumptions, if there is a change in the accounting conclusion.

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3. Overview of key clarifications to IFRS 15, *Revenue from Contracts with Customers* proposed by the IASB

Key differences between AS 23 and Ind AS 28 and between AS 27 and Ind AS 111

Applicability	
Currently, in case of a company that has an investment in an associate and/or a joint venture but does not have a subsidiary, preparation of consolidated financial statements (CFS) is not mandatory.	Under Ind AS, CFS are considered as primary financial statements. Hence, irrespective of whether a company has a subsidiary or not, if an investor has investment in associates and joint ventures, it would be required to prepare CFS.

Consideration of potential voting rights	
Currently, potential voting rights that are presently exercisable are not explicitly considered while determining significant influence by the investor.	Ind AS 28 requires that such potential voting rights that are presently exercisable through instruments such as share warrants, share call options, debt or equity instruments, or similar other instruments, should be considered in assessing whether the investor exercises significant influence over the investee.

Key differences between AS 23 and Ind AS 28 and between AS 27 and Ind AS 111

Classification	
Currently, three types of arrangements are discussed in AS 27 namely- jointly controlled operations, jointly controlled entities and jointly controlled assets. The accounting of the three arrangements depends on their legal form.	Under Ind AS, joint arrangements could either be a joint operation or a joint venture. The accounting is determined based on the rights and obligations of the parties rather than the legal form of the arrangement.

Method of accounting	
Under current practice, associates are required to be accounted using the equity method whereas for joint ventures, the standard requires that the proportionate consolidation method should be followed. Currently, the difference between the acquisition cost of investment and the share of the book value of the net assets acquired is considered as goodwill/capital reserve which is included in the carrying amount of the investment and is also disclosed separately.	Under Ind AS, an investor is required to account for its investments in both associates and joint ventures by using the equity method of accounting. While a JO would be accounted using line-by-line on proportionate basis of the underlying assets and liabilities. Under Ind AS, the goodwill or capital reserve is computed by comparing the acquisition cost of the investment with the share of net fair value of identifiable assets and liabilities rather than the book value. Goodwill is included in the carrying amount of investment but capital reserve is shown under equity.

Key differences between AS 23 and Ind AS 28 and between AS 27 and Ind AS 111

Differences in accounting periods	
Currently, no such period is prescribed for associates. AS 23 only requires an adjustment for the effect of any significant transactions or events that may have occurred between the reporting date of the associate and the investor. For joint ventures, AS 27 requires that the difference between the reporting date of the investor and joint venture should not exceed six months.	With respect to the difference between the reporting periods between the associate/joint venture and the investor's financial statements, Ind AS prescribes a maximum period of three months.

Exemption from prescribed accounting methodology	
Currently, Indian GAAP exempts application of the equity method for associates and proportional consolidation method for joint ventures in case the associate/joint venture is acquired and held exclusively with a view to dispose off in the near future or if they operate under severe long-term restrictions.	No such exemptions are provided under Ind AS. The equity method is discontinued once the investment is classified as held-for-sale under Ind AS 105, *Non- current Assets Held for Sale and Discontinued Operations.* Further, venture capital organisations/mutual funds/unit trusts and similar entities are permitted to fair value their investment (FVTPL) under Ind AS 109, *Financial Instruments* instead of applying the equity method of accounting.

Separate financial statements of the investor	
Currently, investments in associates/joint ventures are carried at cost in the separate financial statements of the investor.	Under Ind AS, in addition to carrying the investment at cost, the investors are also permitted to fair value the investment in accordance with Ind AS 109.

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3. **Overview of key clarifications to IFRS 15, *Revenue from Contracts with Customers* proposed by the IASB**

Evolution of IFRS 15

28 May 2014

IFRS 15 issued

22 July 2015

Effective date revised to 2018

30 July 2015

The IASB proposals issued

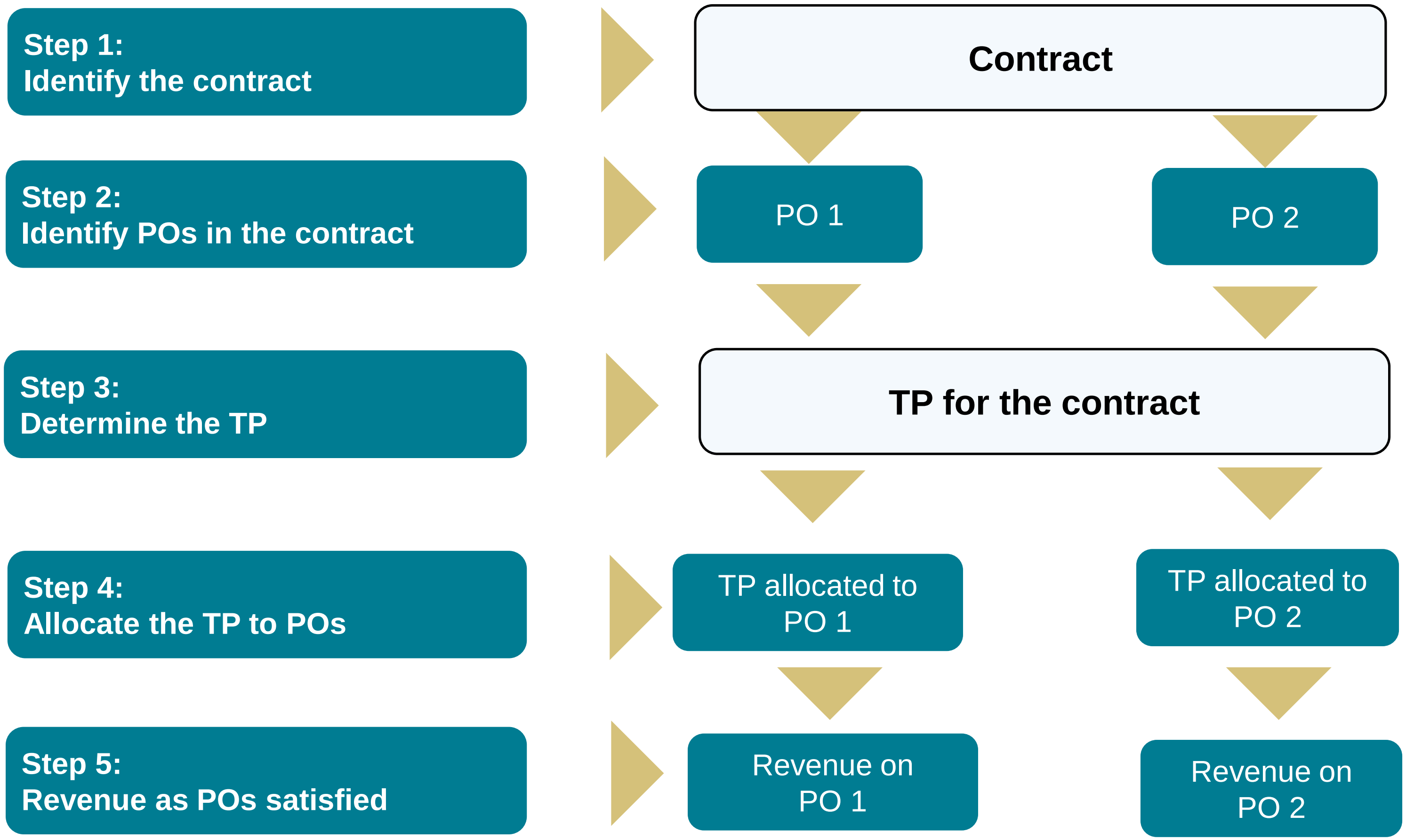
28 October 2015

Comment deadline

1 January 2018

Revised effective date of IFRS 15

Five-step model



Application guidance available on:

- Principal vs agent
- Licencing
- Transition

PO: Performance obligation TP: Transaction price

Overview of key clarifications to IFRS 15 proposed by the IASB

Identifying performance obligations

Concerns

Concept of 'distinct' within the context of a contract is new. There was a diversity in views regarding understanding of what it means for a good or service to be highly dependent on, or highly interrelated with, other goods or services promised in the contract.

Proposed clarifications

New and revised examples to illustrate when goods and services in a contract are accounted for:

- As a bundle, single performance obligation
- Individually, separate performance obligations.

New examples to illustrate - installation services, multiple items and equipment and consumables.

Overview of key clarifications to IFRS 15 proposed by the IASB

Principal vs agent considerations

Concerns

Principal vs agent evaluation is based on 'control' principle.

List of indicators for evaluating the principle/agent relationship is also provided in IFRS 15.

Concerns were raised around:

- How the control principle and the indicators in the standard work together?
- How to apply the control principle to contracts involving intangible goods or services?

Proposed clarifications

- Revised draft and new examples to clarify whether a company is acting as the principal in the transaction (recognise revenue and costs gross), or the agent (recognise commission as revenue).
- A company would apply the indicators that are relevant to the case being considered.
- Virtual/intangible goods and services are more complex - new examples to address these.

Overview of key clarifications to IFRS 15 proposed by the IASB

Licencing: recognition at a point in point or over time

Concerns

IFRS 15 provides specific guidance on assessing whether revenue from a distinct licence of intellectual property (IP) is recognised:

- At a point in time or
- Over time.

The main issue relate to determining the nature of the entity's promise in granting a licence of intellectual property.

Proposed clarifications

The IASB plans a revised draft and new examples to clarify whether revenue from a licence is recognised:

- Up-front - on the day the licence is granted
- Over time - during the licence period.

The IASB plans to provide additional guidance on when activities change the IP to which consumer has rights. The focus is on the functionality of the licence, for example:

- Movies - recognise revenue up-front
- Brands - recognise revenue over time.

Overview of key clarifications to IFRS 15 proposed by the IASB

Licencing: sales-based or usage-based royalties

Concerns

IFRS 15 includes an exception to the general requirement of estimating variable consideration. In case of sales-based or usage-based royalty promised in exchange for a licence of IP, revenue is recognised when the later of the following events occur:

- The customer's subsequent sales or usage occurs, and
- The satisfaction or partial satisfaction of the performance obligation to which some or all of the sales-based or usage-based royalty has been allocated.

The main concern was the scope and applicability of the sales-based and usage-based royalties exception.

Proposed clarifications

The IASB plans to clarify when and how to apply the exception.

- When - if the royalty relates only to a licence, or the licence is the predominant item.
- How - all or nothing. A royalty that relates to more than one thing is either in or out of the exception.

Overview of key clarifications to IFRS 15 proposed by the IASB

Transitional relief

Current requirements

IFRS 15 currently has three choices for transition:

- Full retrospective approach with no practical expedients
- Partial retrospective approach with practical expedients
- Cumulative effect approach.

Proposed clarifications

The IASB is proposing two additional practical expedients on transition to IFRS 15:

- To permit an entity to use hindsight in (i) identifying the satisfied and unsatisfied performance obligations in a contract that has been modified before the beginning of the earliest period presented; and (ii) determining the transaction price.
- To permit an entity that elects to use the full retrospective approach, to not restate completed contracts at the beginning of the earliest period presented.

Links to previous recordings of VOR

Month	Topics	Link
April 2014	▪ Companies Act, 2013 – Implementation questions ▪ SEBI corporate governance norms	Click here
May 2014	▪ Companies Act, 2013 - Matters for first board and general meetings ▪ ICAI's road map for adoption of Ind AS	Click here
June 2014	▪ Companies Act, 2013 – clarifications issued by the Ministry of Corporate Affairs (MCA)	Click here
July 2014	▪ Tax accounting standards – implementation challenges	Click here
August 2014	▪ Related party transactions – the Companies Act, 2013	Click here
September 2014	▪ Recent amendments in tax audit forms ▪ Key amendments to Clause 49 of the Equity Listing Agreement	Click here
November 2014	▪ Exposure draft on Ind AS 101, *First-time Adoption of Indian Accounting Standards* ▪ Probable benefits and challenges of Ind AS conversion	Click here
January 2015	▪ Ind AS implementation road map ▪ Revised drafts on Income Computation and Disclosure Standards (ICDS)	Click here

Links to previous recordings of VOR

Month	Topics	Link
February 2015	▪ Overview of Income Computation and Disclosure Standards (ICDS) ▪ Significant impact areas of ICDS ▪ Next steps for ICDS implementation	Click here
March 2015	▪ Overview of Section 143(12) of the Companies Act, 2013 ▪ Persons covered for reporting under Section 143(12) of the Companies Act, 2013 ▪ Reporting on frauds in various scenarios	Click here
April 2015	▪ Overview of key changes and implementation challenges for companies that adopt ICDS from this year ▪ Overview of the financial reporting and regulatory developments introduced under the Indian GAAP during the year ended 31 March 2015	Click here
May 2015	▪ Salient features of Ind AS 16, *Property, Plant and Equipment* and Ind AS 38, *Intangible Assets* ▪ Key differences between AS 10, AS 26, Ind AS 16 and Ind AS 38 ▪ Key aspects of the application guide issued by the Institute of Chartered Accountants of India (ICAI)	Click here
June 2015	▪ Overview of Ind AS 103, *Business Combinations* ▪ Key differences between AS 14 and Ind AS 103 ▪ Overview of key amendments introduced by the Companies (Amendment) Act, 2015	Click here

Links to previous recordings of VOR

Month	Topics	Link
July 2015	▪ Overview of Ind AS 110, *Consolidated Financial Statements* and Ind AS 27, *Separate Financial Statements* ▪ Key differences between AS 21, *Consolidated Financial Statements* and Ind AS 110 ▪ Overview of key relaxations for private companies from certain provisions of the Companies Act, 2013.	Click here

Q&A

KPMG in India’s IFRS institute – Re - launched

KPMG in India is pleased to re-launch IFRS Institute - a web-based platform, which seeks to act as a wide-ranging site for information and updates on IFRS implementation in India.

The website provides information and resources to help board and audit committee members, executives, management, stakeholders and government representatives gain insight and access to thought leadership publications on the evolving global financial reporting framework.

In addition to proprietary KPMG content, the website provides links to several other sources of information related to IFRS and its implementation. The site can be accessed by all interested parties at no cost. Additionally, the site provides the facility of registering as a member by providing certain minimal information.

To download KPMG content, become registered members of the website by following few easy steps.
https://www.in.kpmg.com/IFRS

You can reach us for feedback and questions at
in-fmkpmgifrsinst@kpmg.com

Sources

1. Indian Accounting Standard (Ind AS) 28, *Investments in Associates and Joint Ventures* issued by the Ministry of Corporate Affairs (MCA).
2. Ind AS 111, *Joint Arrangements* issued by the MCA.
3. Ind AS 112, *Disclosure of Interests in Other Entities* issued by the MCA.
4. Accounting Standard (AS) 23, *Accounting for Investment in Associates in Consolidated Financial Statements* issued by the Institute of Chartered Accountants of India (ICAI)
5. AS 27, *Financial Reporting of Interests in Joint Ventures* issued by the ICAI.
6. KPMG's Insights into IFRS, 11th edition 2014-15
7. KPMG's publication: Transition to Ind AS - Practical Insights
8. KPMG's publications: Accounting and Auditing Update - April 2015

Introducing IFRS Notes

Issue 2015/06

The IASB proposes clarifications to the new revenue standard

7 August 2015

On 30 July 2015, the International Accounting Standards Board (IASB) published for public consultation proposed clarifications with respect to the following topics:

- Identifying performance obligations
- Principal vs agent considerations
- Licencing, and
- Transitional relief.

The IASB's deadline for receiving comments is 28 October 2015.

Our issue of IFRS Notes provides an overview of key clarifications proposed by the IASB to IFRS 15, *Revenue from Contracts with Customers* and also highlights what the Financial Accounting Standards Board (FASB) is proposing to do in these areas.

Topics discussed in AAU and First Notes

Voices on Reporting

Accounting and Auditing Update (AAU)


ACCOUNTING AND AUDITING UPDATE

August 2015

- Impact of the new revenue standard on the real estate sector
- Pushdown accounting: A new basis of accounting in separate financial statements under U.S. GAAP
- Plugging gaps in financial reporting: FRRB's recent observations
- The IASB issues an exposure draft on the Conceptual Framework for financial reporting
- The IASB proposes clarifications to the new revenue Standard
- Regulatory updates

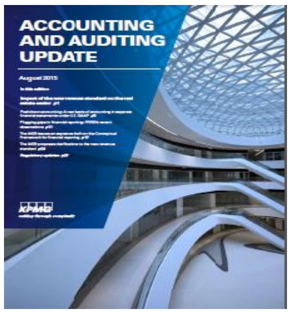
First Notes

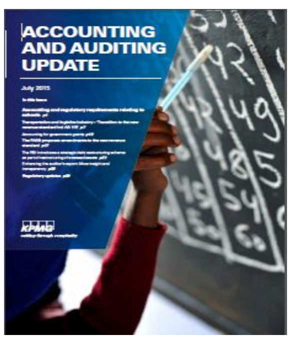

FIRST NOTES

MCA clarifications regarding circulation and filing of financial statements under the Companies Act, 2013
24 July 2015
The Ministry of Corporate Affairs (MCA) received representations from various stakeholders in relation to circulation and filing of financial statements under the Companies Act, 2013 (2013 Act). On 21 July 2015, the MCA issued a general circular no.11/2015, which provided clarifications with regard to the following provisions of the 2013 Act:
Section 101 – notice of meeting
Section 136 – right of member to copies of audited financial statements
Section 137 – copy of financial statements to be filed with the Registrar of Companies.
Our issue of First Notes provides an overview of the clarifications issued by the MCA.

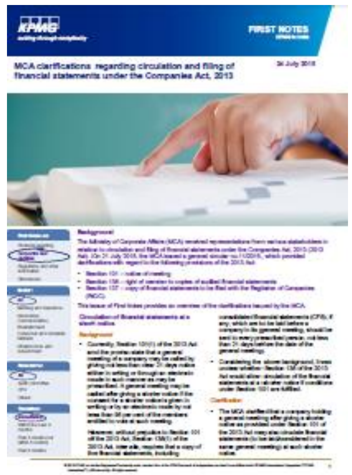
Others

Missed an issue of Accounting and Auditing Update?





Missed an issue of First Notes?



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Coming up next

September 2015

New issue of:

- **Accounting and Auditing Update**
- **First Notes**
- **IFRS Notes**

cutting through complexity

Thank you

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Feedback/queries can be sent to aaupdate@kpmg.com

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