Compendium of ITFG Clarification Bulletins

The Institute of Chartered Accountants of India

(Set up by an Act of Parliament)

New Delhi

Compendium of
ITFG Clarification Bulletins

The Institute of Chartered Accountants of India
(Set up by an Act of Parliament)
New Delhi

Clarifications given or views expressed by the Ind AS Transition Facilitation Group (ITFG) represent the views of the members of the ITFG and are not necessarily the views of the Ind AS Implementation Committee or the Council of the Institute. The clarifications/views are based on the accounting principles as on the date the Group finalises the particular clarification. The date of finalisation of each clarification Bulletin is indicated along with the clarification Bulletin. The clarification must, therefore, be read in the light of any amendments and/or other developments subsequent to the issuance of clarifications by the Group.

First Edition	:	February, 2018
Committee/Department	:	Ind AS Implementation Committee
Email	:	indas@icai.in
Website	:	www.icai.org
Price	:	Rs.150/-
ISBN	:	978-81-8441-920-7
Published by	:	The Publication Department on behalf of the Institute of Chartered Accountants of India, ICAI Bhawan, Post Box No. 7100, Indraprastha Marg, New Delhi - 110 002.
Printed by	:	Sahitya Bhawan Publications, Hospital Road, Agra 282 003/February/2018/1000 Copies

Foreword

ICAI is leading the way in embracing accounting standards of excellence and playing a pivotal role to ensure effective and smooth implementation of IFRS converged Ind AS in India. Various initiatives are undertaken for training of our accounting professionals, creating awareness and providing guidance on Ind AS. Transition to Ind AS, a comprehensive set of principle based standards, involves huge efforts. Hence, any transition of this size and nature comes with its own set of challenges. Recognising the challenges at an early stage, ICAI is making every possible effort to take these in stride, such as constitution of Ind AS Implementation Committee, way back in the year 2011.

This Committee, since formation, is actively engaged in providing guidance to the members and other stakeholders so as to enable them to implement these Standards in the same spirit in which these have been formulated. For addressing transition related queries in a timely and speedy manner, an Ind AS Transition Facilitation Group (ITFG) of the Committee is working hard in providing timely clarifications to members and others concerned. For this purpose, the Group issues clarification bulletins addressing implementation issues from time to time. Till date, the Group has brought out clarifications on 104 issues through its 14 clarification bulletins. For ease of reference of members it has been considered appropriate that a publication containing compilation of all the 104 issues clarified till date through these 14 ITFG Clarifications Bulletins be brought out along with its standard-wise indexation.

I convey my heartfelt thanks to CA. Dhinal Ashvinbhai Shah, Chairman, CA. Sanjay Vasudeva, Vice- Chairman, and all members of the Ind AS Transition Facilitation Group (ITFG) of Ind AS Implementation Committee for their tremendous contribution in bringing out these clarification bulletins.

I am confident that this publication would be of great relevance for the members and other stakeholders in implementing Ind AS.

New Delhi
February 2, 2018

CA. Nilesh S.Vikamsey
President, ICAI

Preface

In order to enable the nation with robust high quality globally acceptable accounting standards, ICAI spearheaded the implementation of IFRS-converged Indian Accounting Standards (Ind AS). Application of these standards requires high level of professional competence and skill sets. ICAI recognised this challenge at an early stage and has taken a number of steps to satisfactorily address this challenge and ensure smooth trouble free transition to new accounting standard framework. ICAI efforts have yielded the positive result and Ind AS has become a reality now as the era of Implementation of Ind AS has already begun in the country with Phase I companies who have published their financial statements prepared in accordance with Ind AS for financial year 2016-17. Phase II companies have published their half yearly results prepared in accordance with Ind AS.

ICAI is leading the way in embracing accounting standards of excellence and is committed to play an important role to ensure effective and smooth implementation of IFRS converged Ind AS in India. For this purpose, the Ind AS Implementation Committee of the ICAI is actively engaged in providing adequate guidance to members on Ind AS through its various initiatives. As the implementation of Ind AS began in the country, a number of issues were being raised by the members, preparers and other stakeholders with regard to applicability/implementation of Ind AS. In order to provide timely clarification on the issues raised, an Ind AS Transition Facilitation Group (ITFG) was constituted under the aegis of this Committee in the year 2016. The Group comprised of experts from accountancy firms, industry representatives and other eminent professionals. The group met 14 times in a span of two years to resolve the queries raised and till date have issued 14 clarification bulletins comprising 104 issues.

The purpose of this publication is to bring all the issues clarified through these 14 ITFG Clarifications Bulletins at one place for ease of reference of the members and other stakeholders.

I may apprise that the clarifications given or views expressed by the Ind AS Transition Facilitation Group (ITFG) represent the views of the members of the ITFG and are not necessarily the views of the Ind AS Implementation Committee or the Council of the Institute. The clarifications/views are based on the accounting principles as on the date the Group finalises the particular clarification. The date of finalisation of each clarification Bulletin is indicated along with the clarification Bulletin. The clarification must, therefore, be read in the light of any amendments and/or other developments subsequent to the issuance of clarifications by the Group.

I would like to convey sincere gratitude to our Honorable President, CA. Nilesh S. Vikamsey and Vice-President, CA. Naveen N D Gupta for providing us the opportunity of bringing out this publication. I am also thankful to CA. Sanjay Vasudeva, Vice-Chairman, Ind AS Implementation Committee for his efforts in all the endeavours of the Committee. I am extremely thankful to all the members of the Ind AS Transition Facilitation Group (ITFG) for their valuable contribution in bring out these clarification bulletins in a short span of time.

I deeply appreciate the technical contribution made by CA. Geetanshu Bansal, Secretary, Ind AS Implementation Committee and CA. Prachi Jain, Executive Officer in bringing out all the ITFG Clarification Bulletins. I also acknowledge CA. Geetu Jain, Project Associate and CA. Vaishali Jaggi, Project Associate in helping out in bringing this publication. I would also like to thank CA. Vidhyadhar Kulkarni, Head, Technical Directorate, ICAI, for his technical support and guidance.

I sincerely believe that this compilation of all the ITFG Clarification bulletins would help members and other stakeholders in implementing Ind AS.

New Delhi
February 2, 2018

CA. *Dhinal Ashvinbhai Shah*
Chairman,
Ind AS Implementation Committee

Contents

Tabulation of Issues: Topic-wise

Issue No.	Topic	Issue addressed	Bulletin No.	Issue No. of Bulletin	Para of Ind AS 101	Other Ind AS/AS Standards	Page No.
1	Roadmap	Applicability of Ind AS- Subsidiaries of Listed Company (different scenario)	1	2	NA	NA	1-4
2	Roadmap	Applicability of Ind AS to NBFCs in case not registered with RBI	13	4	NA	NA	4
3	Roadmap	Applicability of Ind AS to India branch office of foreign company	12	6	NA	NA	5
4	Roadmap	Applicability of Ind AS to non-corporate entities	11	7	NA	NA	5-6
5	Roadmap	Applicability of Ind AS to holding company(NBFC) of the subsidiary which is covered under the criteria of Ind AS roadmap	6	3	NA	NA	6-8
6	Roadmap	Applicability of Ind AS - Section 8 company	6	2	NA	NA	8-9
7	Roadmap	Applicability of Ind AS- Date of Transition	4	4	NA	NA	9-10
8	Roadmap	Applicability of Ind AS - change in status of listed company	3	8	NA	NA	10-11

9	Roadmap	Applicability of Ind AS to holding company when subsidiary meets the criteria for applicability of Ind AS	3	7	NA	NA	11-12
10	Roadmap	Applicability of Ind AS - associate company In case of quarterly results	3	6	NA	NA	13-14
11	Roadmap	Applicability of Ind AS to Core Investment Company (CIC)	3	2	NA	NA	14-15
12	Roadmap	Date of Transition in case a company is already preparing financials as per IFRS	2	3	Appendix A	NA	15-16
13	Roadmap	Applicability of Ind AS to an Indian subsidiary of a foreign company	2	2	NA	NA	16-17
14	Roadmap	Applicability of Ind AS - associate company Consideration of share warrants which are convertible into equity shares	3	5	NA	Ind AS 28	17-20
15	Roadmap	Applicability of Ind AS to holding, subsidiary , joint venture and associate company through direct or indirect association in case of voluntary adoption by the parent company	3	4	NA	Ind AS 28	20-21
16	Roadmap	Applicability of Ind AS to holding company, if subsidiary company incorporated for divestment purpose complies with Ind AS.	5	1	NA	Ind AS 110	21-23
17	Net worth	Applicability of Ind AS - Net Worth Criteria Treatment of ESOP Reserve	11	1	NA	NA	24

18	Net worth	Computation of net worth for Ind AS applicability- Government Grant to be considered as capital reserve	6	4	NA	AS 12	25
19	Net worth	Applicability of Ind AS - Net worth criteria	6	1	NA	NA	26-27
20	Net worth	Applicability of Ind AS - In case of Negative net worth	4	3	NA	NA	27-29
21	Net worth	Applicability of Ind AS- Net worth Criteria	1	1	NA	NA	29-30
22	Ind AS 101	Date of Transition to Ind AS	8	3	Para 6	NA	31
23	Ind AS 101	Adjustments due to other Ind AS if deemed cost exemption availed	12	10	Para 10	NA	32-33
24	Ind AS 101	Date for assessment of functional currency	1	5	Para 10	NA	33-34
25	Ind AS 101	Accounting treatment of the balance outstanding in the "Revaluation Reserve" and deferred tax on this transition revaluation reserve	8	7	Para 10, 11	Ind AS 1 Ind AS 12	34-35
26	Ind AS 101	Applicability of Ind AS 109, Financial Instruments, if financial instruments have been acquired as part of the business combinations and the exemption under paragraph C1 of Ind AS 101 availed	12	9	Para C1 & C4	Ind AS 109	35-38
27	Ind AS 101	Accounting Treatment of the Government Grant received before the date of transition and measurement of property, plant and equipment at the date of transition to Ind AS	12	2	Para D5, 10	Ind AS 20	38-39

28	Ind AS 101	Reversal of the impairment provision recognised in books as at the date of transition when exemption under paragraph D6 of Ind AS 101 availed	8	5	Para D6	Ind AS 16 Ind AS 36	40-41
29	Ind AS 101	Availment of deemed cost exemption for the assets classified as 'Assets held for sale' but which do not fulfil the criteria for classifying as held for sale in accordance with Ind AS 105 on the date of transition	10	4	Para D7AA	AS 10 Ind AS 105	41-43
30	Ind AS 101	Applicability of paragraph D7AA for capital work in progress	3	11	Para D7AA	Ind AS 16	43-44
31	Ind AS 101	Deemed cost exemption under paragraph D7AA (Treatment of intragroup profits)	12	5	Para D7AA	Ind AS 110	44-45
32	Ind AS 101	Reversal of impact of paragraph 46A of AS 11 when exemption as per paragraph D7AA of Ind AS 101 availed	7	3	Para D7AA	Para 46/46A of AS 11	45-46
33	Ind AS 101	Selective adoption of deemed cost exemption under paragraph D7AA	5	3	Para D7AA	NA	46-47
34	Ind AS 101	Treatment of Government Grant on the date of transition-In case of deemed cost exemption	5	5	Para D7AA and Para D10	Ind AS 20	47-49

35	Ind AS 101	Treatment of unadjusted processing of fees on loans taken before the date of transition -In case of deemed cost exemption	5	4	Para D7AA and Para D10	Ind AS 109	49-50
36	Ind AS 101	Applicability of paragraph D13AA on long term foreign exchange contracts	7	4	Para D13AA	Para 46/46A of AS 11	51-52
37	Ind AS 101	Capitalisation of exchange differences arising from long term foreign currency monetary items (In case of first-time adoption of Ind AS and when change in functional currency)	1	4	Para 13AA	Para 46/46A of AS 11	52-53
38	Ind AS 101	Exemption under paragraph D13AA to foreign currency loan drawn after Ind AS applicability to the entity	7	1	Para D13AA	Para 46/46A of AS 11	53-54
39	Ind AS 101	Applicability of paragraph D13AA on foreign currency swaps in case of hedged items	3	10	Para D13AA	Para 46/46A of AS 11 Ind AS 109	54-55
40	Ind AS 101	Revision of balance of Foreign Currency Monetary Item Translation Difference Account (FCMITDA) at the time of first time adoption of Ind AS on account of finance cost	2	6	Para 13AA	Ind AS 109	55-58
41	Ind AS 101	Amortisation of balance of Foreign Currency Monetary Item Translation Difference Account (FCMITDA)	2	1	Para 13AA	Para 46/46A of AS 11	58-59

42	Ind AS 101	Capitalisation of exchange differences arising from long term foreign currency monetary items in case of fixed assets(In case of first time adoption of Ind AS)	1	3	Para 13AA	Para 46/46A of AS 11	59-60
43	Ind AS 101	Accounting Treatment of interest free loan to subsidiary company when exemption under paragraph D15 of Ind AS 101 availed	10	1	Para D14, D15 & 10	Ind AS 27	60-61
44	Ind AS 101	Measurement of Investment in Subsidiary when exemption under paragraph D15 of Ind AS 101 availed	11	4	Para D14, D15, D7	NA	61-63
45	Ind AS 101	Exemption of paragraph D15 on investment in debentures of subsidiary company	7	8	Para D15	Ind AS 110 Ind AS 27 Ind AS 109	63-65
46	Ind AS 101	Exemption under paragraph D22 of Ind AS 101 in respect of intangible assets arising from service concession arrangements (toll roads)which are in progress.	7	9	Para D22	Ind AS 38	65-66
47	Ind AS 101	Accounting treatment of non-controlling interest in case of business combinations in its consolidated financial statements as on the date of transition	8	6	Para B7, C1 Para C4 of Appendix C	Ind AS 103	66-68
48	Ind AS 103	Date of acquisition (i.e. date of obtaining control)	12	8	NA	Ind AS 103	69-71

		under two scenario in case of court scheme, whether business combination is or is not under common control.					
49	Ind AS 103	Business Combinations of entities under common control	9	2	NA	Ind AS 103 Ind AS 110	71-74
50	Ind AS 103	Incorporation of effect of business combination in the standalone financial statements in case of scheme of arrangement	14	4	NA	Ind AS 103	74-75
51	Ind AS 107	Recognition of the dividend income on an investment in debt instrument in the books of an investor	8	9	NA	Ind AS 107 Ind AS 109	76-78
52	Ind AS 107	Foreign currency risk disclosure in case of option taken under paragraph D13AA of Ind AS 101	13	8	Para D13AA	Ind AS 107	78-79
53	Ind AS 108	Disclosures by the entity in case it is operating into one segment	13	3	NA	Ind AS 108	80-81
54	Ind AS 109	Valuation of financial guarantee contract	12	11	NA	Ind AS 109	82-83
55	Ind AS 109	Accounting Treatment of financial guarantee received from the Director	13	2	NA	Ind AS 109	83-85
56	Ind AS 109	Recognition of renegotiation gain/loss on Financial Instruments done in subsequent year but before the approval of financial statements	13	6	NA	Ind AS 109	85-86
57	Ind AS 109	Accounting treatment of processing fees belonging to undisbursed term loan amount	10	2	NA	Ind AS 109	86-88

58	Ind AS 109	Accounting Treatment of prepayment premium and processing fees of obtaining new loan to prepay old loan	12	4	NA	Ind AS 109	88-89
59	Ind AS 109	Accounting of Financial Guarantee Contract - Comfort Letter	12	3	NA	Ind AS 109	89-90
60	Ind AS 109	Accounting treatment of shares held as stock-in trade in accordance with Ind AS	14	5	NA	Ind AS 109, Ind AS 32, Ind AS 2	90-91
61	Ind AS 110	Accounting Treatment of loss of investment in subsidiary	13	7	NA	Ind AS 112 Ind AS 110	92-93
62	Ind AS 110	Accounting treatment of dividend distribution tax in the consolidated financial statements in case of partly-owned subsidiary - different scenarios	13	9	NA	Ind AS 110	93-96
63	Ind AS 110	Treatment of depreciation in consolidated financial statements when different method of depreciation applied by entities	11	6	NA	Ind AS 110 Ind AS 8	96-98
64	Ind AS 8	Disclosure of the new Ind AS which is not yet effective (Ind AS 115)	8	2	NA	Ind AS 8	99
65	Ind AS 12	Accounting treatment of Tax Holidays under Ind AS	11	2	NA	Ind AS 12, AS 22	100-101
66	Ind AS 12	Recognition of deferred tax asset on the tax deductible goodwill in the consolidated financial statements	10	3	NA	Ind AS 12	101-102

67	Ind AS 12	Accounting treatment of dividend distribution tax (DDT) and deferred tax liability (DTL) on the accumulated undistributed profits of the subsidiary company	9	1	NA	Ind AS 12	103-105
68	Ind AS 12	Recognition of deferred tax asset on land sold as slump sale	7	7	NA	Ind AS 12	105-107
69	Ind AS 12	Recognition of the deferred tax on the differences that are arising from adjustment of exchange difference to the cost of the asset	8	8	Para D13AA	Ind AS 12 Ind AS 21	108-110
70	Ind AS 16	Accounting Treatment of expenditure on the construction/development of railway siding, road and bridge to facilitate the construction of a new refinery	11	8	NA	Ind AS 16	111-113
71	Ind AS 16	Selection of valuation model of immovable properties	12	1	NA	Ind AS 16 Ind AS 40	113-115
72	Ind AS 16	Accounting treatment of the wrongly capitalised asset which does not meet the definition of tangible asset	8	4	Para D7AA, 10, 24, 26	Ind AS 16	115-116
73	Ind AS 16	Re-computation of Depreciation based on useful life when Ind AS 16 applied retrospectively	3	14	Para D 7AA	Ind AS 16	117-118
74	Ind AS 16	Property, plant and equipment - capitalisation of capital spares when deemed cost exemption availed for property, plant and equipment on transition to Ind AS	3	9	Para D7AA and Para 10	Ind AS 16	118-120

75	Ind AS 16	Property, Plant and Equipment - Capitalisation of expenditure on assets not owned by the company	2	5	NA	Ind AS 16	120
76	Ind AS 16	Property Plant and Equipment- Recognition Criteria of spare part as an item of property, plant and equipment and depreciation thereon	2	4	NA	Ind AS 16	120-121
77	Ind AS 16	Accounting of spare parts which meet the definition of property, plant and equipment on the date of transition	5	6	Para D 7AA	Ind AS 16	121-124
78	Ind AS 16	Accounting treatment of the Revaluation surplus as per previous GAAP on transition date and Revaluation gain arising after transition date when Ind AS 16 applied retrospectively	14	6	D5	Ind AS 16	124-125
79	Ind AS 17	Classification of land lease under Ind AS	7	5	NA	Ind AS 17	126-127
80	Ind AS 17	Straight-lining of lease payments if escalation of lease payments is different from general inflation.	5	7	NA	Ind AS 17	128-129
81	Ind AS 17	Accounting treatment of restoration costs in case of a leasehold land	14	2	NA	Ind AS 17	129-130
82	Ind AS 18	Classification of expense of providing free third party goods under Customer Loyalty Programmes	10	6		Ind AS 18	131-132
83	Ind AS 18	Revenue Recognition - Treatment of Service Tax	4	2	NA	Ind AS 18	132-133
84	Ind AS 18	Revenue Recognition - presentation of Excise Duty (Gross or net of sales)	4	1	NA	Ind AS 18	133-134

85	Ind AS 18	Whether an entity should adjust the consideration (including advance payments) for the effect of time value of money	14	3	NA	Ind AS 18	134-135
86	Ind AS 20	Accounting of below-market rate interest loan - exemption under para B10 of Ind AS 101	12	7	Para B10	Ind AS 32 Ind AS 109	136-138
87	Ind AS 20	Accounting treatment of exemption of custom duty under EPCG scheme	11	5	NA	Ind AS 20	138-140
88	Ind AS 20	Accounting treatment of the grants in the nature of promoters' contribution on the date of transition to Ind AS and post transition to Ind AS	9	3	NA	Ind AS 20	140-142
89	Ind AS 21	Determination of functional currency and presentation currency for preparation of annual financial statements in case of Group	7	2	NA	Ind AS 21	143-145
90	Ind AS 21	Identification of functional currency of an entity	3	3	NA	Ind AS 21	145-146
91	Ind AS 23	Capitalisation of Dividend Distribution Tax(DDT) as borrowing costs of the qualifying asset	13	1	NA	Ind AS 109 Ind AS 23	147-148
92	Ind AS 23	Capitalising of the processing fees as borrowing costs when the loans are specifically borrowed for the purpose of a qualifying asset	14	1	NA	Ind AS 109 Ind AS 23	149-150
93	Ind AS 24	Whether sitting fees paid to independent director and Non-executive director is required to be disclosed in the financial statements prepared as per Ind AS	11	9	NA	Ind AS 24	151-152

94	Ind AS 27	Post Ind AS adoption accounting treatment of profit share from investment in limited liability partnership which is under joint control (in separate financial statements)	5	8	NA	Ind AS 111 Ind AS 27 Ind AS 109	153-154
95	Ind AS 27	Measurement of investment in subsidiaries at cost if valued at fair value on date of transition	3	12	Para D15	Ind AS 27 Ind AS 109	154-155
96	Ind AS 32	Computation of financial liability in case of convertible debentures sharing same coupon rate and market rate	13	10	NA	Ind AS 32	156-157
97	Ind AS 32	Treatment of dividend on financial instruments declared after the end of the reporting period	7	6	NA	Ind AS 32 Ind AS 10	157-158
98	Ind AS 32	Treatment of optionally convertible preference shares in Standalone financial statements and consolidated financial statements	14	7	NA	Ind AS 32, Ind AS 27, Ind AS 110	158-160
99	Ind AS 33	Presentation of earning per share for separate and consolidated financial statements	11	3	NA	Ind AS 33	161-162
100	Ind AS 33	Treatment of Foreign Currency Monetary Item Translation Difference Account for the purpose of calculation of basic earnings per share (EPS)	10	5		Ind AS 33 Para 46/46A of AS 11	162-163
101	Ind AS 37	Whether provision for unspent Corporate Social Responsibility expenditure is required to be made as per Ind AS	8	1	NA	Ind AS 37	164

102	Ind AS 38	Applicability of revenue based amortisation for intangible assets arising service concession arrangements in respect of toll roads for new arrangements entered after the date of transition	3	13	Para D22	Ind AS 38(Para 7AA)	165-166
103	Schedule III	Disclosure of operating profit on the face of Statement of Profit and Loss in accordance with Ind AS based Schedule III	13	5	NA	NA	167-168
104	Schedule III	Applicability of Ind AS based Schedule III on voluntary adoption of Ind AS	3	1	NA	NA	168-169

Applicability related Issues: Roadmap

Applicability of Ind AS- Subsidiaries of Listed Company (different scenario)

Issue 1: **Company A is a listed company and has three Subsidiaries Company X, Company Y and Company Z. As on 31st March 2014, the net worth of Company A is ₹ 600 Crores, net worth of Company X is ₹ 100 Crores, Company Y is ₹ 400 Crores and Company Z is ₹ 210 Crores. All the three subsidiaries are non-listed public companies.**

Case A During the financial year 2014-15, Company A has sold off its entire investment in Company X on 31st December 2014. Therefore, Company X is no longer a subsidiary of Company A for the purposes of preparation of financial statements as on 31st March 2015. Should Company X prepare its financial statements as per the Companies (Accounting Standards) Rules, 2006 or the Companies (Indian Accounting Standards) Rules, 2015?

Case B During the financial year 2015-16, Company A has sold off its investment in Company Y on 31st December, 2015. Therefore, Company Y is no longer a subsidiary of Company A for the purposes of preparation of financial statements as on 31 March 2016. Should Company Y prepare its financial statements as per the Companies (Accounting Standards) Rules, 2006 or the Companies (Indian Accounting Standards) Rules, 2015?

Case C During the financial year 2016-17, Company A has sold off its investment in Company Z on 31st December 2016, therefore company Z is no longer a subsidiary of Company A for the purposes of preparation of financial statements as on 31 March 2017. Should Company Z prepare its financial statements as per the Companies (Accounting Standards) Rules, 2006 or the Companies (Indian Accounting Standards) Rules, 2015?

Response: Rule 4(1)(ii)(c) of the Companies (Indian Accounting Standards) Rules, 2015, states as under:

> *(4) (1) The Companies and their auditors shall comply with the Indian Accounting Standards (Ind AS) specified in Annexure to these rules in preparation of their financial statements and audit respectively, in the following manner, namely:-*
>
> *(ii) the following companies shall comply with the Indian Accounting Standards (Ind AS) for the accounting periods beginning on or after*

1st April, 2016, with the comparatives for the periods ending on 31st March, 2016, or thereafter, namely:-

(a) companies whose equity or debt securities are listed or are in the process of being listed on any stock exchange in India or outside India and having net worth of rupees five hundred crore or more;

(b) companies other than those covered by sub-clause (a) of clause (ii) of sub-rule(1) and having net worth of rupees five hundred crore or more;

(c) holding, subsidiary, joint venture or associate companies of companies covered by sub-clause (a) of clause (ii) of sub- rule (1) and sub-clause (b) of clause (ii) of sub- rule (1) as the case may be;

Rule 4(2) of the Companies (Indian Accounting Standards) Rules, 2015, states as under:

2) *For the purposes of calculation of net worth of companies under sub-rule (1), the following principles shall apply, namely:-*

(a) the net worth shall be calculated in accordance with the stand-alone financial statements of the company as on 31st March, 2014 or the first audited financial statements for accounting period which ends after that date;

(b) for companies which are not in existence on 31st March, 2014 or an existing company falling under any of thresholds specified in sub-rule (1) for the first time after 31st March, 2014, the net worth shall be calculated on the basis of the first audited financial statements ending after that date in respect of which it meets the thresholds specified in sub-rule (1).

Explanation.- For the purposes of sub-clause (b), the companies meeting the specified thresholds given in sub-rule (1) for the first time at the end of an accounting year shall apply Indian Accounting Standards (Ind AS) from the immediate next accounting year in the manner specified in sub-rule (1).

Rule (9) of the Companies (Indian Accounting Standards) Rules, 2015, states that:

"Once a company starts following the Indian Accounting Standards (Ind AS) either voluntarily or mandatorily on the basis of criteria specified in sub-rule (1), it shall be required to follow the Indian Accounting Standards (Ind AS) for all the subsequent financial statements even if any of the criteria specified in this rule does not subsequently apply to it".

In view of the above requirements, Company A meets the criteria as specified in the Rule 4(2) (a) of the Companies (Indian Accounting Standards) Rules, 2015, on 31st March, 2014. Accordingly, the Companies (Indian Accounting Standards) Rules, 2015, will become applicable to the Company on mandatory basis from accounting periods commencing 1st April, 2016.

As per the Rule 4(1)(ii)(c) of the Companies (Indian Accounting Standards) Rules, 2015, a holding, subsidiary, joint venture or associate company of a Company to which the Companies (Indian Accounting Standards) Rules, 2015 applies will be required to follow the Companies (Indian Accounting Standards) Rules, 2015 for preparing and presenting its financial statements.

In the abovementioned case, Company A has net worth of more than ₹ 500 crore in the financial year ending 31 March 2014. Therefore, ordinarily Company A along with its subsidiaries will have to apply Indian Accounting Standards (Ind ASs) for preparing financial statements for the accounting periods commencing 1st April, 2016, except in situations covered by Case A and Case B as discussed below.

Case A

Company A has sold off its entire investment in Company X on 31st December, 2014; Company X is no longer a subsidiary of Company A as at the beginning of 1st April, 2016. Therefore, in this case, Company X would continue to prepare financial statements for the accounting periods commencing 1st April, 2016, as per the Companies (Accounting Standards) Rules, 2006.

Case B

Company A has sold its investment in subsidiary Company Y on 31st December, 2015, in consequence of which Company Y is no longer subsidiary of Company A as at the beginning of 1st April, 2016. Therefore, the Companies (Indian Accounting Standards) Rules, 2015 will not be applicable to Company Y. Therefore, Company Y would continue to prepare financial statements for accounting periods commencing April 1, 2016 under the Companies (Accounting Standards) Rules, 2006.

Case C

In the given case, Company A has sold its investment in subsidiary Company Z on 31st December, 2016; therefore, Company Z was a subsidiary of Company A as at the beginning of 1st April, 2016. Company Z being subsidiary of Company A as at the beginning of 1st April, 2016, would have to prepare financial statements for the accounting periods commencing 1st April, 2016 as per the Companies (Indian Accounting Standards) Rules, 2015.

(ITFG Clarification Bulletin 1, Issue 2)
(Date of finalisation: January 16, 2016)

Applicability of Ind AS to NBFCs in case not registered with RBI

Issue 2: **A Company ABC Ltd. performs role of NBFC and has applied for the registration as NBFC which is awaited from the Reserve Bank of India (RBI).**

Whether roadmap for the applicability of Ind AS as applicable to NBFCs also applies to the Company ABC Ltd., which performs role of NBFC however, it is not registered with the RBI?

Response: Rule 4(1)(iii) of the Companies (Indian Accounting Standards) (Amendments) Rules, 2016 lays down the roadmap for the applicability of Ind AS to NBFCs. As per the said rules, “Non-Banking Financial Company” means *a Non-Banking Financial Company as defined in clause (f) of section 45-I 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*.

In view of the above, it is pertinent to note that the above definition covers a company which is carrying on the activity of Non-Banking Financial Company. The definition of NBFC is given under the RBI Act, 1934. Hence the company which is carrying on the activity of NBFC but not registered with RBI will also be subject to the roadmap for the applicability of Ind AS 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 Reserve Bank of India Act, 1934 and Rules laid down thereon and should be evaluated by the entity based on its own facts and circumstances separately.

(ITFG Clarification Bulletin 13, Issue 4)
(Date of finalisation: January 16, 2018)

Applicability of Ind AS to India branch office of foreign company

Issue 3: **ABC & Company incorporated in US with limited liability, has established a branch office in India, with the permission of the Reserve Bank of India (RBI), to provide consultancy services in India. The branch office remits the amounts earned by it to ABC & Co. (i.e. Head office) net of applicable Indian taxes and subject to RBI guidelines.**

As on April 1, 2016, it has more than 500 crore balance as "Head office account". Whether the India branch office of ABC Co. will be required to comply with Ind AS?

Response: As per the roadmap issued by the MCA, "company" as defined in clause (20) of section 2 of the Companies Act, 2013 is required to comply with Ind AS. Section 2(20) of the Act defines company as follows:

"company" means *a company incorporated under this Act or under any previous company law;*

The branch office of a foreign company established in India is not incorporated under the Act. It is only an establishment of a foreign company in India. The Branch office is just an extension of the foreign company in India.

Further, as per Rule 6 of the Companies (Indian Accounting Standards) Rules, 2015, "*Indian company which is a subsidiary, associate, joint venture and other similar entities of a foreign company shall prepare its financial statements in accordance with the Indian Accounting Standards (Ind AS) if it meets the criteria as specified in sub-rule (1)*."

In accordance with the above, it may be noted that Branch office of a foreign company is not covered under rule 6 as mentioned above. Accordingly, in the given case, the branch office of ABC& Co. is not required to comply with Ind AS.

(ITFG Clarification Bulletin 12, Issue 6)
(Date of finalisation: October 23, 2017)

Applicability of Ind AS to non-corporate entities

Issue 4: **A Ltd. is a first-time adopter of Ind AS. It had incorporated a partnership firm with B Ltd. namely, M/s A&B Associates. Whether Ind AS will be applicable to M/s A & B Associates by virtue of the fact that Ind AS is applicable to A Ltd?**

Also clarify, whether Ind AS will be applicable to non-corporate entities?

Response: The applicability of Ind AS has been specified for classes of companies specified in Rule 4 of Companies (Indian Accounting Standards) Rules, 2015. Indian Accounting Standards notified under the Companies (Indian Accounting Standards) Rules, 2015, are applicable for the corporates only. Non- corporates are required to follow the accounting standards issued by the Institute of Chartered Accountants of India. They cannot be applied by non-corporate entities even voluntarily.

However, in case, a relevant regulator specifically provides for implementation of Ind AS, the non-corporate entities shall apply Ind AS, for example, SEBI has mandated implementation of Ind AS for Infrastructure Investment Trusts (InvITs) and Real Estate Investment Trusts (REITs). Similarly, if Central Government notifies certain body corporate under clause (1)(4)(f) of Companies Act, 2013, such entities will be required to apply Ind AS. For other non-company entities, Accounting Standards issued by the ICAI shall be applicable and there will be no option to follow Ind AS to such entities.

Accordingly, in the given case, Ind AS is not applicable to partnership firms. However, for the purpose of consolidation, the partnership firm will be required to provide financial statements data prepared as per Ind AS to A Ltd provided the partnership qualifies as a subsidiary/joint venture/associate of A Ltd.

(ITFG Clarification Bulletin 11, Issue 7)
(Date of finalisation: July 31, 2017)

Applicability of Ind AS to holding company (NBFC) of the subsidiary which is covered under the criteria of Ind AS roadmap

Issue 5: **Company X is falling under Phase II of MCA roadmap for companies and hence Ind AS are applicable to it from the financial year 2017-18. Company X is a subsidiary of Company Y. Company Y is an unlisted NBFC company having net worth of ₹ 285 crores. What will be the date of applicability of Ind AS for company X and company Y? If Ind AS applicability date for parent NBFC is different from the applicability date of corporate subsidiary, then, how will the consolidated financial statements of parent NBFC be prepared?**

Response: Rule 4(1)(iv)(b) of Companies (Indian Accounting Standards)

Rules, 2015 read with Companies (Indian Accounting Standards) (Amendment) Rules, 2016 states as under:

" ....

(b) The following NBFCs shall comply with the Indian Accounting Standards (Ind AS) for accounting periods beginning on or after the 1st April, 2019, with comparatives for the periods ending on 31st March, 2019, or thereafter-

> *(A) NBFCs whose equity or debt securities are listed or in the process of listing on any stock exchanges in India or outside India and having net worth less than rupees five hundred crore;*
>
> *(B) NBFCs, that are unlisted companies, having net worth of rupees two-hundred and fifty crore or more but less than rupees five hundred crore; and*
>
> *(C) holding, subsidiary, joint venture or associate companies of companies covered under item (A) or item (B) of sub-clause (b), other than those already covered in clauses (i), (ii) and (iii) of sub-rule (1) or item (B) of sub-clause (a) of clause (iv)."*

In accordance with the above, it may be noted that NBFCs having net worth of less than 500 crore shall apply Ind AS from 1.4.2019 onwards. Further, the holding, subsidiary, joint venture or associate company of such an NBFC other than those covered by corporate roadmap shall also apply Ind AS from 1.4.2019.

Further, explanation to clause (iv), states as under:

> *"Explanation. – For the purposes of clause (iv), if in a group of Companies, some entities apply Accounting Standards specified in the Annexure to the Companies (Accounting Standards) Rules, 2006 and others apply accounting standards as specified in the Annexure to these rules, in such cases, for the purpose of individual financial statements, the entities should apply respective standards applicable to them. For preparation of consolidated financial statements, the following conditions are to be followed, namely:-*
>
> *(i) where an NBFC is a parent (at ultimate level or at intermediate level), and prepares consolidated financial statements as per Accounting Standards specified in the Annexure to the Companies (Accounting Standards) Rules, 2006, and its subsidiaries, associates and joint ventures, if covered by clause (i), (ii) and (iii) of sub-rule (1) has to provide the relevant financial statement data*

in accordance with the accounting policies followed by the parent company for consolidation purposes (until the NBFC is covered under clause (iv) of sub-rule (1);

(ii) where a parent is a company covered under clause (i), (ii) and (iii) of sub-rule (1) and has an NBFC subsidiary, associate or a joint venture, the parent has to prepare Ind AS- compliant consolidated financial statements and the NBFC subsidiary, associate or a joint venture has to provide the relevant financial statement data in accordance with the accounting policies followed by the parent company for consolidation purposes (until the NBFC is covered under clause (iv) of sub-rule (1)."

Accordingly, in the given case, Company Y (NBFC) shall apply Ind AS from 1.4.2019. Company X shall apply Ind AS in its individual financial statements from financial year 2017-18 (as per the corporate roadmap) and for the financial year 2017-18 and 2018-19, Company X shall also prepare its individual financial statements as per the Companies (Accounting Standards) Rules, 2006 to facilitate the preparation of consolidated financial statement by parent Company Y (NBFC).

(ITFG Clarification Bulletin 6, Issue 3)
(Date of finalisation: November 19, 2016)

Applicability of Ind AS - Section 8 Company

Issue 6: **Company X Ltd. is being covered under Phase I of Ind AS and needs to apply Ind AS from financial year 2016-17. Company Y which is an associate company of Company X Ltd. is a charitable organisation and registered under section 8 of the Companies Act, 2013.**

Whether Company Y is required to comply with Ind AS from financial year 2016-17?

Response: Rule 4(1)(ii) of Companies (Indian Accounting Standards) Rules, 2015, states as under:

(ii) the following companies shall comply with the Indian Accounting Standards (Ind AS) for the accounting periods beginning on or after 1st April, 2016, with the comparatives for the periods ending on 31st March, 2016, or thereafter, namely:-

(a) companies whose equity or debt securities are listed or are in the process of being listed on any stock exchange in India or outside India and having net worth of rupees five hundred crore or more;

(b) *companies other than those covered by sub-clause (a) of clause (ii) of sub-rule (1) and having net worth of rupees five hundred crore or more;*

(c) *holding, subsidiary, joint venture or associate companies of companies covered by sub-clause (a) of clause (ii) of sub-rule (1) and sub-clause (b) of clause (ii) of sub- rule (1) as the case may be; and".*

In accordance with the above, it may be noted that holding, subsidiary, joint venture, **associate** companies of companies falling under any of the thresholds specified in Rule 4(1)(ii) are required to comply with Ind AS from financial year 2016-17.

Further, it may be noted that the companies covered under Section 8 are required to comply the provisions of the Companies Act, 2013, unless and until any exemption is provided. Section 8 companies are not exempted from the requirements of section 133 and section 129 of the Companies Act, 2013.

In view of the above, in the given case, Company Y will be required to apply Ind AS from financial year 2016-17.

(ITFG Clarification Bulletin 6, Issue 2)
(Date of finalisation: November 19, 2016)

Applicability of Ind AS- Date of Transition

Issue 7: **A company covered under Phase I, having net worth of ₹ 600 crores, decides to give comparatives for F.Y. 2015-16 and F.Y. 2014-15. What should be date of transition in this case?**

***Response*:** Appendix A to Ind AS 101, *First- time Adoption of Indian Accounting Standards,* defines date of transition as follows:

> *"The beginning of the earliest period for which an entity presents full comparative information under Ind ASs in first Ind AS financial statements"*

The definition of the date of transition as stated above therefore permits an entity to select its date of transition. However, Rule 4(1)(i) and (ii) of the Companies (Indian Accounting Standards) Rules, 2015, state as under:

> *"The Companies and their auditors shall comply with the Indian Accounting Standards (Ind AS) specified in Annexure to these rules in preparation of their financial statements and audit respectively, in the following manner, namely:-*

(i) *any company may comply with the Indian Accounting Standards (Ind AS) for financial* statements for accounting periods beginning on or after 1st April, 2015, with the comparatives for the periods ending on 31st March, 2015, or thereafter;

(ii) the following companies shall comply with the Indian Accounting Standards (Ind AS) for the accounting periods beginning on or after 1st April, 2016, with the comparatives *for the periods ending on 31st March, 2016, or thereafter, namely…".*

In the given case, the Company is required to mandatorily adopt Ind AS from April 1, 2016, i.e., for the period 2016-17, and with comparatives as per Ind AS for 2015-16. Accordingly, the beginning of the comparative period will be April 1, 2015, which will be considered as the date of transition as per Ind AS. Therefore, the date of transition to Ind AS shall be April 1, 2015. The company cannot have the date of transition at April 1, 2014.

(ITFG Clarification Bulletin 4, Issue 4)
(Date of finalisation: August 19, 2016)

Applicability of Ind AS - change in status of listed company

Issue 8: **As on March 31, 2014, Company A is a listed company and has a net worth of 50 crore. As on March 31, 2015, the company is no more a listed company. Whether Company A is required to comply with Ind AS from financial year 2017-18.**

Response**:** Rule 4(1)(iii) of the Companies (Indian Accounting Standards) Rules, 2015, states as under:

"(iii) the following companies shall comply with the Indian Accounting Standards (Ind AS) for the accounting periods beginning on or after 1st April, 2017, with the comparatives for the periods ending on 31st March, 2017, or thereafter, namely:-

(a) companies whose equity or debt securities are listed or are in the process of being listed on any stock exchange in India or outside India and having net worth of less than rupees five hundred crore;

(b) companies other than those covered in clause (ii) of sub- rule (1) and sub clause (a) of clause (iii) of sub-rule (1), that is, unlisted companies having net worth of rupees two hundred and fifty crore or more but less than rupees five hundred crore.

(c) holding, subsidiary, joint venture or associate companies of companies

covered under sub-clause (a) of clause (iii) of sub- rule (1) and sub-clause (b) of clause (iii) of sub- rule (1), as the case may be".

Further, Rule 4(2) of the Companies (Indian Accounting Standards) Rules, 2015, states as under:

"(2) *For the purposes of calculation of net worth of companies under sub-rule (1), the following principles shall apply, namely:-*

(a) *the net worth shall be calculated in accordance with the stand-alone financial statements of the company as on 31st March, 2014 or the first audited financial statements for accounting period which ends after that date;*

(b) *for companies which are not in existence on 31st March, 2014 or an existing company falling under any of thresholds specified in sub-rule (1) for the first time after 31st March, 2014, the net worth shall be calculated on the basis of the first audited financial statements ending after that date in respect of which it meets the thresholds specified in sub-rule (1).*

Explanation. - For the purposes of sub-clause (b), the companies meeting the specified thresholds given in sub-rule (1) for the first time at the end of an accounting year shall apply Indian Accounting Standards (Ind AS) from the immediate next accounting year in the manner specified in sub-rule (1)."

In view of the above requirements, it may be noted that immediately before the mandatory applicability date, if the threshold criteria for a company are not met, then it shall not be required to comply with Ind AS, irrespective of the fact that as on March 31, 2014, the criteria was met.

In the given case, before the mandatory applicable date (i.e. 2017-18), Company A ceases to be a listed company. Accordingly, it will not be required to apply Ind AS from FY 2017-18.

(ITFG Clarification Bulletin 3, Issue 8)
(Date of finalisation: June 22, 2016)

Applicability of Ind AS to holding company when subsidiary meets the criteria for applicability of Ind AS

Issue 9: **Company X (Listed entity) has a net worth of above ₹ 500 crore and hence required to comply with Ind AS from financial year 2016-17. Company Y (Unlisted entity), on a standalone basis, has net worth below ₹ 250 crore and hence it is not required to comply with Ind AS.**

Company Y acquires shares of Company X during financial year 2016-17, whereby Company Y becomes the holding company of Company X.

Whether Company Y will be required to comply with Ind AS from financial year 2016-17, given that it has now become a holding company of Company X during FY 2016-17?

<u>Response</u>**:** Rule 4(1) (ii) of Companies (Indian Accounting Standards) Rules, 2015, states as under:

(ii) the following companies shall comply with the Indian Accounting Standards (Ind AS) for the accounting periods beginning on or after 1st April, 2016, with the comparatives for the periods ending on 31st March, 2016, or thereafter, namely:-

(a) companies whose equity or debt securities are listed or are in the process of being listed on any stock exchange in India or outside India and having net worth of rupees five hundred crore or more;

(b) companies other than those covered by sub-clause (a) of clause (ii) of sub-rule (1) and having net worth of rupees five hundred crore or more;

(c) holding, subsidiary, joint venture or associate companies of companies covered by sub- clause (a) of clause (ii) of sub-rule (1) and sub-clause (b) of clause (ii) of sub- rule (1) as the case may be; and".

In accordance with the above, it may be noted that holding, subsidiary, joint venture, associate companies of companies falling under any of threshold specified Rule 4(1)(ii) are required to comply with Ind AS from financial year 2016-17 or 2017-18, as the case may be.

In the given case, Company X is required to adopt Ind AS from financial year 2016-17, since net worth of Company X is more than ₹ 500 crore. Company Y has acquired shares of Company X resulting in Company Y becoming holding company of Company X during the financial year 2016-17. Accordingly, Company Y will prepare Ind AS financial statements for the year ending March 31, 2017.

(ITFG Clarification Bulletin 3, Issue 7)
(Date of finalisation: June 22, 2016)

Applicability of Ind AS - associate company In case of quarterly results

Issue 10: **Company X, on a standalone basis, has a net worth of above ₹ 500 crore and hence required to comply with Ind AS from financial year 2016-17. Company Y (listed entity), on a standalone basis, has net worth of above ₹ 250 crore but below ₹ 500 crore and therefore required to comply with Ind AS from financial year 2017-18.**

Company X acquires shares of Company Y resulting in Company Y becoming an associate of Company X on October 31, 2016, but before approval of the results for the quarter ended September 2016.₹

Whether Company Y will be required to comply with Ind AS from financial year 2016-17 or it will comply from financial year 2017-18? If the response is that compliance is from the financial year 2016-17, would the financial results of Company Y for the quarter ended September 30, 2016 be prepared in accordance with Ind AS?

***Response*:** Rule 4(1) (ii) of Companies (Indian Accounting Standards) Rules, 2015, states as under:

(ii) the following companies shall comply with the Indian Accounting Standards (Ind AS) for the accounting periods beginning on or after 1st April, 2016, with the comparatives for the periods ending on 31st March, 2016, or thereafter, namely:-

(a) companies whose equity or debt securities are listed or are in the process of being listed on any stock exchange in India or outside India and having net worth of rupees five hundred crore or more;

(b) companies other than those covered by sub-clause (a) of clause (ii) of sub-rule (1) and having net worth of rupees five hundred crore or more;

(c) holding, subsidiary, joint venture or associate companies of companies covered by sub- clause (a) of clause (ii) of sub-rule (1) and sub-clause (b) of clause (ii) of sub- rule (1) as the case may be;

In accordance with the above, it may be noted that holding, subsidiary, joint venture, associate companies of companies falling under any of the thresholds specified in Rule 4(1)(ii) are required to comply with Ind AS from financial year 2016-17 or 2017-18, as the case may be.

In the given case, Company X is required to adopt Ind AS from financial year 2016-17, since net worth of Company X is more than ₹ 500 crore. Company X has acquired shares of Company Y resulting in Company Y becoming an associate of Company X during the financial year 2016-17. Accordingly, Company Y will prepare Ind AS financial statements for the year ending March 31, 2017.

As far as the quarterly results are concerned, since, Company Y has become an associate as on October 31, 2016, Company Y will prepare Ind AS financial statements from the quarter ending December 2016 onwards.

(ITFG Clarification Bulletin 3, Issue 6)
(Date of finalisation: June 22, 2016)

Applicability of Ind AS to Core Investment Company (CIC)

Issue 11: **Company A is a Core Investment Company (CIC) having net worth of more than 500 crore as on March 31, 2014. During the year 2014-15, the Reserve Bank of India (RBI) had exempted Company A from certain regulations/directions governing CIC in India.**

Whether Company A (exempted CIC) will be regarded as Non-Banking Financial Company (NBFC) for the purpose of applicability of Ind AS?

***Response*:** Rule 2(g) of Companies (Indian Accounting Standards) Rules, 2015, read with Companies (Indian Accounting Standards) (Amendment) Rules, 2016, states as follows:

"*(g) "Non-banking Financial Company" means a Non-Banking Financial Company as defined in clause (f) of section 45-I 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 and Chit Companies, Securitisation and Reconstruction Companies, Mortgage Guarantee Companies, Pension Fund Companies, Asset Management Companies and* ***Core Investment Companies***."

It may be noted from above, that core investment companies are specifically included in the definition of NBFC. Accordingly, exempted CIC will be regarded as 'NBFC' for the purpose of roadmap for implementation of Ind AS irrespective of the fact that RBI may have given some exemptions to certain class of core investment companies from its regulations.

Further, as per rule 4 of Companies (Indian Accounting Standards) Rules, 2015, read with the Companies (Indian Accounting Standards) (Amendment) Rules, 2016, NBFCs having net worth of more than 500 crore shall comply with Ind AS for accounting periods beginning on or after the 1st April, 2018, with comparatives for the periods ending on 31st March, 2018.

In view of the above, in the given case, Company A will be required to apply Ind AS from the financial year 2018-19. It may further be noted that it cannot voluntarily adopt Ind AS before 1st April 2018.

(ITFG Clarification Bulletin 3, Issue 2)
(Date of finalisation: June 22, 2016)

Date of Transition in case a company is already preparing financials as per IFRS

Issue 12: **Company X Ltd. has prepared its financial statements under IFRS for the first time for year ended March 31, 2016. It had adopted its date of transition to IFRS as April 1, 2014. As per the Companies (Indian Accounting Standards) Rules, 2015, Company X Ltd. is mandatorily required to prepare its financial statements as per Ind AS for the year ended March 31, 2017 and hence under Ind AS, the date of transition would be April 1, 2015.**

Whether Company X Ltd. can select date of transition under Ind AS as April 1, 2014 instead of April 1, 2015 since it has already carried out exercise of transition on April 1, 2014 for the purposes of IFRS.

***Response*:** Appendix A to Ind AS 101, *First- time Adoption of Indian Accounting Standards,* defines date of transition as follows:

"The beginning of the earliest period for which an entity presents full comparative information under Ind ASs in first Ind AS financial statements"

The definition of date of transition as stated above therefore permits an entity to select its date of transition. However, Rule 4(1) (i) and (ii) of the Companies (Indian Accounting Standards) Rules, 2015, states as under:

"The Companies and their auditors shall comply with the Indian Accounting Standards (Ind AS) specified in Annexure to these rules in preparation of their financial statements and audit respectively, in the following manner, namely:-

(i) any company may comply with the Indian Accounting Standards (Ind AS) for financial statements for accounting periods beginning on or

after 1st April, 2015, with the comparatives for the periods ending on 31st March, 2015, or thereafter;

(ii) *the following companies shall comply with the Indian Accounting Standards (Ind AS) for the accounting periods beginning on or after 1st April, 2016, with the comparatives for the periods ending on 31st March, 2016, or thereafter, namely…".*

As per the above rule, the date of transition for X Ltd. will be April 1, 2015 being the beginning of the earliest comparative period presented. To explain it further, X Ltd. is required to mandatorily adopt Ind AS from April 1, 2016, i.e. for the period 2016-17, and it will give comparatives as per Ind AS for 2015-16. Accordingly, the beginning of the comparative period will be April 1, 2015 which will be considered as the date of transition as per Ind AS.

Although Company X Ltd. has already carried out exercise of transition on April 1, 2014 for the purposes of IFRS, Company X Ltd. cannot select date of transition under Ind AS as April 1, 2014.

(ITFG Clarification Bulletin 2, Issue 3)

(Date of finalisation: April 12, 2016)

Applicability of Ind AS to an Indian subsidiary of a foreign company

Issue 13: **Company X Ltd. and Company Y Ltd. registered in India having net worth of ₹ 600 crores and 100 crores respectively are subsidiaries of a Foreign Company viz., ABC Inc., which has net worth of more than ₹ 500 crores in financial year 2015-16. Whether Company X Ltd. and Y Ltd. are required to comply with Ind AS from financial year 2016-17 on the basis of net worth of the parent Foreign Company or on the basis of their own net worth?**

***Response*:** Rule 4(1) (ii) (a) of the Companies (Indian Accounting Standards) Rules, 2015, states as under:

"*The Companies and their auditors shall comply with the Indian Accounting Standards (Ind AS) specified in Annexure to these rules in preparation of their financial statements and audit respectively, in the following manner, namely:-*

(i) any company may comply with the Indian Accounting Standards (Ind AS) for financial statements for accounting periods beginning on or after 1st April, 2015, with the comparatives for the periods ending on 31st March, 2015, or thereafter;

(ii) the following companies shall comply with the Indian Accounting Standards (Ind AS) for the accounting periods beginning on or after 1st April, 2016, with the comparatives for the periods ending on 31st March, 2016, or thereafter, namely:-

(a) companies whose equity or debt securities are listed or are in the process of being listed on any stock exchange in India or outside India and having net worth of rupees five hundred crore or more;"

As per Rule 4(1)(ii)(a) of the Companies (Indian Accounting Standards) Rules, 2015, Company X having net worth of Rs.600 crores in the year 2015-16, would be required to prepare its financial statements for the accounting periods commencing from 1st April, 2016, as per the Companies (Indian Accounting Standards) Rules, 2015.

Company Y Ltd. having net worth of Rs.100 crores in the year 2015-16, would be required to prepare its financial statements as per the Companies (Accounting Standards) Rules, 2006.

Since, the Foreign company ABC Inc., is not a company incorporated under the Companies Act, 2013 or the earlier Companies Act, 1956, it is not required to prepare its financial statements as per the Companies (Indian Accounting Standards) Rules, 2015. As the foreign company is not required to prepare financial statements based on Ind AS, the net worth of foreign company ABC would not be the basis for deciding whether Indian Subsidiary Company X Ltd. and Company Y Ltd. are required to prepare financial statements based on Ind AS.

(ITFG Clarification Bulletin 2, Issue 2)
(Date of finalisation: April 12, 2016)

Applicability of Ind AS - associate company Consideration of share warrants which are convertible into equity shares

Issue 14: **Company A Ltd. has invested 26% in Company B Ltd. and accounted Company B as an associate under Companies (Accounting Standards) Rule, 2006. Company A Ltd. is required to comply with Ind AS from financial year 2016-17.**

Company C Ltd. owns share warrants that are convertible into equity shares of Company B Ltd. that have potential, if exercised, to give additional voting power to Company C Ltd. over the financial and

operating policies of Company B Ltd. As per the requirements of Ind AS 28, it has been concluded that Company B Ltd. is an associate company of Company C Ltd.

Company A concluded that it has no more significant influence over Company B Ltd under Ind AS.

The above assessments have been done as on April 1, 2015.

However, Company A Ltd. reported Company B Ltd. as an associate company as on March 31, 2016 for statutory reporting requirements under previous GAAP.

Company B Ltd. and Company C Ltd. as a standalone entity does not meet any criteria given in Ind AS roadmap. Whether Company B is required to comply with Ind AS?

Response**:** Sub-rule (2) of Rule 2 of the Companies (Indian Accounting Standards) Rules, 2015, provides as follows:

"Words and expressions used herein and not defined in these rules but defined in the Act shall have the same meaning respectively assigned to them in the Act".

The term 'associate' has been defined in Ind AS 28 which is notified as the part of the Companies (Indian Accounting Standards) Rules, 2015.

As per paragraph 3 of Ind AS 28, *Investments in Associates and Joint Ventures,* an associate is an entity over which the investor has significant influence.

Ind AS 28 defines *'Significant influence'* as the power to participate in the financial and operating policy decisions of the investee but is not control or joint control of those policies.

Paragraph 5 of Ind AS 28, states as follows:

"5 If an entity holds, directly or indirectly (e.g. through subsidiaries), 20 per cent or more of the voting power of the investee, it is presumed that the entity has significant influence, unless it can be clearly demonstrated that this is not the case. Conversely, if the entity holds, directly or indirectly (e.g. through subsidiaries), less than 20 per cent of the voting power of the investee, it is presumed that the entity does not have significant influence, unless such influence can be clearly demonstrated. A substantial or majority ownership by another investor does not necessarily preclude an entity from having significant influence."

Paragraph 7 of Ind AS 28 provide as follows:

> *"7 An entity may own share warrants, share call options, debt or equity instruments that are convertible into ordinary shares, or other similar instruments that have the potential, if exercised or converted, to give the entity additional voting power or to reduce another party's voting power over the financial and operating policies of another entity (i.e. potential voting rights). The existence and effect of potential voting rights that are currently exercisable or convertible, including potential voting rights held by other entities, are considered when assessing whether an entity has significant influence. Potential voting rights are not currently exercisable or convertible when, for example, they cannot be exercised or converted until a future date or until the occurrence of a future event."*

As per Notification G.S.R 680(E) dated 4th September 2015, issued by the Ministry of Corporate Affairs (MCA), after rule 4 of Companies (Accounts) Rules, 2014, the following rule has been inserted:

> *"4A Forms and items contained in financial statements – The financial statements shall be in the form specified in Schedule III to the Act and comply with Accounting Standards or Indian Accounting Standards as applicable:*
>
> *Provided that the items contained in the financial statements shall be prepared in accordance with the definitions and other requirements specified in the Accounting Standards or the Indian Accounting Standards, as the case may be."*

In view of above requirements, consistent approach would be to consider the definitions given in Ind AS both for the purpose of preparing financial statements and determining the relationship with another entity (i.e. subsidiary, associate, joint venture etc.) for the purpose of applicability of Ind AS.

In the present case, by applying the relevant requirements of Ind AS 28, it has been concluded that Company B Ltd. is an associate company of Company C Ltd. since Company C Ltd. has potential voting rights over Company B Ltd.

In the given scenario, in accordance with Ind AS, Company B Ltd. also ceases to be an associate of Company A Ltd. Therefore, Company B Ltd. need not to comply with Ind AS from the financial year 2016-17 though the company was an associate company of Company A Ltd. under previous reporting framework.

If Company C Ltd. voluntarily complies with Ind AS or meets any specified criteria on standalone basis, then Company B Ltd. being its associate company as per Ind AS 28 shall comply Ind AS from the same financial year from which Company C Ltd. starts preparing financial statements as per Ind AS.

(ITFG Clarification Bulletin 3, Issue 5)
(Date of finalisation: June 22, 2016)

Applicability of Ind AS to holding, subsidiary, joint venture and associate company through direct or indirect association in case of voluntary adoption by the parent company

Issue 15: **Company B Ltd. is an associate company of Company A Ltd. Company X Ltd. is the holding company of Company A Ltd. Company X Ltd. has decided to adopt Ind AS voluntarily from 2015-16.**

Whether Company A Ltd. and Company B Ltd. are statutorily required to comply with Ind AS from financial year 2015-16?

***Response*:** As per the Companies (Indian Accounting Standards) Rules, 2015, read with the Companies (Indian Accounting Standards) (Amendment) Rules, 2016, dated 30th March, 2016, **any company and its holding, subsidiary, joint venture or associate company** may comply with the Indian Accounting Standards (Ind AS) for financial statements for accounting periods beginning on or after 1st April, 2015, with the comparatives for the periods ending on 31st March, 2015, or thereafter.

Since, Company X Ltd. has adopted Ind AS voluntarily from financial year 2015-16, Company A Ltd. being subsidiary of Company X Ltd. shall comply with Ind AS from the financial year 2015-16 as per the roadmap.

As per paragraph 3 of Ind AS 28, *Investments in Associates and Joint Ventures,* an associate is an entity over which the investor has significant influence.

Ind AS 28 defines *'Significant influence'* as the power to participate in the financial and operating policy decisions of the investee but is not control or joint control of those policies.

Paragraph 5 of Ind AS 28, states as follows:

"If an entity holds, directly or indirectly (e.g. through subsidiaries), 20 per cent or more of the voting power of the investee, it is presumed that the entity has significant influence, unless it can be clearly demonstrated that

this is not the case. Conversely, if the entity holds, directly or indirectly (e.g. through subsidiaries), less than 20 per cent of the voting power of the investee, it is presumed that the entity does not have significant influence, unless such influence can be clearly demonstrated. A substantial or majority ownership by another investor does not necessarily preclude an entity from having significant influence."

In the given case, Company B Ltd. is a direct associate company of Company A Ltd. but not of Company X Ltd. However, Company X Ltd, through its subsidiary (i.e., Company B Ltd.), has significant influence over Company B Ltd., indirectly.

In view of the above requirements, Company B Ltd. shall also comply with Ind AS from the financial year 2015-16.

In other words, if a parent company voluntarily or mandatorily adopts Ind AS then its holding, subsidiary, joint venture or associate company whether through direct or indirect association shall comply Ind AS from the financial year in which the parent company starts complying with Ind AS.

(ITFG Clarification Bulletin 3, Issue 4)
(Date of finalisation: June 22, 2016)

Applicability of Ind AS to holding company, if subsidiary company incorporated for divestment purpose complies with Ind AS.

Issue 16: **ABC Ltd. is a listed company. The net worth of ABC Ltd. as on 31st March, 2014 was ₹ 200 crores.**

ABC Ltd. had a subsidiary, namely, XYZ Ltd. as at 31st March, 2015 whose net worth, consisting only of share capital as at that date, was ₹ 600 crores. XYZ Ltd. was incorporated in January, 2015. It was incorporated only for the purposes of its divestment. The financial statements of XYZ Ltd. were not consolidated with that of ABC Ltd. as at 31st March, 2015 in view of requirements of paragraph 11 of Accounting Standard (AS) 21, *Consolidated Financial Statements.*

ABC Ltd. entered into agreement with a proposed acquirer of the subsidiary, i.e., PQR Ltd., in September, 2015. The entire ownership of XYZ Ltd. was finally transferred to the said acquirer in the first fortnight of April, 2016.

In the given case, whether the ABC Ltd. is required to comply with Ind AS from the financial year 2016-17?

***Response*:** Rule 4(1)(ii) of the Companies (Indian Accounting Standards) Rules, 2015, states as under:

> "......
>
> *(ii) the following companies shall comply with the Indian Accounting Standards (Ind AS) for the accounting periods beginning on or after 1st April, 2016, with the comparatives for the periods ending on 31st March, 2016, or thereafter, namely:-*
>
> *(a) companies whose equity or debt securities are listed or are in the process of being listed on any stock exchange in India or outside India and having net worth of rupees five hundred crore or more;*
>
> *(b) companies other than those covered by sub-clause (a) of clause (ii) of sub-rule (1) and having net worth of rupees five hundred crore or more;*
>
> *(c) holding, subsidiary, joint venture or associate companies of companies covered by sub- clause (a) of clause (ii) of sub-rule (1) and sub-clause (b) of clause (ii) of sub- rule (1) as the case may be; and….".*

In accordance with the above, it may be noted that holding, subsidiary, joint venture, associate companies of companies falling under any of threshold specified Rule 4(1)(ii) are required to comply with Ind AS from financial year 2016-17.

Further, Rule 4(2) (b) of the Companies (Indian Accounting Standards) Rules, 2015, states as under:

> *"(2) For the purposes of calculation of net worth of companies under sub-rule (1), the following principles shall apply, namely:-*
>
> *………*
>
> *(b) for companies which are not in existence on 31st March, 2014 or an existing company falling under any of thresholds specified in sub-rule (1) for the first time after 31st March, 2014, the net worth shall be calculated on the basis of the first audited financial statements ending after that date in respect of which it meets the thresholds specified in sub-rule (1).*

Explanation- For the purposes of sub-clause (b), the companies meeting the specified thresholds given in sub-rule (1) for the first time at the end of an accounting year shall apply Indian Accounting Standards (Ind AS) from the immediate next accounting year in the manner specified in sub-rule (1).

Illustration - (i) The companies meeting threshold for the first time as on 31st March, 2017 shall apply Ind AS for the financial year 2017-18 onwards.

(ii) The companies meeting threshold for the first time as on 31st March, 2018 shall apply Ind AS for the financial year 2018-19 onwards and so on."

On a combined reading of Rule 4(1) and (2) of the Companies (Indian Accounting Standards) Rules, 2015, if an existing company meets the net worth criteria before mandatory applicability dates laid down in the roadmap, the company would be required to follow Ind AS as per the dates for implementation of Ind AS prescribed in the roadmap, i.e., 2016-17 or 2017-18, as the case may be.

In the given case, Ind AS will be mandatorily applicable to XYZ Ltd. from financial year, 2016-17, since its net worth as on 31st March, 2015 is more than ₹ 500 crores.

As already clarified in ITFG Clarification Bulletin 3 as Issue No. 5, consistent approach would be followed to consider the definitions given in Ind AS both for the purpose of preparing financial statements and determining the relationship with another entity (i.e. subsidiary, associate, joint venture etc.) for the purpose of applicability of Ind AS. Therefore, the relationship between ABC Ltd. and XYZ Ltd. should be determined in accordance with Indian Accounting Standards (Ind AS). Hence, it is irrelevant to consider the fact that XYZ Ltd. was not a subsidiary company of ABC Ltd. as per the previous GAAP.

In view of the above ITFG clarification, whether ABC Ltd. is a holding company of XYZ Ltd. or not shall be determined as per Ind AS 110, *Consolidated Financial Statements,* i.e., evaluating whether ABC Ltd. controls XYZ Ltd. or not.

If ABC Ltd. was a holding company of XYZ Ltd. in accordance with Ind AS 110 as at 31st March, 2015, then ABC Ltd. should comply with Ind AS from the financial year 2016-17, since Ind AS are applicable to XYZ Ltd. from financial year 2016-17.

(ITFG Clarification Bulletin 5, Issue 1)
(Date of finalisation: September 19, 2016)

Net Worth Criteria

Applicability of Ind AS - Net worth Criteria Treatment of ESOP Reserve

Issue 17: **Whether ESOP reserve is required to be included while computing net worth of a company to assess applicability of Ind AS on the company?**

***Response*:** As per Rule 2(1) (f) of Companies (Indian Accounting Standards) Rules, 2015, "net worth" shall have the meaning assigned to it as in clause (57) of section 2 of the Act.

Further, as per Section 2(57) of the Companies Act, 2013, *"net worth means the aggregate value of the paid-up share capital and all reserves created out of the profits and securities premium account, after deducting the aggregate value of the accumulated losses, deferred expenditure and miscellaneous expenditure not written off, as per the audited balance sheet, but does not include reserves created out of revaluation of assets, write-back of depreciation and amalgamation."*

It may be noted that the Guidance Note on Accounting for Employee Share-based Payments, *inter alia,* provides 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*.

In accordance with the above, ESOP reserve is required to be included while calculating the net worth of a company.

However, this clarification is only for the purpose of Ind AS applicability and should not be applied by analogy for determining net worth under other provisions of the Companies Act, 2013.

(ITFG Clarification Bulletin 11, Issue 1)

(Date of finalisation: July 31, 2017)

Computation of net worth for Ind AS applicability- Government Grant to be considered as capital reserve

***Issue 18*: A company received grant from government which is in the nature of promoter's contribution and the same was included in capital reserve. This grant has been accounted as per AS 12, *Accounting for Government Grants*. Is such capital reserve required to be included for computation of net worth to assess Ind AS applicability?**

***Response*:** As per Rule 2(1) (f) of Companies (Indian Accounting Standards) Rules, 2015 "net worth" shall have the meaning assigned to it in clause (57) of section 2 of the Act. Section 2(57) of Companies Act, 2013, defines 'net worth' as follows:

> *"net worth" means the aggregate value of the paid-up share capital and all reserves created out of the profits and securities premium account, after deducting the aggregate value of the accumulated losses, deferred expenditure and miscellaneous expenditure not written off, as per the audited balance sheet, but does not include reserves created out of revaluation of assets, write-back of depreciation and amalgamation;*

From the definition of Section 2(57), it may be noted that all reserves created out of the profits are included in calculation of 'net worth'.

In the given case, the capital reserve has arisen pursuant to grant received from government, which is in the nature of promoter's contribution. On a literal interpretation of the definition, it may be concluded that capital reserve in the nature of promoter's contribution should not be included to calculate net worth as the same is not explicitly mentioned in the definition of net worth. However, in substance, the capital reserve in the nature of promoter's contribution is a capital contribution by promoters and should be included in the calculation of net worth. Further, Accounting Standard (AS) 12 also states that government grants in the nature of promoter's contribution are recognised in shareholders' funds. Therefore, such a capital reserve should be included for computation of 'net worth'.

However, it may be noted that capital reserve in the nature of promoter's contribution should be included in the net worth only for the purpose of Ind AS applicability. This definition should not be applied by analogy for determining net worth under other provisions of the Companies Act, 2013.

(ITFG Clarification Bulletin 6, Issue 4)
(Date of finalisation: November 29, 2016)

Applicability of Ind AS - Net worth criteria

Issue 19: **A debt-listed company has net worth for the last 3 years as follows:**

(i) Net worth as on 31.03.2014 is ₹ 1260.83 crores

(ii) Net worth as on 31.03.2015 is ₹ 1411.43 crores

(iii) Net worth as on 31.03.2016 is ₹ 485.22 crores

Whether Company A is required to comply with Ind AS from financial year 2017-18?

***Response*:** Rule 4(1) (ii) of Companies (Indian Accounting Standards) Rules, 2015, states as under:

"(ii) the following companies shall comply with the Indian Accounting Standards (Ind AS) for the accounting periods beginning on or after 1st April, 2016, with the comparatives for the periods ending on 31st March, 2016, or thereafter, namely:-

(a) companies whose equity or debt securities are listed or are in the process of being listed on any stock exchange in India or outside India and having net worth of rupees five hundred crore or more;

(b) companies other than those covered by sub-clause (a) of clause (ii) of sub-rule (1) and having net worth of rupees five hundred crore or more;

(c) holding, subsidiary, joint venture or associate companies of companies covered by sub-clause (a) of clause (ii) of sub-rule (1) and sub-clause (b) of clause (ii) of sub- rule (1) as the case may be; and".

Further, Rule 4(2) of the Companies (Indian Accounting Standards) Rules, 2015, states as under:

"(2) For the purposes of calculation of net worth of companies under sub-rule (1), the following principles shall apply, namely:-

(a) the net worth shall be calculated in accordance with the stand-alone financial statements of the company as on 31st March, 2014 or the first audited financial statements for accounting period which ends after that date;

(b) for companies which are not in existence on 31st March, 2014 or an existing company falling under any of thresholds specified in sub-rule (1) for the first time after 31st March, 2014, the net worth shall be

calculated on the basis of the first audited financial statements ending after that date in respect of which it meets the thresholds specified in sub-rule (1).

Explanation - For the purposes of sub-clause (b), the companies meeting the specified thresholds given in sub-rule (1) for the first time at the end of an accounting year shall apply Indian Accounting Standards (Ind AS) from the immediate next accounting year in the manner specified in sub-rule (1)."

In view of the above requirements, it may be noted that the net worth shall be calculated in accordance with the stand-alone financial statements of the company as on 31st March, 2014. Accordingly, if the net worth threshold criteria for a company are once met, then it shall be required to comply with Ind AS, irrespective of the fact that as on later date its net worth falls below the criteria specified.

In view of the above, the Company A will be required to follow Ind AS from financial year 2016-17.

It may be noted that Issue 8 of ITFG Clarification Bulletin 3 addressed an issue wherein as on March 31, 2014 an entity was listed, however subsequently the entity got delisted before the mandatory applicability date. In the said issue, it was clarified that immediately before the mandatory applicability date, if the **threshold criteria** for a company are not met, then it shall not be required to comply with Ind AS, irrespective of the fact that as on March 31, 2014, the criteria was met. In this regard, it may be clarified the above guidance was related to only listing criteria and the same is not related to net worth criteria.

(ITFG Clarification Bulletin 6, Issue 1)
(Date of finalisation: November 29, 2016)

Applicability of Ind AS - In Case of Negative net worth

Issue 20: **Will the following companies with negative net worth need to comply with Ind AS?**

(a) Company A (listed) having negative net worth of ₹ 600 crore.

(b) Company B (unlisted) having negative net worth of ₹ 300 crore.

Response**:** Rule 4(1) (ii) and Rule 4(1) (iii) of Companies (Indian Accounting Standards) Rules, 2015, state as follows:

(ii) the following companies shall comply with the Indian Accounting

Standards (Ind AS) for the accounting periods beginning on or after 1st April, 2016, with the comparatives for the periods ending on 31st March, 2016, or thereafter, namely:-

(a) companies whose equity or debt securities are listed or are in the process of being listed on any stock exchange in India or outside India and having net worth of rupees five hundred crore or more;

(b) companies other than those covered by sub-clause (a) of clause (ii) of sub- rule (1) and having net worth of rupees five hundred crore or more;

(c) holding, subsidiary, joint venture or associate companies of companies covered by sub-clause (a) of clause (ii) of sub-rule (1) and sub-clause (b) of clause (ii) of sub- rule (1) as the case may be; and

(iii) the following companies shall comply with the Indian Accounting Standards (Ind AS) for the accounting periods beginning on or after 1st April, 2017, with the comparatives for the periods ending on 31st March, 2017, or thereafter, namely:-

(a) companies whose equity or debt securities are listed or are in the process of being listed on any stock exchange in India or outside India and having net worth of less than rupees five hundred crore;

(b) companies other than those covered in clause (ii) of sub- rule (1) and sub- clause (a) of clause (iii) of sub-rule (1), that is, unlisted companies having net worth of rupees two hundred and fifty crore or more but less than rupees five hundred crore.

(c) holding, subsidiary, joint venture or associate companies of companies covered under sub-clause (a) of clause (iii) of sub-rule (1) and sub-clause (b) of clause (iii) of sub- rule (1), as the case may be:

As per Rule 2(1) (f) of Companies (Indian Accounting Standards) Rules, 2015, "net worth" shall have the meaning assigned to it in clause (57) of section 2 of the Act.

Section 2(57) of Companies Act, 2013, defines 'net worth' as follows:

"net worth" means the aggregate value of the paid-up share capital and all reserves created out of the profits and securities premium account,

after deducting the aggregate value of the accumulated losses, deferred expenditure and miscellaneous expenditure not written off, as per the audited balance sheet, but does not include reserves created out of revaluation of assets, write-back of depreciation and amalgamation;

In accordance with above provisions, it is clear that Ind AS will be applicable to companies (both listed and unlisted) from financial year 2016-17, if net worth is ₹ 500 crore or more. Therefore, if the net worth of the listed or unlisted company is negative, then Ind AS will not be applicable from F.Y. 2016-17. Accordingly, Ind AS will not be applicable to Company A (listed) and Company B (unlisted) from F.Y. 2016-17.

However, as per the roadmap, Ind AS will be applicable from financial year 2017-18 to all listed companies having net worth less ₹ 500 crore and unlisted companies having net worth ₹ 250 crore or more but less than rupees 500 crore. Accordingly, Ind AS will be applicable to Company A (listed) from F.Y. 2017-18, whereas Ind AS will not be applicable to Company B (unlisted) unless net worth criteria being met by Company B subsequently or Ind AS becoming applicable as part of the Group (e.g. holding of Company B is covered under Ind AS) or Company B voluntarily decides to apply Ind AS.

(ITFG Clarification Bulletin 4, Issue 3)
(Date of finalisation: August 19, 2016)

Applicability of Ind AS- Net worth Criteria

***Issue 21*: Company X, on standalone basis, had a net worth of above ₹ 250 crore but below ₹ 500 crore in financial year 2013-14 as well as financial year 2014-15 and is expected to exceed ₹ 500 crore in financial year 2015-16.**

Whether the Company X be required to comply with Ind AS from financial year 2017-18 i.e. under Phase II, given that the net worth as on 31st March 2014 was below ₹ 500 Crore and the Company X was a company existing as on 31st March 2014 and was already falling under the threshold as on 31st March 2014 itself irrespective of the fact that the net-worth as on 31st March 2016 might be above ₹ 500 crore.

***Response*:** Rule 4(2) of the Companies (Indian Accounting Standards) Rules, 2015, states as under:

"For the purposes of calculation of net worth of companies under sub-rule (1), the following principles shall apply, namely:-

(a) the net worth shall be calculated in accordance with the stand-alone financial statements of the company as on 31st March, 2014 or the first audited financial statements for accounting period which ends after that date;

(b) for companies which are not in existence on 31st March, 2014 or an existing company falling under any of thresholds specified in sub-rule (1) for the first time after 31st March, 2014, the net worth shall be calculated on the basis of the first audited financial statements ending after that date in respect of which it meets the thresholds specified in sub-rule (1).

Explanation. For the purposes of sub-clause (b), the companies meeting the specified thresholds given in sub-rule (1) for the first time at the end of an accounting year shall apply Indian Accounting Standards (Ind AS) from the immediate next accounting year in the manner specified in sub-rule (1)".

In view of the requirement at (b) above, any company that meets the thresholds as specified in the Rules in a particular financial year, The Companies (Indian Accounting Standards) Rules, 2015, will become applicable to such company in immediately next financial year.

Therefore, in the given case, company X which had net worth of above ₹ 250 crore but below ₹ 500 crore in financial year 2013-14 as well as financial year 2014-15 and is expected to exceed ₹ 500 crore in financial year 2015-16, will have to prepare financial statements on the basis of Indian Accounting Standards (Ind AS), from the financial year beginning on April 1, 2016.

(ITFG Clarification Bulletin 1, Issue 1)
(Date of finalisation: January 16, 2016)

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

Date of Transition to Ind AS

***Issue 22*: Ind AS 101, *First-time Adoption of Indian Accounting Standards,* requires presentation of balance sheet at the date of transition to Ind AS. For a company, the date of transition is April 1, 2016. Normally, a balance sheet represents the end of day position. Is the balance sheet required to be prepared on the date of transition at the end of the day or the start of the day? (e.g. if the transition date is April 1, 2016, then balance sheet to be prepared will be close of day of April 1 or start of day of April 1 (i.e. closing of March 31).**

***Response*:** As per paragraph 6 of Ind AS 101, An entity shall prepare and present an opening Ind AS Balance Sheet at the date of transition to Ind ASs. This is the starting point for its accounting in accordance with Ind ASs subject to the requirements of paragraphs D13AA and D22. Further an example is provided under paragraph 8 of Ind AS 101 which provides as follows:

*The end of entity A's first Ind AS reporting period is 31 March 2017. Entity A decides to present comparative information in those financial statements for one year only (see paragraph 21). **Therefore, its date of transition to Ind ASs is the beginning of business on 1 April 2015 (or, equivalently, close of business on 31 March 2015)**. Entity A presented financial statements in accordance with its previous GAAP annually to 31 March each year up to, and including, 31 March 2016.*

As per the relevant paragraph and example given in Ind AS 101, balance sheet will be prepared as on date of transition to Ind AS, i.e. the beginning of business on 1 April 2016 (or, equivalently, close of business on 31 March 2016).

(ITFG Clarification Bulletin 8, Issue 3)
(Date of finalisation: May 05, 2017)

Adjustments due to other Ind AS if deemed cost exemption availed

Issue 23: **On the date of transition, an entity has elected to measure its assets and liabilities at its deemed cost in accordance with previous GAAP carrying value as permitted under Ind AS 101 *First-time Adoption of Indian Accounting Standards* in the opening Ind AS Financial Statements.**

Whether any adjustments arising due to application of other Ind AS is to be made to the previous GAAP carrying amount on the date of transition, if this exemption is availed?

***Response*:** Ind AS 101 defines 'Deemed Cost' as an amount used as a surrogate for cost or depreciated cost at a given date. Subsequent depreciation or amortisation assumes that the entity had initially recognised the asset or liability at the given date and that its cost was equal to the deemed cost.

Further, paragraph 10 of Ind AS 101, provides as follows:

"*Except as described in paragraphs 13–19 and Appendices B–D, an entity shall, in its opening Ind AS Balance Sheet:*

(a) recognise all assets and liabilities whose recognition is required by Ind ASs;

(b) not recognise items as assets or liabilities if Ind ASs do not permit such recognition;

(c) reclassify items that it recognised in accordance with previous GAAP as one type of asset, liability or component of equity, but are a different type of asset, liability or component of equity in accordance with Ind ASs; and

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

In view of the above, except any specific exemption /exception as laid out in Ind AS 101, all the assets and liabilities are required to be recognised in accordance with the principles of Ind AS 101.

There may be certain situations where no exemption /exception has been provided in respect of an item of asset and/or liability; however, application of Ind AS principles has a corresponding impact on another item of asset and/or liability in respect of which Ind AS 101 permits carry forward of previous GAAP amounts as at the transition date. In such situations, since the adjustment to assets /liabilities is only consequential and arising because of application of the transition requirements of Ind AS 101, the previous GAAP carrying amount needs to be adjusted only to this extent. It may be noted that except such situations, no further adjustment should be made due to application of other Ind AS, if an entity measure its assets and liabilities at its deemed cost in accordance with previous GAAP carrying value as permitted under Ind AS 101 on the date of transition. Please also refer Issue No. 4 and Issue No. 5 of ITFG Clarification Bulletin 5 and Issue no. 1 of ITFG Clarification Bulletin 10.

(ITFG Clarification Bulletin 12, Issue 10)
(Date of finalisation: October 23, 2017)

Date for assessment of functional currency

Issue 24: **ABC Ltd. having net worth of ₹ 500 crores as on March 31, 2014 wants to assess its functional currency. From which date should company ABC Ltd. assess its functional currency, i.e. whether from date of transition or retrospectively as per paragraph 10 of Ind AS 101, *First-time Adoption of Indian Accounting Standards*?**

***Response*:** Paragraphs 13-19 of Ind AS 101 *First-time Adoption of Indian Accounting Standards* provide 'Exceptions to the retrospective application of other Ind ASs' and Appendices B-C of Ind AS 101 *First-time Adoption of Indian Accounting Standards,* provide certain 'Exceptions to retrospective application of other Ind ASs' and 'Exemptions for Business Combination' respectively.

Paragraphs 13-19 and Appendices B-C are silent on the assessment of functional currency by an entity, i.e., from date of transition or retrospectively. Since neither any exception nor any exemption has been specified for assessment of functional currency, an entity will have to assess its functional currency retrospectively as per paragraph 10 of Ind AS 101 stated as below.

Paragraph 10 of Ind AS 101, *First-time Adoption of Indian Accounting Standards,* states as follows:

> *"Except as described in paragraphs 13–19 and Appendices B–D, an entity shall, in its opening Ind AS Balance Sheet:*
>
> *(a) recognise all assets and liabilities whose recognition is required by Ind ASs;*
>
> *(b) not recognise items as assets or liabilities if Ind ASs do not permit such recognition;*

(c) reclassify items that it recognised in accordance with previous GAAP as one type of asset, liability or component of equity, but are a different type of asset, liability or component of equity in accordance with Ind ASs; and

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

(ITFG Clarification Bulletin 1, Issue 5)
(Date of finalisation: January 16, 2016)

Accounting treatment of the balance outstanding in the "Revaluation Reserve" and deferred tax on this transition revaluation reserve

Issue 25: **A company is a first-time adopter of Ind AS. It has opted for exemption under paragraph D7AA of Ind AS 101, *First-time Adoption of Indian Accounting Standards* and also elected the cost model under Ind AS 16, *Property, Plant and Equipment* for subsequent measurement. On the date of transition to Ind AS:**

(i) What will be the accounting treatment of the balance outstanding in the "Revaluation Reserve" created as per previous GAAP?

(ii) What will be the treatment of deferred tax on this transition revaluation reserve?

***Response*:** Paragraph 10 of Ind AS 101, *First-time Adoption of Indian Accounting Standards* provides as follows:

"Except as described in paragraphs 13–19 and Appendices B–D, an entity shall, in its opening Ind AS Balance Sheet:

(a) recognise all assets and liabilities whose recognition is required by Ind ASs;

(b) not recognise items as assets or liabilities if Ind ASs do not permit such recognition;

(c) reclassify items that it recognised in accordance with previous GAAP as one type of asset, liability or component of equity, but are a different type of asset, liability or component of equity in accordance with Ind ASs; and

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

Further paragraph11 of Ind AS 101 provides that, *the accounting policies that* *an entity uses in its opening Ind AS Balance Sheet may differ from those that it used for the same date using its previous GAAP. The resulting adjustments arise from events and transactions before the date of transition to Ind ASs. Therefore, an entity shall recognise those adjustments directly in retained earnings (**or, if appropriate, another category of equity**) at the date of transition to Ind ASs.*

Accordingly, as per the above requirements in the given case balance outstanding in the revaluation reserve should be transferred to retained earnings or if appropriate, another category of equity disclosing the description of the nature and purpose of such amount in accordance with the requirements of paragraph 79(b), Ind AS 1, *Presentation of Financial Statements*. This is because after transition, the Company is no longer applying the revaluation model of Ind AS 16, instead it has elected to apply the cost model approach.

It may be noted that the requirements of Companies Act, 2013 for declaration of dividend will be required to be evaluated separately.

Further, it may also be noted that in accordance with Ind AS 12, *Income Taxes*, deferred tax would need to be recognised on any difference between the carrying amount and tax base of assets and liabilities. No deferred tax is created on equity components. However, since the asset has been revalued, there will be difference for the amount between carrying value and tax base. Hence, deferred tax will have to be recognised on such asset.

(ITFG Clarification Bulletin 8, Issue 7)
(Date of finalisation: May 05, 2017)

Applicability of Ind AS 109, Financial Instruments, if financial instruments have been acquired as part of the business combinations and the exemption under paragraph C1 of Ind AS 101 availed

Issue 26: **Company A is covered under Phase II of Ind AS roadmap and is required to apply Ind AS from financial Year 2017-18. Company A acquired Company B as per the scheme of amalgamation sanctioned under the provisions of the Companies Act, 2013. The amalgamation was effective from 1st April, 2015 and was accounted for in the financial year 2015-16 under Indian GAAP.**

As per the Scheme, the entire undertaking of Company B including all its assets, liabilities and reserves and surplus stood transferred in

Company A. As a result, Company A has taken over assets /liabilities including certain financial instruments.

Under Ind AS, Company A has opted for option under paragraph C1 of Ind AS 101, *First-time Adoption of Indian Accounting Standards*, not to apply Ind AS 103 retrospectively to past business combinations (business combinations that occurred before the date of transition to Ind AS).

Whether Company A would be required to apply Ind AS 109, *Financial Instruments* retrospectively (i.e. from the date of origination of the financial instrument by Company B) to such financial instruments acquired as part of the business combination?

***Response*:** Paragraphs C1 and C4 of Ind AS 101, *First-time Adoption of Indian Accounting Standards*, state as follows:

"C1 - A first-time adopter may elect not to apply Ind AS 103 retrospectively to past business combinations (business combinations that occurred before the date of transition to Ind ASs). However, if a first-time adopter restates any business combination to comply with Ind AS 103, it shall restate all later business combinations and shall also apply Ind AS 110 from that same date.

C4 - If a first-time adopter does not apply Ind AS 103 retrospectively to a past business combination, this has the following consequences for that business combination:

(a) The first-time adopter shall keep the same classification (as an acquisition by the legal acquirer, a reverse acquisition by the legal acquiree, or a uniting of interests) as in its previous GAAP financial statements.

(b) The first-time adopter shall recognise all its assets and liabilities at the date of transition to Ind ASs that were acquired or assumed in a past business combination, other than:

(i) some financial assets and financial liabilities derecognised in accordance with previous GAAP (see paragraph B2); and

(ii) assets, including goodwill, and liabilities that were not recognised in the acquirer's consolidated Balance Sheet in accordance with previous GAAP and also would not qualify for recognition in accordance with Ind ASs in the separate Balance Sheet of the acquiree (see (f)–(i) below).

The first-time adopter shall recognise any resulting change by adjusting retained earnings (or, if appropriate, another category of equity), unless the change results from the recognition of an intangible asset that was previously subsumed within goodwill (see (g) (i) below).

(c) The first-time adopter shall exclude from its opening Ind AS Balance Sheet any item recognised in accordance with previous GAAP that does not qualify for recognition as an asset or liability under Ind ASs. ……….”

In accordance with the above, it may be noted that Ind AS 101 provides an optional exemption not to apply Ind AS retrospectively to business combinations that occurred before the date of transition to Ind AS. If previous business combinations are not restated, the previous acquisition accounting remains unchanged. Carrying amount under previous GAAP of assets acquired and liabilities assumed in an un-restated business combination immediately after the business combination becomes their ***deemed cost at that date.***

Paragraph C4(e)of Ind AS 101, states that, *“Immediately after the business combination, the carrying amount in accordance with previous GAAP of assets acquired and liabilities assumed in that business combination shall be their deemed cost in accordance with Ind ASs at that date. If Ind ASs require a cost-based measurement of those assets and liabilities at a later date that deemed cost shall be the basis for cost-based depreciation or amortisation from the date of the business combination.”*

In preparing its opening Ind AS Balance sheet, an entity applies the criteria in Ind AS 109 to classify financial instruments on the basis of the facts and circumstances that exist at the date of transition to Ind AS. The resulting classifications are applied retrospectively.

For those financial assets and financial liabilities measured at amortised cost in the opening Ind AS balance sheet, an entity determines the cost of the financial assets and the financial liabilities on the basis of circumstances existing when the assets and liabilities first satisfied the recognition criteria in Ind AS 109. **However, if the entity acquired those financial assets and financial liabilities in a past business combination, their carrying amount in accordance with previous GAAP immediately following the business combination is their deemed cost in accordance with Ind AS at that date.**

In accordance with the above, unless there is a transitional relief under Ind

AS 101 for financial instruments, the requirements of Ind AS 109 need to be applied retrospectively. it is pertinent to note that although Ind AS 101 does not provide for any transitional relief for financial instruments and requires applying requirements of Ind AS 109 retrospectively. However, Ind AS 101 specifically provides guidance with regard to treatment to be done if entity elects to opt not to restate past business combinations. Accordingly, if financial instruments have been acquired as part of the business combinations, then requirements of Appendix C to Ind AS 101 shall apply.

In the given case, for the financial instruments acquired as part of the business combination carrying amount as per the previous GAAP shall be their deemed cost at the date of business combination. Fair value or amortised cost (as required by Ind AS 109) shall be determined from the date of business combination and not from the date of origination of such financial instrument by Company B. If financial instruments are classified as FVTPL/FVOCI, then these should be measured at fair value at the date of transition to Ind AS. If these instruments are classified at amortised cost, then the entity determine the carrying amount on the transition date by taking the carrying amount of the loan at the date of business combination under previous GAAP and apply the effective interest rate which is determined after considering the amount and timing of expected settlement of such financial instrument.

(ITFG Clarification Bulletin 12, Issue 9)
(Date of finalisation: October 23, 2017)

Accounting Treatment of the government grant received before the date of transition and measurement of property, plant and equipment at the date of transition to Ind AS

<u>Issue 27:</u> **ABC Ltd. is a first-time adopter of Ind AS from the financial year 2016-17. It had received the government grant from the Central Government during the financial year 2012-13 to purchase a fixed asset. The grant received from the Government was deducted from the carrying amount of fixed asset as permitted under previous GAAP, i.e. AS 12, *Accounting for Government Grants*. ABC Ltd. has opted for the option under paragraph D5 of Ind AS 101, *First-time Adoption of Indian Accounting Standards* and chosen to measure the item of PPE at its fair value and use that as its deemed cost on the date of transition to Ind AS. As per Ind AS 20, *Accounting for Government Grants and Disclosure of Government Assistance*, such a grant is required to be**

accounted by setting up the grant as deferred income on the date of transition and deducting the grant in arriving at the carrying amount of the asset is not allowed.

In this situation, whether ABC Ltd. is required to adjust the carrying amount of fixed assets as per previous GAAP to reflect accounting treatment of the government grant as per Ind AS 20?

***Response*:** Paragraph D5 of Ind AS 101 states that, "*An entity may elect to measure an item of property, plant and equipment at the date of transition to Ind ASs at its fair value and use that fair value as its deemed cost at that date.*"

Further, as per paragraph 24 of Ind AS 113, *Fair Value Measurement*, *"Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e. an exit price) regardless of whether that price is directly observable or estimated using another valuation technique."*

In accordance with the above, it is pertinent to note that the fair value of the asset that will be derived as per Ind AS 113 will be the exit price that would be received to sell an asset in an orderly transaction and which is a market-based measurement, not an entity-specific measurement.

Accordingly, in the given case, fair value of the asset is independent of the government grant received on the asset and no adjustment with regard to the government grant should be made to the fair value of the property, plant and equipment taken as deemed cost on the date of transition to Ind AS.

Further, Ind AS 101 provides certain mandatory exceptions and voluntary exemptions from retrospective application of some aspects/requirements of Ind AS.

In absence of any mandatory exception applicable in this case, the company shall recognise the asset-related government grants outstanding on the transition date as deferred income in accordance with the requirements of Ind AS 20, *Accounting for Government Grants and Disclosure of Government Assistance* and the resultant adjustment will be made in retained earnings or, if appropriate, another category of equity at the date of transition to Ind AS.

(ITFG Clarification Bulletin 12, Issue 2)
(Date of finalisation: October 23, 2017)

Reversal of the impairment provision recognised in books as at the date of transition when exemption under paragraph D6 of Ind AS 101 availed

Issue 28: **MNC Ltd. is a first-time adopter of Ind AS. It has elected to measure its property, plant and equipment at deemed cost measured as per paragraph D6 of Ind AS 101, i.e. at its previous GAAP revaluation amount measured before the date of transition (assuming the revaluation is broadly comparable to cost in accordance with Ind AS). Whether it can reverse the impairment provision recognised in books as at the date of transition.**

Would the answer be different if the company has not opted for the deemed cost exemption given under Ind AS 101 and has elected to apply Ind AS 16 retrospectively?

***Response*:** Ind AS 101, *First-time Adoption of Indian Accounting Standards* defines deemed cost as, "*An amount used as a surrogate for cost or depreciated cost at a given date. Subsequent depreciation or amortisation assumes that the entity had initially recognised the asset or liability at the given date and that its cost was equal to the deemed cost*."

As per paragraph D6 of Ind AS 101, "*A first-time adopter may elect to use a previous GAAP revaluation of an item of property, plant and equipment at, or before, the date of transition to Ind ASs as deemed cost at the date of the revaluation, if the revaluation was, at the date of the revaluation, broadly comparable to:*

(a) fair value; or

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

In accordance with the above, an entity may elect to measure its property, plant and equipment at its deemed cost measured as per previous GAAP revaluation on or before the date of transition, if the revaluation was broadly comparable to fair value or cost or depreciated cost in accordance with Ind AS. The amount so elected as deemed cost is the cost and any accumulated depreciation and provision for impairment under previous GAAP have no relevance. Accordingly, provision for impairment provided before the date of such measurement as per previous GAAP cannot be reversed in later years.

It may be noted that FAQ on deemed cost of property, plant and equipment under Ind AS 101, *First-time Adoption of Indian Accounting Standards* issued by the Accounting Standards Board of ICAI also, *inter alia*, provides that from the date of transition, the deemed cost, i.e., carrying values of PPE as per the previous GAAP is the cost and any accumulated depreciation and provision for impairment under previous GAAP have no relevance as would be the case if fair value were to be taken as deemed cost as per paragraph D5.

Accordingly, provision for impairment provided before the date of transition as per previous GAAP cannot be reversed in later years.

However, from the deemed cost determination date to the date of transition, the entity shall apply appropriate Ind AS accounting policies and depreciation policies to that asset. The depreciation policy applied during the intervening period from the deemed cost determination date to the date of transition would have to be in accordance with the requirements of applicable Ind AS. Accordingly, the impairment loss for the period between the deemed cost determination date to the date of transition can be reversed, if permitted as per the provisions of Ind AS 36, *Impairment of Assets*.

However, if it follows that if Ind AS 16 was applied retrospectively in accordance with paragraphs 7 and 10 of Ind AS 101, then impairment loss can be reversed, if permitted as per the provisions of Ind AS 36, *Impairment of Assets*.

(ITFG Clarification Bulletin 8, Issue 5)
(Date of finalisation: May 05, 2017)

Availment of deemed cost exemption for the assets classified as 'Assets held for sale' but which do not fulfill the criteria for classifying as held for sale in accordance with Ind AS 105 on the date of transition

Issue 29: **Company X is a first-time adopter of Ind AS from the financial year 2017-18 with the transition date being 1 April 2016. On 1 January 2016, Company X has classified a group of assets as 'Assets held for sale' in accordance with AS 10, *Property, Plant and Equipment* and stated it at lower of their net book value and net realisable value under previous GAAP. Company X has presented these assets separately from other fixed assets in the previous GAAP financial statements for the year ended 31 March 2016 and did not provide depreciation subsequently on the same.**

On transition to Ind AS, these assets could not fulfill the criteria for classifying as held for sale in accordance with Ind AS 105, *Non-current Assets Held for Sale and Discontinued Operations* and accordingly, would be reclassified as 'Property, plant and equipment'.

Whether deemed cost exemption under paragraph D7AA of Ind AS 101 will be available for these assets?

***Response*:** Under previous GAAP, i.e., AS 10, *Property, Plant and Equipment*, the Company X presented items of fixed assets retired from active use and held for sale separately. In this regard, paragraphs 73 and 74 of AS 10 may be noted:

"73 Items of property, plant and equipment retired from active use and held for disposal should be stated at the lower of their carrying amount and net realisable value. Any write-down in this regard should be recognised immediately in the statement of profit and loss.

74 The carrying amount of an item of property, plant and equipment should be derecognised

(a) on disposal; or

(b) when no future economic benefits are expected from its use or disposal."

In accordance with the above, it may be noted that such fixed assets are shown separately and are not derecognised from financial statements; these are eliminated from the financial statements only if they are disposed off or no future economic benefits are expected from its use or disposal.

Paragraph D7AA of Ind AS 101, *First-time Adoption of Indian Accounting Standards,* provides that, *"Where there is no change in its functional currency on the date of transition to Ind ASs, a first-time adopter to Ind ASs may elect to continue with the carrying value for all of its property, plant and equipment as recognised in the financial statements as at the date of transition to Ind ASs, measured as per the previous GAAP and use that as its deemed cost as at the date of transition after making necessary adjustments in accordance with paragraph D21 and D21A, of Ind AS 101."*

In accordance with above, the exemption as per paragraph D7AA is available to all property, plant and equipment as recognised in the financial statements as at the date of transition to Ind AS irrespective of whether these were disclosed separately. Under the previous GAAP, Company X has only presented the assets as held for sale separately. Accordingly, the Company

X can avail the deemed cost exemption for such type of assets which were presented separately as held for sale as per previous GAAP but on transition did not meet the criteria of assets held for sale given under Ind AS 105, *Non-current Assets Held for Sale and Discontinued Operations*.

(ITFG Clarification Bulletin 10, Issue 4)
(Date of finalisation: July 05, 2017)

Applicability of paragraph D7AA for capital work in progress

Issue 30: **Can a company elect the option available under Para D7AA of Ind AS 101 for capital work in progress items?**

***Response*:** Para D7AA of Ind AS 101, *First-time Adoption of Indian Accounting Standards,* states as under:

"Where there is no change in its functional currency on the date of transition to Ind ASs, a first-time adopter to Ind ASs may elect to continue with the carrying value for all of its property, plant and equipment as recognised in the financial statements as at the date of transition to Ind ASs, measured as per the previous GAAP and use that as its deemed cost as at the date of transition after making necessary adjustments in accordance with paragraph D21 and D21A, of this Ind AS. For this purpose, if the financial statements are consolidated financial statements, the previous GAAP amount of the subsidiary shall be that amount used in preparing and presenting consolidated financial statements. Where a subsidiary was not consolidated under previous GAAP, the amount required to be reported by the subsidiary as per previous GAAP in its individual financial statements shall be the previous GAAP amount. If an entity avails the option under this paragraph, no further adjustments to the deemed cost of the property, plant and equipment so determined in the opening balance sheet shall be made for transition adjustments that might arise from the application of other Ind ASs. This option can also be availed for intangible assets covered by Ind AS 38, Intangible Assets and investment property covered by Ind AS 40, Investment Property."

In accordance with the above, it may be noted that a company may elect to choose previous GAAP carrying value for all the items of PPE as its deemed cost when there is no change in its functional currency on the date of transition to Ind AS.

Capital work in progress is in the nature of property, plant and equipment under construction and accordingly, provisions of Ind AS 16, *Property, Plant and Equipment* apply to it.

Accordingly, in the given case, option under paragraph D7AA of Ind AS 101 is available with regard to capital work in progress also.

(ITFG Clarification Bulletin 3, Issue 11)
(Date of finalisation: June 22, 2016)

Deemed cost exemption under paragraph D7AA (Treatment of intragroup profits)

Issue 31: **XYZ Ltd. is a first-time adopter of Ind AS from financial year 2016-17. ABC Ltd. was an associate company of XYZ Ltd. under the previous GAAP and the same was accounted under equity method in the consolidated financial statements of XYZ Ltd. ABC Ltd. became its subsidiary considering the principles of de-facto control as per the requirements of Ind AS 110, *Consolidated Financial Statements*.**

Before transition to Ind AS, XYZ Ltd. had sold goods to ABC Ltd. at profit margin of 10%, which is being used by ABC Ltd for its operation, i.e., represents property, plant and equipment for ABC Limited. XYZ Ltd. has chosen to avail deemed cost exemption provided in paragraph D7AA of Ind AS 101, *First-time Adoption of Indian Accounting Standards*, i.e., to continue with carrying value of property, plant and equipment as per the previous GAAP which requires the values appearing in the subsidiary's financial statements to be taken without any adjustment.

Will such unrealised profits existing in the property, plant and equipment at consolidated level require elimination?

***Response*:** Paragraph D7AA of Ind AS 101 states that, *"where there is no change in its functional currency on the date of transition to Ind ASs, a first-time adopter to Ind ASs may elect to continue with the carrying value for all of its property, plant and equipment as recognised in the financial statements as at the date of transition to Ind ASs, measured as per the previous GAAP and use that as its deemed cost as at the date of transition after making necessary adjustments in accordance with paragraph D21 and D21A, of this Ind AS. For this purpose, if the financial statements are consolidated financial statements, the previous GAAP amount of the subsidiary shall be that amount used in preparing and presenting consolidated financial statements. Where a subsidiary was not consolidated under previous GAAP, the amount required to be reported by the subsidiary as per previous GAAP in its individual financial statements shall be the previous GAAP amount. If* *an entity avails the option under this paragraph, no further adjustments to the deemed cost of the property, plant and equipment so determined in the opening balance sheet shall be made for transition adjustments that might arise from the application of other Ind ASs."*

Further, paragraph B86 of Ind AS 110, *Consolidated Financial Statements*, *inter alia*, states that:

(c) eliminate in full intra group assets and liabilities, equity, income, expenses and cash flows relating to transactions between entities of the group ***(profits or losses resulting from intra group transactions that are recognised in assets, such as inventory and fixed assets, are eliminated in full).*** *Intra group losses may indicate an impairment that requires recognition in the consolidated financial statements. Ind AS 12, Income Taxes, applies to temporary differences that arise from the elimination of profits and losses resulting from intra group transactions.*

Accordingly, in the given case XYZ Ltd. in its consolidated financial statements will first eliminate the intra group profit of 10% recognised in separate financial statements of ABC Ltd. and then will apply the deemed cost exemption under paragraph D7AA of Ind AS 101.

(ITFG Clarification Bulletin 12, Issue 5)
(Date of finalisation: October 23, 2017)

Reversal of impact of paragraph 46A of AS 11 when exemption as per paragraph D7AA of Ind AS 101 availed

Issue 32: **Company X had opted the option available under paragraph 46/46A of AS 11, *The Effects of Changes in Foreign Exchange Rates* notified under the Companies (Accounting Standards) Rules, 2006. Accordingly, exchange gain/loss on foreign currency borrowings had been added to or deducted from the cost of property, plant and equipment (PPE).**

Company X is a first-time adopter of Ind AS and has availed the exemption given under paragraph D7AA of Ind AS 101 *First-time Adoption of Indian Accounting Standards,* however, it wishes to retrospectively reverse the effect of paragraph 46/46A from its PPE. Whether Company X is allowed to do so?

***Response*:** Paragraph D7AA of Ind AS 101 states as follows:

"Where there is no change in its functional currency on the date of transition

to Ind ASs, a first-time adopter to Ind ASs may elect to continue with the carrying value for all of its property, plant and equipment as recognised in the financial statements as at the date of transition to Ind ASs, measured as per the previous GAAP and use that as its deemed cost as at the date of transition after making necessary adjustments in accordance with paragraph D21 and D21A, of this Ind AS. For this purpose, if the financial statements are consolidated financial statements, the previous GAAP amount of the subsidiary shall be that amount used in preparing and presenting consolidated financial statements. Where a subsidiary was not consolidated under previous GAAP, the amount required to be reported by the subsidiary as per previous GAAP in its individual financial statements shall be the previous GAAP amount. If an entity avails the option under this paragraph, ***no further adjustments to the deemed cost of the property, plant and equipment*** *so determined in the opening balance sheet shall be made for transition adjustments that might arise from the application of other Ind ASs. This option can also be availed for intangible assets covered by Ind AS 38, Intangible Assets and investment property covered by Ind AS 40, Investment Property."*

In accordance with the above, it may be noted that when an entity opts for deemed cost exemption under paragraph D7AA of Ind AS 101 then it cannot make any adjustments to the carrying amount of PPE. Thus, once the entity avails the exemption provided in paragraph D7AA, it will be carrying forward the previous GAAP carrying amount for all of its property, plant and equipment.

Accordingly, in the given case, Company X cannot reverse the impact of paragraph 46A of AS 11 from its PPE as it has opted for the deemed cost exemption provided under D7AA.

(ITFG Clarification Bulletin 7, Issue 3)
(Date of finalisation: March 30, 2017)

Selective adoption of deemed cost exemption under paragraph D7AA

***Issue 33*: Ind AS has given the option to consider previous GAAP carrying value of property, plant and equipment (PPE) as deemed cost for assets acquired before the transition date. Whether an entity has the option of fair valuing few items of PPE and taking carrying amounts of the remaining items of PPE as the deemed cost on the date of transition?**

***<u>Response</u>*:** No. In accordance with paragraph D7AA of Ind AS 101, *The First-time Adoption of Indian Accounting Standards*, where there is no change in its functional currency on the date of transition to Ind AS, a first-time adopter of Ind AS has the option to elect to continue with the carrying value of *all* of its property, plant and equipment as at the date of transition measured as per the previous GAAP and use that as its deemed cost at the date of transition after making necessary adjustments in accordance with paragraph D21 and D21A of Ind AS 101. If a first time adopter chooses this option, then the option of applying this on selective basis to some of the items of property, plant and equipment and using fair value for others is not available.

(ITFG Clarification Bulletin 5, Issue 3)
(Date of finalisation: September 19, 2016)

Treatment of Government Grant on the date of transition- In case of deemed cost exemption

***<u>Issue 34</u>*: ABC Ltd. is a first-time adopter of Ind AS from the financial year 2016-17. It had received government grant from the Central Government during the financial year 2012-13 to purchase a fixed asset. The grant received from the Government was deducted from the carrying amount of fixed asset as permitted under previous GAAP, i.e. AS 12, *Accounting for Government Grants.* ABC Ltd. has chosen to continue with carrying value of property, plant and equipment as per the previous GAAP as provided in paragraph D7AA of Ind AS 101. As per Ind AS 20, *Accounting for Government Grants and Disclosure of Government Assistance*, such a grant is required to be accounted by setting up the grant as deferred income on the date of transition and deducting the grant in arriving at the carrying amount of the asset is not allowed.**

In this situation, whether ABC Ltd. is required to adjust the carrying amount of fixed assets as per previous GAAP to reflect accounting treatment of the government grant as per Ind AS 20?

***<u>Response</u>*:** Paragraph D7AA of Ind AS 101, *First-time Adoption of Indian Accounting Standards,* states as under:

"Where there is no change in its functional currency on the date of transition to Ind ASs, a first-time adopter to Ind ASs may elect to continue with the

carrying value for all of its property, plant and equipment as recognised in the financial statements as at the date of transition to Ind ASs, measured as per the previous GAAP and use that as its deemed cost as at the date of transition after making necessary adjustments in accordance with paragraph D21 and D21A, of this Ind AS. For this purpose, if the financial statements are consolidated financial statements, the previous GAAP amount of the subsidiary shall be that amount used in preparing and presenting consolidated financial statements. Where a subsidiary was not consolidated under previous GAAP, the amount required to be reported by the subsidiary as per previous GAAP in its individual financial statements shall be the previous GAAP amount. ***If an entity avails the option under this paragraph, no further adjustments to the deemed cost of the property, plant and equipment so determined in the opening balance sheet shall be made for transition adjustments that might arise from the application of other Ind ASs.*** *This option can also be availed for intangible assets covered by Ind AS 38, Intangible Assets and investment property covered by Ind AS 40, Investment Property."*

In accordance with the above, when the option of deemed cost exemption is availed for property, plant and equipment under paragraph D7AA of Ind AS 101, no further adjustments to the deemed cost of the property, plant and equipment shall be made for transition adjustments that might arise from the application of other Ind AS.

However paragraph 10 of Ind AS 101, *inter alia*, provides that Ind AS will be applied in measuring all recognised assets and liabilities except for mandatory exceptions and voluntary exemptions from other Ind AS as prescribed under Ind AS 101.

In absence of any other mandatory exception or voluntary exemption applicable in this case, the company shall recognise the asset related government grants outstanding on the transition date as deferred income in accordance with the requirements of Ind AS 20, *Accounting for Government Grants and Disclosure of Government Assistance.* In the current case, the company has already deducted the amount of grant from the cost of the fixed assets. As a consequence, to recognise the amount of unamortised deferred income as at the date of the transition in accordance with paragraph 10 of Ind AS 101, the corresponding adjustment should be made to the carrying amount of property, plant and equipment (net of cumulative depreciation impact) and retained earnings, respectively, as the grant is directly linked to the property, plant and equipment. This treatment would reflect the correct economic reality and result in faithful representation of the effects of these transactions on transition in accordance with the requirements of Ind AS. Since the adjustment to the property, plant and equipment is only consequential and arising because of applying the transition requirements of Ind AS 101, it would not be construed as an adjustment to the deemed cost of property, plant and equipment as envisaged under paragraph D7AA of Ind AS.

(ITFG Clarification Bulletin 5, Issue 5)
(Date of finalisation: April 08, 2017)

Treatment of unadjusted processing of fees on loans taken before the date of transition -In case of deemed cost exemption

Issue 35*: PQR Ltd. had obtained a loan prior to April 1, 2015. The processing fees on the loan were capitalised as part of the relevant fixed assets as per the previous GAAP. PQR Ltd. is required to adopt Ind AS from financial year 2016-17. It has chosen to avail deemed cost exemption provided in paragraph D7AA of Ind AS 101, i.e., to continue with carrying value of property, plant and equipment as per the previous GAAP. The loan needs to be accounted for as per amortised cost method in accordance with Ind AS 109, *Financial Instruments.

Whether PQR Ltd. is required to adjust the carrying amount of fixed assets as per the previous GAAP to reflect accounting treatment of processing fees as per Ind AS 109?

Response: Paragraph D7AA of Ind AS 101, *First-time Adoption of Indian Accounting Standards,* states as under:

"Where there is no change in its functional currency on the date of transition to Ind ASs, a first-time adopter to Ind ASs may elect to continue with the carrying value for all of its property, plant and equipment as recognised in the financial statements as at the date of transition to Ind ASs, measured as per the previous GAAP and use that as its deemed cost as at the date of transition after making necessary adjustments in accordance with paragraph D21 and D21A, of this Ind AS. For this purpose, if the financial statements are consolidated financial statements, the previous GAAP amount of the subsidiary shall be that amount used in preparing and presenting consolidated financial statements. Where a subsidiary was not consolidated under previous GAAP, the amount required to be reported by the subsidiary as per previous GAAP in its individual financial statements shall be the

previous GAAP amount. ***If an entity avails the option under this paragraph, no further adjustments to the deemed cost of the property, plant and equipment so determined in the opening balance sheet shall be made for transition adjustments that might arise from the application of other Ind ASs.*** *This option can also be availed for intangible assets covered by Ind AS 38, Intangible Assets and investment property covered by Ind AS 40, Investment Property."*

In accordance with the above, when the option of deemed cost exemption is availed for property, plant and equipment under paragraph D7AA of Ind AS 101, no further adjustments to the deemed cost of the property, plant and equipment shall be made for transition adjustments that might arise from the application of other Ind AS.

However paragraph 10 of Ind AS 101, *inter alia*, provides that Ind AS will be applied in measuring all recognised assets and liabilities except for mandatory exceptions and voluntary exemptions from other Ind AS as prescribed under Ind AS 101.

In absence of any other mandatory exception or voluntary exemption applicable in this case, the carrying amount of loan is required to be restated to its amortised cost in accordance with the requirements of Ind AS 109 as at the date of the transition. Accordingly, the unamortised amount of processing cost as at the date of the transition should be adjusted from the carrying amount of loan to arrive at its amortised cost. In the current case, the Company has already capitalised the processing cost as a part of the cost of the fixed assets. As a consequence, to restate the carrying amount of loan in accordance with paragraph 10 of Ind AS 101, the carrying amount of fixed assets as at the date of the transition should also be reduced by the amount of processing cost (net of cumulative depreciation impact). The difference between the adjustments to the carrying amount of loan and to fixed assets, respectively should be recognised in the retained earnings as at the date of the transition. This treatment would reflect the correct economic reality and result in faithful representation of the effects of these transactions on transition in accordance with the requirements of Ind AS. Since the adjustment to fixed assets is only consequential and arising because of applying the transition requirements of Ind AS 101, it would not be construed as an adjustment to the deemed cost of property, plant and equipment as envisaged under paragraph D7AA of Ind AS.

(ITFG Clarification Bulletin 5, Issue 4)
(Date of finalisation: April 08, 2017)

Applicability of paragraph D13AA on long term foreign exchange contracts

Issue 36**: ABC Ltd. is a first time adopter of Ind AS. It has been exercising the option provided in paragraph 46/46A of AS 11, *The Effects of Changes in Foreign Exchange Rates* notified under the Companies (Accounting Standards) Rules, 2006 and intends to continue the same accounting policy in accordance with paragraph D13AA of Ind AS 101, *First-time Adoption of Indian Accounting Standards* . The entity used to apply the provisions of paragraph of 46/46A of AS 11 to long-term forward exchange contracts as such contracts were also covered by paragraph 36 of AS 11. Whether ABC Ltd. can continue the accounting policy for exchanges differences to long term forward exchange contracts?**

Response**:** Paragraph D13AA of Ind AS 101 states as follows:

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

The exemption in D13AA relates to accounting for foreign exchange differences on long term foreign currency monetary items recognised in the financial statement only, and it does not relate to the accounting for long term forward exchange contracts (as these contracts are not within scope of Ind AS 21 and are treated in accordance with Ind AS 109). Therefore, an entity cannot continue to apply the provisions of paragraph 46/46A of AS 11 to long-term forward exchange contracts by virtue of availing exemption given in paragraph D13AA of Ind AS 101.

Further, following paragraphs of Ind AS 21 would be relevant when accounting for long term forward exchange contracts:

Paragraph 3 of Ind AS 21, *inter alia*, states that Ind AS 21 shall be applied in accounting for transactions and balances in foreign currencies, except for those derivative transactions and balances that are within the scope of Ind AS 109, *Financial Instruments.*

Paragraph 4 of Ind AS 21 states as follows:

"Ind AS 109 applies to many foreign currency derivatives and, accordingly, these are - excluded from the scope of this Standard. However, those foreign

currency derivatives that are not within the scope of Ind AS 109 (e.g. some foreign currency derivatives that are embedded in other contracts) are within the scope of this Standard. In addition, this Standard applies when an entity translates amounts relating to derivatives from its functional currency to its presentation currency."

Long term forward exchange contracts generally meet the definition of 'Derivatives' which are within the scope of Ind AS 109, *Financial Instruments*. Therefore, ABC Ltd has to follow the accounting requirements of Ind AS 109 for accounting long term forward exchange contracts.

(ITFG Clarification Bulletin 7, Issue 4)
(Date of finalisation: March 30, 2017)

Capitalisation of exchange differences arising from long term foreign currency monetary items (In case of first-time adoption of Ind AS and when change in functional currency)

***Issue 37*: Company ZED Ltd., having net worth of ₹ 600 crores as on March 31, 2014, has assessed that its functional currency as per the requirements of Ind AS 21, *The Effects of Changes in Foreign Exchange Rates,* is USD. The Company has taken loans in USD as well as in ₹ for importing fixed assets before 1st March 2014. The Company follows the policy of recognising the exchange differences arising from long term foreign currency monetary items in the cost of fixed assets where such monetary item has arisen for purchase of fixed assets. Considering the requirements of paragraph D13AA of Ind AS 101, *First-time Adoption of Indian Accounting Standards,* whether the company can continue to recognise the exchange differences arising from the above said loans in the cost of Property, Plant and Equipment, when adopting Ind AS for the first time?**

***Response*:** Paragraph D13AA of Ind AS 101, *First-time Adoption of Indian Accounting Standards* states as follows*:*

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

Paragraph D13AA as stated above provides an option to continue the policy of recognising the exchange differences on long term foreign currency monetary items as per paragraph 46/46A of AS 11, *The Effects of Changes in Foreign Exchange Rates*, only for those long term foreign currency monetary items which were recognised in the financial statements before the beginning of first Ind AS reporting period. Therefore, the option given in paragraph D13AA of Ind AS 101, will be available in case of those long term foreign currency monetary items which were recognised in the financial statements ending on or before 31st March, 2016 and are regarded as foreign currency monetary items under Ind AS 21.

In the given case, the functional currency of Company ZED has changed from ₹ to USD. Therefore, the USD loans will no longer be regarded as foreign currency monetary items under Ind AS. Hence, such a company cannot continue the policy of recognising the exchange differences, arising from USD loans, in the cost of fixed assets.

(ITFG Clarification Bulletin 1, Issue 4)
(Date of finalisation: January 16, 2016)

Exemption under paragraph D13AA to foreign currency loan drawn after Ind AS applicability to the entity

***Issue 38*: Company ABC Ltd. is required to mandatorily comply with Ind AS from financial year 2016-17. It had entered into a foreign currency loan agreement for USD 100 million on March 31, 2010 for construction of its property, plant and equipment (PPE). It had drawn USD 70 million upto March 31, 2016. The company had availed the option given under paragraph 46/46A of AS 11, *The Effects of Changes in Foreign Exchange Rates* notified under the Companies (Accounting Standards) Rules, 2006. Accordingly, exchange gain/loss on such foreign currency loan had been added to or deducted from the cost of PPE. The Company has opted for the exemption given under paragraph D13AA of Ind AS 101, *First-time Adoption of Indian Accounting Standards*.**

The balance amount of USD 30 million will be drawn after 1st April, 2016. Whether the exemption under paragraph D13AA is also available for the balance loan amount of USD 30 million to be drawn after 1st April, 2016?

***Response*:** Paragraph D13AA of Ind AS 101 states as follows:

"A first-time adopter may continue the policy adopted for accounting for

exchange differences arising from translation of long-term foreign currency monetary items recognised in the financial statements for the period ending immediately before the beginning of the first Ind AS financial reporting period as per the previous GAAP."

As stated above, it may be noted that the exemption under paragraph D13AA is available only for the exchange differences arising from translation of long-term foreign currency monetary items recognised in the financial statements immediately before the beginning of the first Ind AS financial reporting period.

Accordingly, in the given case, the exemption under paragraph D13AA for the exchange gain/loss on foreign currency loan amount of USD 70 million is available to ABC Ltd. However, it cannot avail the exemption under paragraph D13AA for the exchange gain/loss on balance amount of loan, i.e., USD 30 million, as the same will be drawn after 1st April, 2016.

(ITFG Clarification Bulletin 7, Issue 1)
(Date of finalisation: March 30, 2017)

Applicability of paragraph D13AA on foreign currency swaps in case of hedged items

Issue 39: **XYZ Ltd. had obtained a long term foreign currency loan and had availed option given in paragraph 46/46A of AS 11, *The Effects of Changes in Foreign Exchange Rates* under previous GAAP. Accordingly, exchange gain/loss on such foreign currency loan had been added to or deducted from the cost of fixed assets.**

XYZ Ltd. is a first time adopter of Ind AS from April 1, 2016. The Company wants to avail the option available under paragraph D13AA of Ind AS 101, i.e., to continue the policy adopted for accounting for exchange difference arising from translation of long-term foreign currency monetary items recognised in the previous GAAP financial statements.

The entity has also entered into foreign currency swap transaction for such long term foreign currency items. The swaps fall within the definition of cash flow hedge. As per Ind AS 109, *Financial Instruments*, in case of cash flows hedge, portion of gain or loss on the hedging instrument that is determined to be an effective hedge shall be recognized in the Other Comprehensive Income (OCI) and ineffectiveness gain or loss shall be recognized in the profit or loss.

How to give the effect of swaps in the financial statements, as gain/loss on hedged item is considered in the fixed assets whereas gain/loss on hedging instrument as per Ind AS 109 is either recognised in OCI or in profit and loss?

***Response*:** Paragraph D13AA of Ind AS 101 provides that a first-time adopter may continue the policy adopted for accounting for exchange differences arising from translation of long-term foreign currency monetary items recognised in the financial statements for the period ending immediately before the beginning of the first Ind AS financial reporting period as per the previous GAAP.

Paragraph 6.1.1 of Ind AS 109 states as under:

"The objective of hedge accounting is to represent, in the financial statements, the effect of an entity's risk management activities that use financial instruments to manage exposures arising from particular risks that could affect profit or loss (or other comprehensive income, in the case of investments in equity instruments for which an entity has elected to present changes in fair value in other comprehensive income in accordance with paragraph 5.7.5)."

In the present case, the entity has decided to avail the option available under paragraph D13AA of Ind AS 101. It may be noted that if an entity avails the exemption specified in paragraph D13AA then it has no corresponding foreign currency exposure that affects profit or loss as it capitalizes the exchange differences to the cost of the asset.

In view of the above, hedge accounting under Ind AS 109 will not be applicable for foreign currency swaps against an item, if for that item, the entity avails the option available under paragraph D13AA of Ind AS 101. Hence, such derivatives will be considered as held for trading and any change in fair value will be recognised in profit or loss.

(ITFG Clarification Bulletin 3, Issue 10)
(Date of finalisation: June 22, 2016)

Revision of balance of Foreign Currency Monetary Item Translation Difference Account (FCMITDA) at the time of first time adoption of Ind AS on account of finance cost

Issue 40*: A Company has opted for the accounting treatment under paragraph 46A of AS 11, *The Effects of Changes in Foreign Exchange

***Rates*, under the Companies (Accounting Standards) Rules, 2006, in respect of purchase of other than depreciable assets and accordingly, exchange difference on account of long term foreign currency loans is accumulated and amortised over the balance period of such loan. The company has taken a long term loan of ₹ 1000 crores and incurred upfront / processing fee of ₹ 40 crores. Under the Companies (Accounting Standards) Rules, 2006, ₹ 40 crores had been charged off as finance cost in the statement of profit and loss in the year of loan and Rs.1000 crores is carried as long term loan. The loan which is outstanding on the balance sheet date (for simplicity it is assumed that repayment of loan has not yet started) is translated at the rate of exchange prevailing at the date of balance sheet and the exchange difference is parked in Foreign Currency Monetary Item Translation Difference Account (FCMITDA), which is being amortised over the term of loan.**

Under the Companies (Indian Accounting Standards) Rules, 2015, on the date of transition, the effective rate of interest will be worked out based on the net inflow of loan amount i.e. ₹ 960 crores in this case.

Whether the balance of FCMITDA based on loan inflow of ₹ 960 crores or ₹ 1000 crores be continued as per Ind AS on date of transition as per the Paragraph D13AA of Ind AS 101, *First time Adoption of Indian Accounting Standards*.

***Response*:** As per paragraph D13AA of Ind AS 101, *First time Adoption of Indian Accounting Standards,* "A first-time adopter may continue the policy adopted for accounting for exchange differences arising from translation of long-term foreign currency monetary items recognised in the financial statements for the period ending immediately before the beginning of the first Ind AS financial reporting period as per the previous GAAP".

Long term loan taken by Company is a financial liability under Ind AS 109, *Financial Instruments.* Paragraphs 4.2.1 and 4.2.2 of Ind AS 109 provide for classification and subsequent measurement of financial liability as follows:

"4.2.1 An entity shall classify all financial liabilities as subsequently measured at amortised cost, except for:

(a) financial liabilities at fair value through profit or loss. Such liabilities, including derivatives that are liabilities, shall be subsequently measured at fair value.

(b) financial liabilities that arise when a transfer of a financial asset does

not qualify for derecognition or when the continuing involvement approach applies. Paragraphs 3.2.15 and 3.2.17 apply to the measurement of such financial liabilities.

(c) financial guarantee contracts. After initial recognition, an issuer of such a contract shall (unless paragraph 4.2.1(a) or (b) applies) subsequently measure it at the higher of:

(i) the amount of the loss allowance determined in accordance with section 5.5 and

(ii) the amount initially recognised (see paragraph 5.1.1) less, when appropriate, the cumulative amount of income recognised in accordance with the principles of Ind AS 18.

(d) commitments to provide a loan at a below-market interest rate. An issuer of such a commitment shall (unless paragraph 4.2.1(a) applies) subsequently measure it at the higher of:

(i) the amount of the loss allowance determined in accordance with Section 5.5 and

(ii) the amount initially recognised (see paragraph 5.1.1) less, when appropriate, the cumulative amount of income recognised in accordance with the principles of Ind AS 18.

(e) contingent consideration recognised by an acquirer in a business combination to which Ind AS 103 applies. Such contingent consideration shall subsequently be measured at fair value with changes recognised in profit or loss.

Option to designate a financial liability at fair value through profit or loss

4.2.2 An entity may, at initial recognition, irrevocably designate a financial liability as measured at fair value through profit or loss when permitted by paragraph 4.3.5, or when doing so results in more relevant information, because either:

(a) it eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as 'an accounting mismatch') that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases (see paragraphs B4.1.29– B4.1.32); or

(b) a group of financial liabilities or financial assets and financial liabilities is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that

> *basis to the entity's key management personnel (as defined in Ind AS 24 Related Party Disclosures), for example, the entity's board of directors and chief executive officer (see paragraphs B4.1.33–B4.1.36)".*

In view of the above, the first time adopter needs to revise the balance of FCMITDA based on the loan at amortised cost of ₹ 960 crores retrospectively if the loan is not designated as at fair value through profit or loss (FVTPL).

(ITFG Clarification Bulletin 2, Issue 6)
(Date of finalisation: April 12, 2016)

Amortisation of balance of Foreign Currency Monetary Item Translation Difference Account (FCMITDA)

***Issue 41*: Y Ltd. is a first time adopter of Ind AS. The date of transition is April 1, 2015. On April 1, 2010, it obtained a 7 year US$ 1,00,000 loan. It has been exercising the option provided in Paragraph 46/46A of AS 11 and has been amortising the exchange differences in respect of this loan over the balance period of such loan. On the date of transition, the company intends to continue the same accounting policy with regard to amortising of exchange differences. Whether the Company is permitted to do so? Whether amortisation of balance of Foreign Currency Monetary Item Translation Difference Account (FCMITDA) be routed through profit or loss or through Other Comprehensive Income (OCI).**

***Response*:** Ind AS 101 includes an optional exemption to continue the existing policy as per the previous GAAP, i.e., existing AS 11 in respect of the long-term foreign currency monetary items recognised in the financial statements for the period ending immediately before the beginning of the first Ind AS financial reporting period.

Paragraph D13AA of Ind AS 101 provides that a first-time adopter may continue the policy adopted for accounting for exchange differences arising from translation of long-term foreign currency monetary items recognised in the financial statements for the period ending immediately before the beginning of the first Ind AS financial reporting period as per the previous GAAP. Therefore, if an entity opts to follow the aforesaid paragraph of Ind AS 101, it has to continue to apply the accounting policy followed for such long-term foreign currency monetary item.

In view of the above, Company Y can continue to follow the existing accounting policy of amortising the exchange differences in respect of this loan over the balance period of such long term liability.

Since the amortisation of exchange differences under the existing policy as per the previous GAAP would be to recognise periodic amortised amount in the statement of profit and loss affecting the profit or loss for the period, amortisation of balance of Foreign Currency Monetary Item Translation Difference Account (FCMITDA) shall be routed through profit or loss and not through Other Comprehensive Income (OCI).

(ITFG Clarification Bulletin 2, Issue 1)
(Date of finalisation: April 12, 2016)

Capitalisation of exchange differences arising from long term foreign currency monetary items in case of fixed assets (In case of first time adoption of Ind AS)

***Issue 42*: Company XYZ ltd. having net worth of ₹ 600 crores as on March 31, 2014 has taken a loan having term of 5 years for importing fixed assets as on July 1, 2014, February 1, 2016 and May 3, 2016. The Company has followed the policy of recognising the exchange differences arising from long term foreign currency monetary items in the cost of fixed assets where such monetary item has arisen for purchase of fixed assets pursuant to paragraph 46/46 A of AS 11, *The Effects of Changes in Foreign Exchange Rates,* notified under the Companies (Accounting Standards) Rules, 2006. Considering the requirements of paragraph D13AA of Ind AS 101, *First-time adoption of Indian Accounting Standards,* whether the company can continue to recognise the exchange differences arising from the above-said loans in the cost of Property, Plant and Equipment, when adopting Ind AS for the first time?**

Response: Paragraph D13AA of Ind AS 101, *First-time Adoption of Indian Accounting Standards* states as follows:

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

Paragraph D13AA of Ind AS 101, *First-time adoption of Indian Accounting Standards*, provides an option to continue the policy of recognising the exchange differences on long term foreign currency monetary items as per paragraph 46/46A of AS 11, *The Effects of Changes in Foreign exchange Rates*, only for those long term foreign currency monetary items which were recognised in the financial statements before the beginning of first Ind AS reporting period.

In the above case, the beginning of the first Ind AS reporting period for company XYZ is April 1, 2016. Therefore, the option given in paragraph D13AA of Ind AS 101 will be available for loans taken as on July 1, 2014 and February 1, 2016 and will not be available for the loan taken after March 31, 2016.

(ITFG Clarification Bulletin 1, Issue 3)
(Date of finalisation: January 16, 2016)

Accounting Treatment of interest free loan to subsidiary company when exemption under paragraph D15 of Ind AS 101 availed

Issue 43: **A Ltd. has given an interest free loan to its subsidiary company B Ltd. Both companies are covered under Phase I of Ind AS roadmap. B Ltd. has recognised the differential of present value of loan amount and its carrying amount as per previous GAAP as 'Equity' in its standalone financial statements prepared as per Ind AS. A Ltd. has elected to measure the investment in subsidiary at its previous GAAP carrying amount at that date in accordance with paragraph D15 of Ind AS 101, *First-time Adoption of Indian Accounting Standards*.**

What will be the accounting treatment of the differential in the carrying value of loan under previous GAAP and its present value in the standalone financial statements of A Ltd. prepared as per Ind AS?

***Response*:** Paragraphs D14 and D15 of Ind AS 101 state as follows:

"*D14 When an entity prepares separate financial statements, Ind AS 27 requires it to account for its investments in subsidiaries, joint ventures and associates either:*

(a) at cost; or

(b) in accordance with Ind AS 109."

D15 If a first-time adopter measures such an investment at cost in accordance with Ind AS 27, it shall measure that investment at one of the following amounts in its separate opening Ind AS Balance Sheet:

(a) cost determined in accordance with Ind AS 27; or

(b) deemed cost. The deemed cost of such an investment shall be its:

(i) fair value at the entity's date of transition to Ind ASs in its separate financial statements; or

(ii) previous GAAP carrying amount at that date.

A first-time adopter may choose either (i) or (ii) above to measure its investment in each subsidiary, joint venture or associate that it elects to measure using a deemed cost."

Paragraph 10 of Ind AS 101 states as follows:

Except as described in paragraphs 13–19 and Appendices B–D, an entity shall, in its opening Ind AS Balance Sheet:

(a) recognise all assets and liabilities whose recognition is required by Ind ASs;

(b) not recognise items as assets or liabilities if Ind ASs do not permit such recognition;

(c) reclassify items that it recognised in accordance with previous GAAP as one type of asset, liability or component of equity, but are a different type of asset, liability or component of equity in accordance with Ind ASs; and

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

In accordance with the above, it may be noted that if the entity exercises the option under D15 (b) (ii) to measure the investment in subsidiary at previous GAAP carrying amount, then the differential in the carrying value of the loan under previous GAAP and present value shall be added to the investment in subsidiary measured at cost as required by paragraph 10 of Ind AS 101.

(ITFG Clarification Bulletin 10, Issue 1)
(Date of finalisation: July 05, 2017)

Measurement of Investment in subsidiary when exemption under paragraph D15 of Ind AS 101 availed

Issue 44*: MNC Ltd is a first-time adopter of Ind AS. At the date of transition to Ind AS, it has opted to measure its investment in subsidiary at deemed cost as per paragraph D15 of Ind AS 101, *First-

***time Adoption of Indian Accounting Standards*. Whether in its first Ind AS financial statements prepared as at the end of the reporting period, MNC Ltd. is required to measure its investment in subsidiary at cost only or it has the option to measure the investment as per Ind AS 109 in accordance with paragraph 10 of Ind AS 27?**

***Response*:** Paragraph D14 and D 15 of Ind AS 101 states as follows:

"D14 When an entity prepares separate financial statements, Ind AS 27 requires it to account for its investments in subsidiaries, joint ventures and associates either:

(a) at cost; or

(b) in accordance with Ind AS 109.

*D15 If a first-time adopter **measures such an investment at cost in accordance with Ind AS 27**, it shall measure that investment at one of the following amounts in its **separate opening Ind AS Balance Sheet**:*

(a) cost determined in accordance with Ind AS 27; or

(b) deemed cost. The deemed cost of such an investment shall be its:

(i) fair value at the entity's date of transition to Ind ASs in its separate financial statements; or

(ii) previous GAAP carrying amount at that date.

A first-time adopter may choose either (i) or (ii) above to measure its investment in each subsidiary, joint venture or associate that it elects to measure using a deemed cost."

In accordance with the above, it may be noted that deemed cost exemption under paragraph D15 is available to an entity when it chooses to measure the investment at cost in accordance with Ind AS 27. Accordingly, an entity may in its opening Ind AS balance sheet measure its investment in subsidiaries as at the date of transition at its deemed cost measured in accordance with paragraph D15 provided it adopts to measure its investment in subsidiaries at cost in accordance with Ind AS 27.

Further, paragraph 7 of Ind AS 101 states that, *"An entity shall use the **same accounting policies in its opening Ind AS Balance Sheet and throughout all periods presented in its first Ind AS financial statements.** Those accounting policies shall comply with each Ind AS effective at the end of its first Ind AS reporting period, except as specified in paragraphs 13–19 and Appendices B–D."*

Accordingly, if an entity has opted to measure its investments in subsidiaries at cost for its opening Ind AS balance sheet, then the same accounting policy will be applied for its closing Ind AS balance sheet as well. Accordingly, if a company chooses to measure its investment in subsidiary at the date of transition at deemed cost measured as per paragraph D15, then it shall carry such investment at that amount (i.e. deemed cost as per paragraph D15) in its first Ind AS financial statements prepared as at the end of the reporting period.

The requirements in D14 and D15 applies to investments held in subsidiaries as at the date of transition. However, for all investment in subsidiaries, joint ventures and associates made subsequent to the date of transition, the requirements of paragraph 10 of Ind AS 27 as stated below shall apply:

"*When an entity prepares separate financial statements, it shall account for investments in subsidiaries, joint ventures and associates either:*

(a) at cost, or

(b) in accordance with Ind AS 109."

The entity shall apply the same accounting for each category of investments. Investments accounted for at cost shall be accounted for in accordance with Ind AS 105, Non-current Assets Held for Sale and Discontinued Operations, when they are classified as held for sale (or included in a disposal group that is classified as held for sale). The measurement of investments accounted for in accordance with Ind AS 109 is not changed in such circumstances."

In accordance with the above, if the entity has opted to measure the investments at deemed cost on the date of transition to Ind AS in its opening Ind AS balance sheet, then all subsequent investments made in that category should be measured at cost in accordance with Ind AS 27 in its financial statements prepared as at the end of the reporting period. However, for the investment made in different category (e.g. associate or joint venture), the entity has an option to account for those investments at cost or in accordance with Ind AS 109.

(ITFG Clarification Bulletin 11, Issue 4)
(Date of finalisation: July 31, 2017)

Exemption of paragraph D15 on investment in debentures of subsidiary company

***Issue 45*: XYZ Ltd. is a holding company of ABC Ltd. and owns 60% voting share of ABC Ltd. Apart of equity investments, XYZ Ltd. has investment in debentures of subsidiary company. Whether such an**

investment in debenture of subsidiary company would be covered under the scope of paragraph 10 of Ind AS 27, *Separate Financial Statements* and exemptions provided under D15 of Ind AS 101, *First-time Adoption of Indian Accounting Standards*.

***Response*:** According to paragraph 2.1(a) of Ind AS 109, the standard is not applicable to those interests in subsidiaries, associates and joint ventures that are accounted for in accordance with Ind AS 110, *Consolidated Financial Statements*, Ind AS 27, *Separate Financial Statements* or Ind AS 28, *Investments in Associates and Joint Ventures*.

However, in some cases, Ind AS 110, Ind AS 27 or Ind AS 28 require or permit an entity to account for an interest in a subsidiary, associate or joint venture in accordance with some or all of the requirements of this Standard i.e. Ind AS 109.

Paragraph 10 of Ind AS 27, *Separate Financial Statements*, *inter alia*, states as follows:

"*10 When an entity prepares separate financial statements, it shall account for investments in subsidiaries, joint ventures and associates either:*

(a) at cost, or

(b) in accordance with Ind AS 109."

Further, paragraph D15 of Ind AS 101 provides exemption with regard to investments in subsidiaries, joint ventures and associates.

Paragraph D15 of Ind AS states as follows:

"If a first-time adopter measures such an investment at cost in accordance with Ind AS 27, it shall measure that investment at one of the following amounts in its separate opening Ind AS Balance Sheet:

(a) cost determined in accordance with Ind AS 27; or

(b) deemed cost. The deemed cost of such an investment shall be its:

(i) fair value at the entity's date of transition to Ind ASs in its separate financial statements; or

(ii) previous GAAP carrying amount at that date.

A first-time adopter may choose either (i) or (ii) above to measure its

> *investment in each subsidiary, joint venture or associate that it elects to measure using a deemed cost."*

The Company needs to assess the terms of the debentures to determine whether the instrument can be considered as an investment in subsidiary as per Ind AS 27 or a financial asset as per Ind AS 109. If the debentures meet the definition of equity as per Ind AS 32 from the issuer's perspective (i.e. subsidiary), then it can be considered to be part of parent's investment in subsidiary and hence accounted for under Ind AS 27. However, where the instrument fails to meet the definition of equity from issuer's perspective (i.e. a liability of the subsidiary), it shall be classified as a financial asset and accounted for under Ind AS 109.

Investments covered by Ind AS 110 are those interests that give an entity right to control over the other entity, which are normally in the form of equity investments. An entity may have other investments commonly referred as long term investments which are not excluded from the scope of Ind AS 109.

Accordingly, in the given case, presuming that investment in debentures is not within the scope of Ind AS 110, it will not be covered under Ind AS 27 and therefore, should be accounted as financial asset under Ind AS 109.

(ITFG Clarification Bulletin 7, Issue 8)
(Date of finalisation: March 30, 2017)

Exemption under paragraph D22 of Ind AS 101 in respect of intangible assets arising from service concession arrangements (toll roads) which are in progress.

***Issue 46*: A Ltd. is a first-time adopter of Ind AS from financial year 2016-17. It had entered into a service concession arrangement with government in respect of toll roads in the year 2014. Paragraph 7AA of Ind AS 38, *Intangible Assets* read with paragraph D22 of Ind AS 101, *First-time Adoption of Indian Accounting Standards* permits revenue based amortisation for the intangible assets arising from service concession arrangements in respect of toll roads recognised in the financial statements for the period ending immediately before the beginning of the first Ind AS reporting period. As on 1st April 2016, the construction of toll road is in progress. Can A Ltd. avail the above exemption in respect of toll roads under construction/development as on 1st April, 2016?**

***Response*:** Paragraph D22 of Ind AS 101, *inter alia,* states as follows:

"D22 A first-time adopter may apply the following provisions while applying the Appendix A to Ind AS 11:

(i) Subject to paragraph (ii), changes in accounting policies are accounted for in accordance with Ind AS 8, i.e. retrospectively, except for the policy adopted for amortisation of intangible assets arising from service concession arrangements related to toll roads recognised in the financial statements for the period ending immediately before the beginning of the first Ind AS financial reporting period as per the previous GAAP................"

Further, paragraph 7AA of Ind AS 38, *Intangible Assets,* states as follows:

> "*7AA The amortisation method specified in this Standard does not apply to an entity that opts to amortise the intangible assets arising from service concession arrangements in respect of toll roads recognised in the financial statements for the period ending immediately before the beginning of the first Ind AS reporting period as per the exception given in paragraph D22 of Appendix D to Ind AS 101."*

In accordance with the above, it may be noted that the exemption can be availed in respect of intangible assets arising from service concession arrangements in respect of toll roads recognised in the financial statements before the beginning of first Ind AS reporting period. In the given case, A Ltd. cannot avail the exemption because the intangible asset is in progress and the same have has not been recognised before 1st April, 2016 and amortisation has not begun.

(ITFG Clarification Bulletin 7, Issue 9)
(Date of finalisation: March 30, 2017)

Accounting treatment of non-controlling interest in case of business combinations in its consolidated financial statements as on the date of transition

***Issue 47*: Company A has multiple subsidiaries. All subsidiary companies have a negative net worth as at 31st March 2015. Company A is required to apply Ind AS from 1st April, 2016. How will the company account for accumulated losses as at 31st March 2015 pertaining (under the earlier GAAP) to the non-controlling interest in its consolidated financial statements as on the date of transition-**

(i) If Company A decides to avail the exemption for all business

combination before the date of transition as per Appendix C of Ind AS 101, *First-time Adoption of Indian Accounting Standards*?

(ii) If Company A elects to apply Ind AS 103, *Business Combinations*, retrospectively to past business combinations i.e., restating the business combinations that occurred before the date of transition to Ind AS from the date of its choice ?

***Response*:** Paragraph B7 of Ind AS 101, *First-time Adoption of Indian Accounting Standards* on transition states:

"A first-time adopter shall apply the following requirements of Ind AS 110 prospectively from the date of transition to Ind ASs:

(a) the requirement in paragraph B94 that total comprehensive income is attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance;

(b) …..

(c) …….

However, if a first-time adopter elects to apply Ind AS 103 retrospectively to past business combinations, it shall also apply Ind AS 110 in accordance with paragraph C1 of this Ind AS."

Paragraph C1 of Ind AS 101 further states:

> *"A first-time adopter may elect not to apply Ind AS 103 retrospectively to past business combinations (business combinations that occurred before the date of transition to Ind ASs). However, if a first-time adopter restates any business combination to comply with Ind AS 103, it shall restate all later business combinations and shall also apply Ind AS 110 from that same date."*
>
> *For example, if a first-time adopter elects to restate a business combination that occurred on 30 June 2010, it shall restate all business combinations that occurred between 30 June 2010 and the date of transition to Ind ASs, and it shall also apply Ind AS 110 from 30 June 2010.*

Further paragraph C4 of Appendix C of Ind AS 101, states as follows:

> *C4 If a first-time adopter does not apply Ind AS 103 retrospectively to a past business combination, this has the following consequences for that business combination:*
>
> *…….*

> *(c) The first-time adopter shall exclude from its opening Ind AS Balance Sheet any item recognised in accordance with previous GAAP that does not qualify for recognition as an asset or liability under Ind ASs. The first-time adopter shall account for the resulting change as follows:*
>
> *(ii) the first-time adopter shall recognise all other resulting changes in retained earnings.*
>
> *…………*
>
> *(k) The measurement of non-controlling interests and deferred tax follows from the measurement of other assets and liabilities. Therefore, the above adjustments to recognised assets and liabilities affect non-controlling interests and deferred tax."*

In accordance with above, if a company elects to apply a date prior to the transition date for the purpose of applying Ind AS 103, non-controlling interests should be calculated after all assets acquired, liabilities assumed and deferred taxes have been adjusted under Ind AS 103, *Business Combinations*.

So, as per above paragraph, in the given case (i), if Company A decides to avail the exemption for business combination as per Appendix C of Ind AS 101, in respect of all business combinations that occurred before the date of transition, then the company shall apply the requirement in paragraph B94 of Ind AS 110 of attributing the total comprehensive income to the owners of the parent and to the non-controlling interests prospectively.

However, if Company A elects to apply Ind AS 103, *Business Combinations* retrospectively to past business combinations i.e., restating the business combinations that occurred before the date of transition to Ind AS from the date of its choice, then the company should account for attribution of losses to the non-controlling interest in accordance with paragraph B94 of Ind AS 110, retrospectively from the date of application of Ind AS 103, in its consolidated financial statements as on the date of transition.

(ITFG Clarification Bulletin 8, Issue 6)
(Date of finalisation: May 05, 2017)

Ind AS 103, Business Combinations

Date of acquisition (i.e. date of obtaining control) under two scenario in case of court scheme, whether business combination is or is not under common control.

***Issue 48*: Company A holds 100% shareholding of Company B. Company B holds 100% shareholding of Company C since 1 April 2000. Pursuant to a court scheme, to be filed in February 2018, Entity C will merge with Entity B during the financial year 2018-19 (i.e. the scheme is expected to be approved during the financial year 2018-2019). All companies (A, B and C) are covered under Phase II of Ind AS and will prepare financial statements for year ending 31 March 2018 as per Ind AS.**

In case the appointed date in the scheme is 1 April 2016, would it have any impact on the certificate to be issued by the auditors on compliance of the scheme with Ind AS 103?

Would the response be different in case the transferor and transferee entities are not under common control?

***Response*:** Paragraph 8 and 9 of Ind AS 103, Business Combinations states as follows:

"Determining the acquisition date

8 The acquirer shall identify the acquisition date, which is the date on which it obtains control of the acquiree.

The date on which the acquirer obtains control of the acquiree is generally the date on which the acquirer legally transfers the consideration, acquires the assets and assumes the liabilities of the acquiree—the closing date. However, the acquirer might obtain control on a date that is either earlier or later than the closing date. For example, the acquisition date precedes the closing date if a written agreement provides that the acquirer obtains control of the acquiree on a date before the closing date. An acquirer shall consider all pertinent facts and circumstances in identifying the acquisition date."

Ind AS 103, *Business Combinations*, prescribes significantly different accounting for business combinations which are not under common control and those under common control. Hence, it is pertinent to note that entity is required to assess whether the business combination is under common control or not.

Business Combination is under common control

Paragraph 8 and 9 of Appendix C to Ind AS 103, Business Combinations states as follows:

"8 Business combinations involving entities or businesses under common control shall be accounted for using the pooling of interests method.

9 The pooling of interest method is considered to involve the following:

(i) The assets and liabilities of the combining entities are reflected at their carrying amounts.

(ii) No adjustments are made to reflect fair values, or recognise any new assets or liabilities. The only adjustments that are made are to harmonise accounting policies.

(iii) ***The financial information in the financial statements in respect of prior periods should be restated as if the business combination had occurred from the beginning of the preceding period*** *in the financial statements, irrespective of the actual date of the combination. However, if business combination had occurred after that date, the prior period information shall be restated only from that date. (Emphasis added)"*

In accordance with paragraph 9(iii) above, the entity will be required to restate its financial statements as if the business combination had occurred from the beginning of the preceding period in the financial statements.

In cases, where the auditor is of the view that as per the proposed accounting treatment, the date from which the amalgamation is effected in the books of accounts of the amalgamated company is different from the acquisition date as per the Standard i.e. the date on which control has been actually transferred, then the auditor shall state the same in the certificate as required to be issued as per the proviso to Section 232 (3) of the Companies Act, 2013. If the NCLT approves the scheme with a different appointed date as compared to the acquisition date as per Ind AS 103, the appointed date as approved by the NCLT under the scheme will be the acquisition date. In this situation, the company should provide appropriate disclosures and the auditor should consider the requirements of relevant auditing standards.

Business Combination is not under common control

For business combinations other than under common control, the date of acquisition is the date from which the acquirer obtains control of the acquiree.

In cases where the auditor is of the view that as per the proposed accounting treatment, the date from which the amalgamation is effected in the books of accounts of the amalgamated company is different from the acquisition date as per the standard i.e., the date on which control has been actually transferred, then the auditor shall state the same in the certificate as required to be issued as per the proviso to Section 232 (3) of the Companies Act, 2013. However, if the NCLT approves the scheme with a different appointed date as compared to the acquisition date as per Ind AS 103, the appointed date as approved by NCLT under the scheme will be the acquisition date. In this situation, the company should provide appropriate disclosures and the auditor should consider the requirements of relevant auditing standards.

(ITFG Clarification Bulletin 12, Issue 8)
(Date of finalisation: October 23, 2017)

Business Combinations of entities under common control

***Issue 49*: As per Appendix C, *Business Combinations of Entities under Common Control* of Ind AS 103, *Business Combinations*, in case of common control business combinations, the assets and liabilities of the combining entities are reflected at their carrying amounts.**

(A) For this purpose, should the carrying amount of assets and liabilities of the combining entities be reflected as per the books of the entities transferred or the ultimate parent in the following situations:

Situation 1: A Ltd. has two subsidiaries B Ltd. and C Ltd. B Ltd. merges with C Ltd.

Situation 2: B Ltd. is the subsidiary of A Ltd. B Ltd. merges with A Ltd.

(B) Further, also state whether the effect of the above business combination is required to be eliminated in the consolidated financial statements of A Ltd.

Response*: (A) Situation *1: Paragraph 9 of Appendix C of Ind AS 103, states as follows:

"9 *The pooling of interest method is considered to involve the following:*

(i) The assets and liabilities of the combining entities are reflected at their carrying amounts.

(ii) No adjustments are made to reflect fair values, or recognise any new assets or liabilities. The only adjustments that are made are to harmonise accounting policies.

(iii) The financial information in the financial statements in respect of prior periods should be restated as if the business combination had occurred from the beginning of the preceding period in the financial statements, irrespective of the actual date of the combination. However, if business combination had occurred after that date, the prior period information shall be restated only from that date."

Further paragraphs 11 and 12 of Appendix C of Ind AS 103 state as follows:

"*11 The balance of the retained earnings appearing in the financial statements of the transferor is aggregated with the corresponding balance appearing in the financial statements of the transferee. Alternatively, it is transferred to General Reserve, if any.*

12 The identity of the reserves shall be preserved and shall appear in the financial statements of the transferee in the same form in which they appeared in the financial statements of the transferor. Thus, for example, the General Reserve of the transferor entity becomes the General Reserve of the transferee, the Capital Reserve of the transferor becomes the Capital Reserve of the transferee and the Revaluation Reserve of the transferor becomes the Revaluation Reserve of the transferee. As a result of preserving the identity, reserves which are available for distribution as dividend before the business combination would also be available for distribution as dividend after the business combination. The difference, if any, between the amounts recorded as share capital issued plus any additional consideration in the form of cash or other assets and the amount of share capital of the transferor shall be transferred to capital reserve and should be presented separately from other capital reserves with disclosure of its nature and purpose in the notes."

In accordance with the above, it may be noted that the assets and liabilities of the combining entities are reflected at their carrying amounts. Accordingly, in accordance with paragraph 9 (a) (i) of Appendix C of Ind AS 103, in the separate financial statements of C Ltd., the carrying values of the assets and liabilities as appearing in the standalone financial statements of the entities being combined i.e. B Ltd. & C Ltd. in this case shall be recognised.

Situation 2:

In this case, since B Ltd. is merging with A Ltd. (i.e. parent) nothing has changed and the transaction only means that the assets, liabilities and reserves of B Ltd. which were appearing in the consolidated financial statements of Group A immediately before the merger would now be a part of the separate financial statements of A Ltd. Accordingly, it would be appropriate to recognise the carrying value of the assets, liabilities and reserves pertaining to B Ltd as appearing in the consolidated financial statements of A Ltd. Separate financial statements to the extent of this common control transaction shall be considered as a continuation of the consolidated group.

(**B)** Paragraph B86 of Ind AS 110, *Consolidated Financial Statements*, states as follows:

"*Consolidation procedures*

B86 Consolidated financial statements:

(a) *combine like items of assets, liabilities, equity, income, expenses and cash flows of the parent with those of its subsidiaries.*

(b) *offset (eliminate) the carrying amount of the parent's investment in each subsidiary and the parent's portion of equity of each subsidiary (Ind AS 103 explains how to account for any related goodwill).*

(c) *eliminate in full intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between entities of the group (profits or losses resulting from intragroup transactions that are recognised in assets, such as inventory and fixed assets, are eliminated in full). Intragroup losses may indicate an impairment that requires recognition in the consolidated financial statements. Ind AS 12, Income Taxes, applies to temporary differences that arise from the elimination of profits and losses resulting from intragroup transactions."*

In accordance with the above, all intra-group transactions should be eliminated in preparing consolidated financial statement in accordance with Ind AS 110. The legal merger of a subsidiary with the parent or legal merger of fellow subsidiaries is an intra-group transaction and accordingly, will have to be eliminated in the Consolidated Financial Statements of the Parent.

Accordingly, in both the given situations, the effect of legal merger should be eliminated while preparing consolidated financial statements of A Ltd.

(ITFG Clarification Bulletin 9, Issue 2)
(Date of finalisation: May 15, 2017)

Incorporation of effect of business combination in the standalone financial statements in case of scheme of arrangement

***Issue 50*: Entity A and B are fellow subsidiaries (entities under common control) and filed a scheme of arrangement in April 2017 for merger of Entity B into Entity A. Both the entities are covered under phase I of Ind AS. Entity B filed auditor's certificate with NCLT pursuant to Section 230(7) of Companies Act, 2013 which states that the accounting treatment proposed in the scheme of compromise or arrangement is in conformity with the Ind AS.**

Entity B gets approval from NCLT in April 2018, which is after the year-end 31st March, 2018 but before the approval (by the Board of Directors) of the financial statements for the year ended 31st March 2018. As per the scheme, the appointed date is 1st April 2017.

Whether the business combination of Entity B shall be incorporated in the Entity A's standalone financial statements for the year ended 31st March 2018?

***Response*:** Paragraph 3 of Ind AS 10, *Events After the Reporting Period* states as follows:

"Events after the reporting period are those events, favourable and unfavourable, that occur between the end of the reporting period and the date when the financial statements are approved by the Board of Directors in case of a company, and, by the corresponding approving authority in case of any other entity for issue. Two types of events can be identified:

(a) those that provide evidence of conditions that existed at the end of the reporting period (adjusting events after the reporting period); and

(b) those that are indicative of conditions that arose after the reporting period (non-adjusting events after the reporting period)."

It may be noted that although paragraph 22(a) of Ind AS 10 states that a major business combination after the reporting period is a non-adjusting event. However, where the court order approves a scheme with retrospective effect subsequent to the balance sheet date but before the approval of financial statements, the effective date for accounting is prior to the balance sheet date, wherein the courts' approval is an event that provide additional evidence to assist the estimation of amounts of assets and liabilities that existed at the balance sheet date. As such, an adjusting event has occurred which requires adjustment to the assets and liabilities of the transferor company which are being transferred.

In the given case, since the company has applied for the scheme of amalgamation and only the order of the court is pending then this indicates that conditions existed at the end of the reporting period and hence this shall be treated as an adjusting event. Accordingly, the effect of business combination of Entity B in Entity A shall be incorporated in the standalone financial statements of Entity A for the year ending 31st March 2018.

(ITFG Clarification Bulletin 14, Issue 4)
(Date of finalisation: February 01, 2018)

Ind AS 107, Financial Instruments: Disclosures

Recognition of the dividend income on an investment in debt instrument in the books of an investor

***Issue 51*: How should the dividend income on an investment in debt instrument be recognised in the books of an investor?**

***Response*:** The dividend income on an investment in debt instrument shall be recognised in the form of interest. The recognition of income will depend on the category of investment in debt instrument (e.g. amortised cost, fair value through other comprehensive income or fair value through profit or loss) determined as per the requirements of Ind AS 109.

Recognition of interest income in case of investment in debt instrument measured at amortised cost

If the financial asset is measured at amortised cost, then interest revenue on the same shall be calculated using effective interest rate method in accordance with the following paragraph of Ind AS 109:

"5.4.1 Interest revenue shall be calculated by using the effective interest method (see Appendix A and paragraphs B5.4.1–B5.4.7). This shall be calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for:

(a) purchased or originated credit-impaired financial assets. For those financial assets, the entity shall apply the credit adjusted effective interest rate to the amortised cost of the financial asset from initial recognition.

(b) financial assets that are not purchased or originated credit impaired financial assets but subsequently have become credit-impaired financial assets. For those financial assets, the entity shall apply the effective interest rate to the amortised cost of the financial asset in subsequent reporting periods.

5.4.2 An entity that, in a reporting period, calculates interest revenue by applying the effective interest method to the amortised cost of a financial asset in accordance with paragraph 5.4.1(b), shall, in subsequent reporting *periods, calculate the interest revenue by applying the effective interest rate to the gross carrying amount if the credit risk on the financial instrument improves so that the financial asset is no longer credit-impaired and the improvement can be related objectively to an event occurring after the requirements in paragraph 5.4.1(b) were applied (such as an improvement in the borrower's credit rating)."*

Recognition of interest income in case of investment in debt instrument measured at fair value through Other Comprehensive Income

Paragraph 5.7.10 and 5.7.11 of Ind AS 109 states as follows:

5.7.10 A gain or loss on a financial asset measured at fair value through other comprehensive income in accordance with paragraph 4.1.2A shall be recognised in other comprehensive income, except for impairment gains or losses (see Section 5.5) and foreign exchange gains and losses (see paragraphs B5.7.2–B5.7.2A), until the financial asset is derecognised or reclassified. When the financial asset is derecognised the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment (see Ind AS 1). If the financial asset is reclassified out of the fair value through other comprehensive income measurement category, the entity shall account for the cumulative gain or loss that was previously recognised in other comprehensive income in accordance with paragraphs 5.6.5 and 5.6.7. Interest calculated using the effective interest method is recognised in profit or loss.

5.7.11 As described in paragraph 5.7.10, if a financial asset is measured at fair value through other comprehensive income in accordance with paragraph 4.1.2A, the amounts that are recognised in profit or loss are the same as the amounts that would have been recognised in profit or loss if the financial asset had been measured at amortised cost.

Accordingly, if a financial asset is measured at fair value through Other Comprehensive income (FVOCI) as per paragraph 4.1.2A of Ind AS 109, then interest revenue on such an asset calculated using effective interest rate method is recognised in profit or loss.

Recognition of interest income in case of investment in debt instrument measured at fair value through profit or loss

Paragraph B5 (e) of Ind AS 107, *Financial Instruments: Disclosures, inter alia,* provides as follows:

"*B5 Paragraph 21 requires disclosure of the measurement basis (or bases) used in preparing the financial statements and the other accounting policies used that are relevant to an understanding of the financial statements. For financial instruments, such disclosure may include:*

(a) .....

(e) how net gains or net losses on each category of financial instrument are determined (see paragraph 20(a)), for example, whether the net gains or net losses on items at fair value through profit or loss include interest or dividend income."

Accordingly, the interest income in case of investment in debt instrument can either form part of fair value gains or losses arising from changes in fair value of the instrument or can be separately presented. In accordance with paragraph B5(e) of Ind AS 107, the entity shall disclose its accounting policy.

It may also be noted that in case any statute/ regulatory authority governing the entity specifically prescribes one of the above mentioned manner of the presentation, the entity should follow the same.

(ITFG Clarification Bulletin 8, Issue 9)
(Date of finalisation: May 05, 2017)

Foreign currency risk disclosure in case of option taken under paragraph D13AA of Ind AS 101

***Issue 52*: If a company has availed the option available under paragraph D13AA of Ind AS 101, i.e., to continue the policy adopted for accounting for exchange difference arising from translation of long-term foreign currency monetary items recognised in the previous GAAP financial statements, then will the foreign currency risk disclosure of Ind AS 107, *Financial Instruments: Disclosures* apply to such exchange differences so capitalised?**

Response: As per paragraph 40(a) of Ind AS 107, *Financial Instruments: Disclosures*, amongst other disclosures, an entity is required to disclose a sensitivity analysis for each type of market risk, (which includes foreign exchange risk) as to which the entity is exposed at the end of the reporting period, showing how profit or loss and equity would have been affected by changes in the relevant risk variable that were reasonably possible at that date. If the company capitalises the exchange differences in the cost of asset, then too the company is exposed to foreign currency risk exposure and there could be an indirect impact in the profit and loss or equity, for example through depreciation. Accordingly, the company should provide appropriate disclosures where applicable under Ind AS 107 even though the company has availed the option under paragraph D13AA of Ind AS 101.

(ITFG Clarification Bulletin 13, Issue 8)
(Date of finalisation: January 16, 2018)

Ind AS 108, Operating Segments

Disclosures by the entity in case it is operating into one segment

***Issue 53*: Paragraph 34 of Ind AS 108, *Operating Segments* requires entities to disclose information about its major customers i.e. those contributing 10% or more of its total amount of revenue. Whether such disclosure is required even in case where the company operates into only one segment?**

***Response*:** The scope paragraph of Ind AS 108, *Operating Segments*, *inter alia*, states that this Accounting Standard shall apply to companies to which Indian Accounting Standards (Ind ASs) notified under the Companies Act apply.

Further, paragraphs 32-35 of Ind AS 108 provide the entity-wide disclosures that an entity is required to disclose.

Paragraph 31 of Ind AS 108 states as follows:

"***Paragraphs 32–34 apply to all entities subject to this Ind AS including those entities that have a single reportable segment****. Some entities' business activities are not organised on the basis of differences in related products and services or differences in geographical areas of operations. Such an entity's reportable segments may report revenues from a broad range of essentially different products and services, or more than one of its reportable segments may provide essentially the same products and services. Similarly, an entity's reportable segments may hold assets in different geographical areas and report revenues from customers in different geographical areas, or more than one of its reportable segments may operate in the same geographical area. Information required by paragraphs 32–34 shall be provided only if it is not provided as part of the reportable segment information required by this Ind AS."*

In accordance with the above, it may be noted that 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.

Paragraph 34 of Ind AS 108 states as follows:

"*Information about major customers*

34 An entity shall 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 shall 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. For the purposes of this Ind AS, a group of entities known to a reporting entity to be under common control shall be considered a single customer. However, judgement is required to assess whether a government (including government agencies and similar bodies whether local, national or international) and entities known to the reporting entity to be under the control of that government are considered a single customer. In assessing this, the reporting entity shall consider the extent of economic integration between those entities."*

Accordingly, in the given case information regarding customers contributing to more than 10% of total revenue will be required to be disclosed by the company even though it is operating into a single operating segment. 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 Clarification Bulletin 13, Issue 3)
(Date of finalisation: January 16, 2018)

Valuation of financial guarantee contract

***Issue 54*: V Ltd. is covered under Phase II of Ind AS roadmap and is required to apply Ind AS from financial year 2017-18. It has given financial guarantee for five years against the loan taken by its associate company, S Ltd. since 1.4.2014 and charging 1% guarantee commission.**

(a) At what value will the financial guarantee contract be accounted for in the opening Ind AS balance sheet of V Ltd.

(b) Further, if on 31.3.2016, the guarantee is invoked but V Ltd. has shown it under contingent liability in financial statement of 2015 and also 2016 contesting that it is confident that liability shall not devolve on it.

Whether on transition date i.e. 1.4.2016 the impairment need to be calculated and accordingly fair value of financial guarantee need to be calculated.

***Response*: :** (a) Presuming that the financial guarantee given by V Ltd. meets the definition of financial guarantee contracts under Ind AS 109, if the associate company S Ltd. pays the parent company V Ltd. a guarantee commission, company V Ltd. is required to determine if this commission represents the fair value of the financial guarantee contract. If the premium is equivalent to an amount that company S Ltd. would have paid to obtain a similar guarantee in a standalone arm's length transaction, then at the initial recognition the fair value of the financial guarantee contract is likely to equal the commission received.

(b) Paragraph 4.2.1 of Ind AS 109, *Financial Instruments* states as follows:

"4.2.1 An entity shall classify all financial liabilities as subsequently measured at amortised cost, except for:

c) financial guarantee contracts. After initial recognition, an issuer of such a contract shall (unless paragraph 4.2.1(a) or (b) applies) subsequently measure it at the higher of:

(i) the amount of the loss allowance determined in accordance with Section 5.5 and

(ii) the amount initially recognised (see paragraph 5.1.1) less, when appropriate, the cumulative amount of income recognised in accordance with the principles of Ind AS 18"

5.5.1 An entity shall recognise a loss allowance for expected credit losses on a financial asset that is measured in accordance with paragraphs 4.1.2 or 4.1.2A, a lease receivable, a loan commitment and a financial guarantee contract to which the impairment requirements apply in accordance with paragraphs 2.1(g), 4.2.1(c) or 4.2.1(d).

Company V Ltd. should recognise a liability for the amount of premium received and subsequently measure the financial guarantee contract at the higher of the amount of loss allowance determined in accordance with Ind AS 109 and the amount initially recognised less cumulative amount of income recognised in accordance with Ind AS 18, *Revenue*.

In accordance with the above, at the end of each reporting period the entity shall estimate and recognise the expected loss in accordance with the provisions prescribed in the standard.

Accordingly, in the given case V Ltd. shall estimate and recognise the same in accordance with Ind AS 109.

(ITFG Clarification Bulletin 12, Issue 11)
(Date of finalisation: October 23, 2017)

Accounting Treatment of financial guarantee received from the Director

***Issue 55*: Company A Ltd., applied for a term loan from Bank B for business purposes. As per the loan agreement, the loan required a personal guarantee of one of the directors of A Ltd. to be executed. In case of default by A Ltd, the director will be required to compensate for the loss that Bank B incurs. Mr. P, one of the director had given guarantee to the bank pursuant to which the loan was sanctioned to Company A. Company A does not pay premium or fees to its director for providing this financial guarantee.**

Whether Company A is required to account for the financial guarantee received from its director?

***Response*:** Ind AS 109 *Financial Instruments*, defines a financial guarantee contract as *'a contract that requires the issuer to make specified payments to* *reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.'*

Based on this definition, an evaluation is required to be done to ascertain whether the contract between director and Bank B qualifies as a financial guarantee contract as defined in Appendix A to Ind AS 109. In the given case, it does qualify as a financial guarantee contract as:

- the reference obligation is a debt instrument (term loan);
- the holder i.e. Bank B is compensated only for a loss that it incurs (arising on account of non-repayment); and
- the holder is not compensated for more than the actual loss incurred.

Ind AS 109 provides principles for accounting by the issuer of the guarantee. However, it does not specifically address the accounting for financial guarantees by the beneficiary. In an arm's length transaction between unrelated parties, the beneficiary of the financial guarantee would recognise the guarantee fee or premium paid as an expense.

It is also pertinent to note that the entity needs to exercise judgment in assessing the substance of the transaction taking into consideration relevant facts and circumstances, for example, whether the director is being compensated otherwise for providing guarantee. Based on such an assessment, an appropriate accounting treatment based on the principles of Ind AS should be followed.

In the given case, Company A Ltd, is the beneficiary of the financial guarantee and it does not pay a premium or fees to its director for providing this financial guarantee (subject to discussion above). Accordingly, Company A will not be required to account for such financial guarantee in its financial statements considering the unit of account as being the guaranteed loan, in which case the fair value would be expected to be the face value of the loan proceeds that the Company A received. Nonetheless, the above transaction needs to be evaluated for disclosure under paragraph 18 of Ind AS 24, *Related Party Disclosures*, which states as follows:

"If an entity has had related party transactions during the periods covered by the financial statements, it shall disclose the nature of the related party relationship as well as information about those transactions and outstanding balances, including commitments, necessary for users to understand the potential effect of the relationship on the financial statements. These disclosure requirements are in addition to those in paragraph 17. At a

minimum, disclosures shall include:

(a) *the amount of the transactions;*

(b) *the amount of outstanding balances, including commitments, and:*

(i) *their terms and conditions, including whether they are secured, and the nature of the consideration to be provided in settlement; and*

(ii) ***details of any guarantees given or received;***

(c) *provisions for doubtful debts related to the amount of outstanding balances; and*

(d) *the expense recognised during the period in respect of bad or doubtful debts due from related parties."*

In the given case based on the limited facts provided, Company A will be required to make necessary disclosures of such financial guarantee in accordance with Ind AS 24.

(ITFG Clarification Bulletin 13, Issue 2)
(Date of finalisation: January 16, 2018)

Recognition of renegotiation gain/loss on Financial Instruments done in subsequent year but before the approval of financial statements

***Issue 56*: Ind AS 109, *Financial Instruments* requires recognition of renegotiation gain/loss subject to fulfillment of certain conditions as mentioned in the standard. If there has been a renegotiation of terms of (defaulted) borrowings subsequent to the year end, but before the date of approval of financial statements, then should such modification gain/loss be recognised in the current year financial statements itself or in the next year when the terms of (defaulted) borrowings have been renegotiated in accordance with Ind AS 109?**

***Response*:** As per paragraph 5.4.3 of Ind AS 109, *Financial Instruments*, whenever contractual cash flows of a financial instrument are renegotiated or otherwise modified and the renegotiation or modification does not result in the derecognition of that financial asset in accordance with this Standard, an entity shall recalculate the gross carrying amount of the financial asset and shall recognise a modification gain or loss in profit or loss.

In accordance with the above, modification gain or loss should be recognised in profit or loss in the period in which the renegotiation has contractually taken place. Accordingly, in the given case, if the terms of the (defaulted) borrowings have been renegotiated in the next year, then the related gain/loss should also be recognised in the next year.

(ITFG Clarification Bulletin 13, Issue 6)
(Date of finalisation: January 16, 2018)

Accounting treatment of processing fees belonging to undisbursed term loan amount

***Issue 57*: X Ltd. is a first-time adopter of Ind AS from financial year 2016-17. It had taken 6 year term loan in April 2010 from bank and paid processing fees at the time of sanction of loan. The term loan is disbursed in different tranches from April 2010 to April 2016. On the date of transition to Ind AS, i.e. 1.4.2015, it has calculated the net present value of term loan disbursed upto 31.03.2015 by using effective interest rate and proportionate processing fees has been adjusted in disbursed amount while calculating net present value. What will be the accounting treatment of processing fees belonging to undisbursed term loan amount?**

***Response*:** Assuming that the undisbursed loan amount will be disbursed in future, the accounting treatment of the processing fees will be as follows:

Appendix A of Ind AS 109, *Financial Instruments*, defines 'Effective interest method' as follows:

*"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**. When calculating the effective interest rate, an entity shall estimate the expected cash flows by considering all the contractual terms of the financial instrument (for example, prepayment, extension, call and similar options) but shall not consider the **expected credit losses**. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see paragraphs B5.4.1–B5.4.3), **transaction costs**, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall*

use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).”

Paragraph B5.4.1 of Ind AS 109, *Financial Instruments,* states as follows*:*

“In applying the effective interest method, an entity identifies fees that are an integral part of the effective interest rate of a financial instrument. The description of fees for financial services may not be indicative of the nature and substance of the services provided. Fees that are an integral part of the effective interest rate of a financial instrument are treated as an adjustment to the effective interest rate, 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.”

Further, Paragraph B5.4.2 of Ind AS 109, *inter-alia* states that, “*fees that are an integral part of the effective interest rate of a financial instrument include:*

(a) origination fees received by the entity relating to the creation or acquisition of a financial asset. Such fees may include compensation for activities such as evaluating the borrower’s financial condition, evaluating and recording guarantees, collateral and other security arrangements, negotiating the terms of the instrument, preparing and processing documents and closing the transaction. These fees are an integral part of generating an involvement with the resulting financial instrument.”

In accordance with the above, the processing fee is an integral part of the effective interest rate of a financial instrument and shall be included while calculating the effective interest rate.

It may be noted that to the extent there is evidence that it is probable that the undisbursed term loan will be drawn down in the future the processing fee is accounted for as a transaction cost under Ind AS 109, i.e., the fee is deferred and deducted from the carrying value of the financial liabilities when the draw down occurs and considered in the effective interest rate calculations. However, if it is not probable that the undisbursed term loan will be drawn down in the future then the fees is recognised as an expense on a straight-line basis over the term of the loan.

Accordingly, in the given case, assuming that the undisbursed loan amount will be disbursed in future, the entire processing fees, i.e. processing fee pertaining to the disbursed as well as to the undisbursed loan amount will be included, while calculating the effective interest rate of the loan at the date of transition to Ind AS and is recognised as an expense over the term of the loan.

(ITFG Clarification Bulletin 10, Issue 2)
(Date of finalisation: July 05, 2017)

Accounting Treatment of prepayment premium and processing fees of obtaining new loan to prepay old loan

***Issue 58*: PQR Ltd. is covered under phase II of Ind AS Implementation and is required to adopt Ind AS from financial year 2017-18. It had obtained term loan from Bank A in 2013-14 and paid loan processing fees and commitment charges. In May 2017, PQR Ltd. has availed fresh loan from Bank B as take-over of facility i.e. the new loan is sanctioned to pay off the old loan taken from Bank A. The company paid prepayment premium to Bank A to clear the old term loan and paid processing fees to Bank B for the new term loan.**

Whether the prepayment premium and the processing fees both will be treated as transaction cost (as per Ind AS 109, *Financial Instruments*) of obtaining the new loan, in the financial statements of PQR Ltd. prepared in accordance with Ind AS for the financial year 2017-18.

***Response*:** As per Appendix A of Ind AS 109, *Financial Instruments*, transaction costs are "*Incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability (see paragraph B5.4.8). An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.*"

Further paragraph B5.4.8 of Ind AS 109 provides that the *Transaction costs include fees and commission paid to agents (including employees acting as selling agents), advisers, brokers and dealers, levies by regulatory agencies and security exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.*

Paragraph B5.4.2 of Ind AS 109, inter alia, provides that fees that are an integral part of the effective interest rate of a financial instrument include origination fees paid on issuing financial liabilities measured at amortised cost. These fees are an integral part of generating an involvement with a financial liability.

It is assumed that the loan processing fees solely relates to the origination of the new loan (i.e. does not represent loan modification/renegotiation fees). In accordance with the above, the processing fees paid to avail fresh loan from Bank B will be considered as transaction cost in the nature of origination fees of the new loan and will be included while calculating effective interest rate as per Ind AS 109.

Further, as per paragraph 3.3.3 of Ind AS 109, the difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, shall be recognised in profit or loss.

Paragraph B3.3.6 of Ind AS 109, provides that if an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment.

Since the original loan was prepaid, the prepayment would result in extinguishment of the original loan. As per paragraph 3.3.3 of Ind AS 109 as stated above, the difference between the carrying amount of the financial liability extinguished and the consideration paid shall be recognised in profit or loss. Further, paragraph B3.3.6 of Ind AS 109 states that where modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. Accordingly, the prepayment premium shall be recognised as part of the gain or loss on extinguishment of the old loan. Further, the unamortised processing fee related to the old loan will also be required to be charged to the statement of profit and loss.

(ITFG Clarification Bulletin 12, Issue 4)
(Date of finalisation: October 23, 2017)

Accounting of Financial Guarantee Contract - Comfort Letter

***Issue 59*: P Ltd. (parent company) has issued a comfort letter to its subsidiary company, S ltd. S Ltd. was able to obtain funds from the banker on the basis of comfort letter issued by P Ltd.**

Whether the same will be accounted for as a financial guarantee contract in accordance with Ind AS 109, *Financial Instruments*?

***Response*:** As per Ind AS 109, financial guarantee contract is, "*A contract that requires the issuer to make specified payments to reimburse the holder* *for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument*."

Paragraph B2.5 of Ind AS 109 *inter-alia* states that, "*Financial guarantee contracts may have various legal forms, such as a guarantee, some types of letter of credit, a credit default contract or an insurance contract. Their accounting treatment does not depend on their legal form*."

In accordance with the above, it may be noted that a significant feature of a financial guarantee contract is the contractual obligation to make specified payment in case of default by the credit holder. As such, the contract may not necessarily be called as financial guarantee contract and it may take any name or legal form, however the treatment will be same as that of a financial guarantee contract. If a contract legally meets these requirements, then it would be accounted for as the financial guarantee contract as per Ind AS 109.

Accordingly, in the given case, P Ltd. will be required to evaluate as to whether it is contractually obliged to make good the loss in case S Ltd. fails to make the payment. If yes, then such comfort letter would be considered to be a financial guarantee contract and will be accounted for in accordance with Ind AS 109.

(ITFG Clarification Bulletin 12, Issue 3)
(Date of finalisation: October 23, 2017)

Accounting treatment of shares held as stock-in trade in accordance with Ind AS

***Issue 60*: A share broking company is dealing in sale/purchase of shares for its own account and therefore is having inventory of shares purchased by it for trading. The company is covered under Phase II of Ind AS roadmap. What will be the accounting treatment of such shares held as stock-in trade in accordance with Ind AS?**

***Response*:** Paragraph 2 of Ind AS 2, *Inventories, inter-alia,* states that this Standard applies to all inventories, except financial instruments (Ind AS 32, *Financial Instruments: Presentation* and Ind AS 109, *Financial Instruments).*

A *financial instrument* is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Ind AS 109 applies to all types of financial instruments with certain exceptions as envisaged in paragraph 2 of Ind AS 109.

Accordingly, the principles of recognising and measuring financial instruments are governed by Ind AS 109, its presentation is governed by Ind AS 32 and disclosures about them are in Ind AS 107, *Financial Instruments: Disclosures*, even if these instruments are held as stock-in trade by a company.

Further Ind AS 101, *First-time Adoption of Indian Accounting Standards* does not provide any transitional relief from the application of the above standards. Accordingly, in the given case, the relevant requirements of Ind AS 109, Ind AS 32 and Ind AS 107 shall be applied retrospectively unless otherwise exempted under Ind AS 101.

(ITFG Clarification Bulletin 14, Issue 5)
(Date of finalisation: February 01, 2018)

Ind AS 110, Consolidated Financial Statements

Accounting Treatment of loss of investment in subsidiary

***Issue 61*: Parent had 70% stake in subsidiary. The other investor invested additional funds in the subsidiary reducing the parent's stake to 60%. However, there was no loss of control by the Parent. How this partial deemed disposal should be accounted in the separate financial statements of the parent assuming that investment in subsidiary is measured at cost. Also, state the accounting treatment in the consolidated financial statements?**

***Response*: Treatment in Separate Financial Statements of the Parent entity**

In the given case, in the separate financial statements of the parent entity there will not be any impact and investment in the subsidiary will continue to be recognised at its carrying amount. However, the fact that its shareholding has been reduced from 70% to 60% should be disclosed appropriately in the financial statements.

Treatment in Consolidated Financial Statements

As per paragraph 23 of Ind AS 110 *Consolidated Financial Statements*, changes in a parent's ownership interest in a subsidiary that do not result in the parent losing control of the subsidiary are equity transactions (i.e. transactions with owners in their capacity as owners).

Thus, such transactions have no impact on goodwill or the statement of profit and loss.

Paragraph B96 of Appendix B to Ind AS 110 further provides that, when the proportion of the equity held by non-controlling interests changes, an entity shall adjust the carrying amounts of the controlling and non-controlling interests to reflect the changes in their relative interests in the subsidiary. The entity shall recognise directly in equity any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received, and attribute it to the owners of the parent.

Non-controlling interests (NCI) are recorded at fair value (or proportionate share in the recognised amounts of the acquiree's identifiable net assets, if chosen) only at the date of the business combination. Subsequent purchases or sales of ownership interests when control is maintained are recorded at the non-controlling interest's proportionate share of the net assets.

As per paragraph 18 of Ind AS 112, *Disclosure of Interests in Other Entities*, an entity is required to present a schedule that shows the effects on the equity attributable to owners of the parent of any changes in its ownership interest in a subsidiary that do not result in a loss of control.

(ITFG Clarification Bulletin 13, Issue 7)
(Date of finalisation: January 16, 2018)

Accounting treatment of dividend distribution tax in the consolidated financial statements in case of partly-owned subsidiary - different scenarios

***Issue 62*: What will be the accounting treatment of dividend distribution tax in the consolidated financial statements in case of partly-owned subsidiary in the following scenarios:**

Scenario 1: H Limited (holding company) holds 12,000 equity shares in S Limited (Subsidiary of H Limited) with 60% holding. Accordingly, S Limited is a partly-owned subsidiary of H Limited. During the year 2017, S Limited paid a dividend @ ₹ 10 per share, amounting to ₹ 200,000 and DDT @ 20% amounting to ₹ 40,000.

Should the share of H Limited in DDT paid by S Limited amounting to ₹ 24,000 (60% ₹ 40,000) be charged as expense in the consolidated profit and loss of H Limited?

***Response*:** Since H Limited is holding 12,000 shares it has got ₹ 1,20,000 as dividend from S Limited. In the consolidated financial statements of H Ltd., dividend income earned by H Ltd. and dividend recorded by S Ltd. in its equity will both get eliminated as a result of consolidation adjustments. Dividend paid by S Ltd. to the 40% non-controlling interest (NCI) shareholders will be recorded in the Statement of Changes in Equity as reduction of NCI balance (as shares are classified as equity as per Ind AS 32).

DDT of ₹ 40,000 paid to tax authorities has two components- One ₹ 24,000 (related to H Limited's shareholding and other ₹ 16,000 belong to non-controlling interest (NCI) shareholders of S Limited). DDT of ₹ 16,000 (pertaining to non-controlling interest (NCI) shareholders) will be recorded in the Statement of Changes in Equity along with dividend. DDT of ₹ 24,000 paid outside the consolidated Group shall be charged as tax expense in the consolidated statement of profit and loss of H Ltd.

It may be noted that Issue 1 of ITFG Clarification Bulletin 9 provides that-

> *"In the consolidated financial statements of P Ltd., the dividend income earned by P Ltd. from S Ltd. and dividend recorded by S Ltd. in its equity will both get eliminated as a result of consolidation adjustments. DDT of ₹ 20,000 paid outside the consolidated Group i.e. to the tax authorities should be charged as expense in the consolidated statement of Profit and Loss of P Ltd."*

The similar accounting treatment would be done in case of the partly-owned subsidiary:

In accordance with the above, in the given case, CFS of H limited will be as under:

Transactions	H Ltd.	S Ltd.	Consol Adjustments	CFS H Ltd
Dividend Income (P&L)	120,000	-	(120,000)	-
Dividend (in Statement of Changes in Equity by way of reduction of NCI)	-	(200,000)	120,000	(80,000)
DDT (in Statement of Changes in Equity by way of reduction of NCI)	-	(40,000)	24,000	(16,000)
DDT (in Statement of P&L)	-	-	(24,000)	(24,000)

Scenario 2 (A): Extending the situation given in scenario 1, H Limited also pays dividend of ₹ 300,000 to its shareholders and DDT liability @ 20% thereon amounts to ₹ 60,000. As per the tax laws, DDT paid by S Ltd. of ₹ 24,000 is allowed as set off against the DDT liability of H Ltd., resulting in H Ltd. paying ₹ 36,000 (₹ 60,000 – ₹ 24,000) as DDT to tax authorities.

***Response*:** If DDT paid by the subsidiary S Ltd. is allowed as a set off against the DDT liability of its parent H Ltd. (as per the tax laws), then the amount of such DDT should be recognised in the consolidated statement of changes in equity of parent H Ltd.

In the given case, share of H Limited in DDT paid by S Limited is ₹ 24,000 and entire ₹ 24,000 was utilised by H Limited while paying dividend to its own shareholders.

Accordingly, DDT of ₹ 76,000 (₹ 40,000 of DDT paid by S Ltd. (of which ₹ 16,000 is attributable to NCI) and ₹ 36,000 of DDT paid by H Ltd.) should be recognised in the consolidated statement of changes in equity of parent H Ltd. No amount will be charged to consolidated statement of profit and loss. The basis for such accounting would be that due to Parent H Ltd's transaction of distributing dividend to its shareholders (a transaction recorded in Parent H Ltd's equity) and the related DDT set-off, this DDT paid by the subsidiary is effectively a tax on distribution of dividend to the shareholders of the parent company.

In accordance with the above, in the given case, CFS of H limited will be as under:

Transactions	**H Ltd**	**S Ltd**	**Consol Adjustments**	**CFS H Ltd**
Dividend Income (P&L)	120,000	-	(120,000)	-
Dividend (in Statement of Changes in Equity)	(300,000)	(200,000)	120,000	(380,000)*
DDT (in Statement Changes in Equity)	(36,000)	(40,000)	-	(76,000)*

*Dividend of ₹ 80,000 and DDT of ₹ 16,000 will be reflected as reduction from non-controlling interest.

(B) If in (A) above, H Limited pays dividend amounting to ₹ 100,000 with DDT liability @ 20% amounting to ₹ 20,000.

<u>Response</u>: In the given case, share of H Limited in DDT paid by S Limited is ₹ 24,000 out of which only ₹ 20,000 was utilised by H Limited while paying dividend by its own. Therefore, balance ₹ 4,000 should be charged in the consolidated statement of profit and loss.

In accordance with the above, in the given case, CFS of H limited will be as under:

Transactions	H Ltd	S Ltd	Consol Adjustments	CFS H Ltd
Dividend Income (P&L)	120,000	-	(120,000)	-
Dividend (in Statement of Changes in Equity)	(100,000)	(200,000)	120,000	(180,000)*
DDT (in Statement of Changes in Equity)	-	(40,000)	4,000	(36,000)*
DDT(in Statement of P&L)	-	-	(4000)	(4000)

*Dividend of ₹ 80,000 and DDT of ₹ 16,000 will be reflected as reduction from non- controlling interest.

Scenario (3): Will the answer be different for the treatment of dividend distribution tax paid by associate in the consolidated financial statement of investor, if as per tax laws the DDT paid by associate is not allowed set-off against the DDT liability of the investor?

Response**:** Considering that as per tax laws, DDT paid by associate is not allowed set off against the DDT liability of the investor, the investor's share of DDT would be accounted by the investor company by crediting its investment account in the associate and recording a corresponding debit adjustment towards its share of profit or loss of the associate.

(ITFG Clarification Bulletin 13, Issue 9)
(Date of finalisation: January 16, 2018)

Treatment of depreciation in consolidated financial statements when different method of depreciation applied by entities

Issue 63**: PQR Ltd. is the subsidiary company of MNC Ltd. In the stand-alone financial statements prepared in accordance with Ind AS, PQR Ltd. has adopted Straight-line method (SLM) of depreciation and MNC Ltd. has adopted Written-down value method (WDV) for depreciating its property, plant and equipment. As per Ind AS 110, *Consolidated Financial Statements*, a parent shall prepare consolidated financial statements using uniform accounting policies for like transactions and other events in similar circumstances.**

How will these property, plant and equipment be depreciated in the consolidated financial statements of MNC Ltd. prepared as per Ind AS?

***Response*:** Paragraph 19 and paragraph B87 of Ind AS 110, *Consolidated Financial Statements,* states as follows:

"19 A parent shall prepare consolidated financial statements using uniform accounting policies for like transactions and other events in similar circumstances.

B87 If a member of the group uses accounting policies other than those adopted in the consolidated financial statements for like transactions and events in similar circumstances, appropriate adjustments are made to that group member's financial statements in preparing the consolidated financial statements to ensure conformity with the group's accounting policies."

It may be noted that the above mentioned paragraphs require an entity to apply uniform accounting policies for like transactions and events in similar circumstances. It does not apply to accounting estimates made while preparing financial statements.

Further, paragraphs 60 & 61 of Ind AS 8, *Accounting Policies, Changes in Accounting Estimates and Errors,* state as follows:

"60 The depreciation method used shall reflect the pattern in which the asset's future economic benefits are expected to be consumed by the entity.

61 The depreciation method applied to an asset shall be reviewed at least at each financial year-end and, if there has been a significant change in the expected pattern of consumption of the future economic benefits embodied in the asset, the method shall be changed to reflect the changed pattern. ***Such a change shall be accounted for as a change in an accounting estimate in accordance with Ind AS 8****."(Emphasis added)*

In accordance with the above, it may be noted that the selection of the method of depreciation is an accounting estimate and not an accounting policy.

Accordingly, the entity should select the method that most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. That method should be applied consistently from period to period unless there is a change in the expected pattern of consumption of those future economic benefits in separate financial statements as well as consolidated financial statements.

Therefore, there can be different methods of estimating depreciation for property, plant and equipment, if their expected pattern of consumption is different. The method once selected in the stand-alone financial statements of the subsidiary should not be changed while preparing the consolidated financial statements.

Accordingly, in the given case, the property, plant and equipment of PQR Ltd. (subsidiary company) may be depreciated using straight line method and property, plant and equipment of parent company (MNC Ltd.) may be depreciated using written down value method, if such method closely reflects the expected pattern of consumption of future economic benefits embodied in the respective assets.

(ITFG Clarification Bulletin 11, Issue 6)
(Date of finalisation: July 31, 2017)

Ind AS 8, Accounting Policies, Changes in Accounting Estimates and Errors

Disclosure of the new Ind AS which is not yet effective (Ind AS 115)

***<u>Issue 64</u>*: Whether an entity is required to disclose the impact of Ind AS 115, *Revenue from Contracts with Customers* (as required by paragraph 30 of Ind AS 8) in its financial statements as prepared as per Ind AS?**

***<u>Response</u>*:** Paragraph 30 of Ind AS 8 *Accounting Policies, Changes in Accounting Estimates and Errors,* states as follows:

"When an entity has not applied a new Ind AS that has been issued but is not yet effective, the entity shall disclose:

(a) this fact; and

(b) 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."

In accordance with the above, it may be noted that an entity is required to disclose the impact of Ind AS which has been issued but is not yet effective.

However, it may be noted that Ind AS 115, which was earlier notified under Companies (Indian Accounting Standards) Rules, 2015, vide MCA notification dated February 16, 2015 stands withdrawn under Companies (Indian Accounting Standards) (Amendments) Rules, 2016 vide MCA notification dated March 30, 2016. Accordingly, an entity is not required to disclose the impact of Ind AS 115 for the financial year ending March 31, 2017 as Ind AS 115 has been omitted from the Rules.

(ITFG Clarification Bulletin 8, Issue 2)
(Date of finalisation: May 05, 2017)

Ind AS 12, Income Taxes

Accounting treatment of Tax Holidays under Ind AS

***Issue 65*: Under the previous GAAP, ASI 3, *Accounting for Taxes on Income in the situations of Tax Holiday under Sections 80-IA and 80-IB of the Income-tax Act, 1961* and ASI 6 *Accounting for Taxes on Income in the context of Section 115JB of the Income-tax Act, 1961* provides guidance on how AS 22, *Accounting for Taxes on Income* is to be applied in the situations of tax holiday under section 80-IA and 80-IB of the Act.**

Whether the same treatment can be applied under Ind AS?

***Response*:** The consensus portion of ASI 3*, Accounting for Taxes on Income in the situations of Tax Holiday under Sections 80-IA and 80-IB of the Income-tax Act, 1961*, was included as 'Explanation' to the paragraph 13 of Accounting Standard (AS) 22, *Accounting for Taxes on Income*, notified under the Companies (Accounting Standards) Rules, 2006. Accordingly, it became the part of notified Accounting Standards. The ASIs are also not effective in context of Indian Accounting Standards notified under Companies (Indian Accounting Standards) Rules, 2015.

However, under Ind AS, the principles enunciated in Ind AS 12, *Income Taxes* are required to be applied. The treatment as per AS 22 may be applied where such treatment is consistent with the principles of Ind AS 12. Paragraphs 26-29 of Ind AS 12 can be referred for the recognition of deferred tax as they provide sufficient guidance in this regard. Ind AS 12 provides that a deferred tax asset can result from unused tax losses and tax credits as well as from temporary differences. Deferred tax assets can only be recognised if it is probable that there will be taxable profit available against which the deductible temporary differences can be utilised/future taxable profit will be available against which the unused tax losses and unused tax credits can be utilised. Further, paragraph 47 of Ind AS 12 states that *deferred tax assets and liabilities shall be measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.*

Accordingly, the deferred tax in respect of temporary differences which reverse during the tax holiday period is not recognised to the extent the entity's gross total income is subject to the deduction during the tax holiday period as per the requirements of section 80-IA/80-IB of the Income Tax Act, 1961.

(ITFG Clarification Bulletin 11, Issue 2)
(Date of finalisation: July 31, 2017)

Recognition of deferred tax asset on the tax deductible goodwill in the consolidated financial statements

***Issue 66*: A Ltd. has two subsidiaries B Ltd. and C Ltd. and is required to comply with Ind AS from 1st April, 2017. In August 2015, B Ltd. and C Ltd. got amalgamated and as a result of the amalgamation, goodwill has been created in the separate financial statements of the amalgamated entity. The entity has decided to not restate its past business combinations in accordance with the exemption available under Ind AS 101, *First-time Adoption of Indian Accounting Standards*. This goodwill is allowed as deduction under Income tax laws in the books of the amalgamated entity. In the consolidated financial statements of A Ltd., such accounting goodwill gets eliminated as a result of consolidation adjustment. However, there is an increase in the tax base of assets in the consolidated financial statements of A Ltd. resulting from such tax deductible goodwill.**

Whether deferred tax asset on the tax deductible goodwill should be recognised in the consolidated financial statements of A Ltd. prepared as per Ind AS when there is no corresponding accounting goodwill in the consolidated financial statements of A Ltd.?

***Response*:** Paragraph 5 of Ind AS 12, *Income Taxes,* states that, *the tax base of an asset or liability is the amount attributed to that asset or liability for tax purposes.*

Further, paragraph 7 of Ind AS 12 states that, *"The tax base of an asset is the amount that will be deductible for tax purposes against any taxable economic benefits that will flow to an entity when it recovers the carrying amount of the asset. If those economic benefits will not be taxable, the tax base of the asset is equal to its carrying amount."*

Further, paragraph 11 of Ind AS 12, *inter alia*, states that, the tax base is determined by reference to the tax returns of each entity in the group.

Accordingly, in the given case, the tax base of the goodwill will be the amount that will be allowed as deduction in future in accordance with the Income Tax Act, 1961.

Paragraph 9 of Ind AS 12, states as follows:

> *"Some items have a tax base but are not recognised as assets and liabilities in the balance sheet. For example, preliminary expenses are recognised as an expense in determining accounting profit in the period in which they are incurred but may not be permitted as a deduction in determining taxable profit (tax loss) until a later period(s). The difference between the tax base of the preliminary expenses, being the amount permitted as a deduction in future periods under taxation laws, and the carrying amount of nil is a deductible temporary difference that results in a deferred tax asset."*

In accordance with the above, a deferred tax asset may be created for assets or liabilities having a tax base but nil carrying amount in the financial statements.

As per paragraph 24 of Ind AS 12, "*A deferred tax asset shall be recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised, unless the deferred tax asset arises from the initial recognition of an asset or liability in a transaction that:*

(a) is not a business combination; and

(b) at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).

However, for deductible temporary differences associated with investments in subsidiaries, branches and associates, and interests in joint arrangements, a deferred tax asset shall be recognised in accordance with paragraph 44."

Accordingly, in the given case, deferred tax asset on the tax base of goodwill should be recognised in accordance with Ind AS 12 by crediting the consolidated statement of profit and loss, to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised, in the consolidated financial statements of A Ltd. Additionally, this will not qualify for the initial recognition exemption under paragraph 24 of Ind AS 12 as there is no initial recognition of an asset or liability arising from the amalgamation of subsidiaries in the consolidated financial statements of A Ltd (the impact of amalgamation of subsidiaries is eliminated in the consolidated financial statements of A Ltd).

(ITFG Clarification Bulletin 10, Issue 3)
(Date of finalisation: July 05, 2017)

Accounting treatment of dividend distribution tax (DDT) and deferred tax liability (DTL) on the accumulated undistributed profits of the subsidiary company

***Issue 67*: (i) P Ltd. holds 100% equity shares of S Ltd., i.e. S Ltd. is the wholly-owned subsidiary of P Ltd. During the year 2016, S Ltd. paid dividend of ₹ 100,000 to P Ltd. and paid Dividend Distribution Tax (DDT) of ₹ 20,000 (as per tax laws) to the taxation authorities.**

(a) What would be the accounting treatment of the DDT in the consolidated financial statement of P Ltd?

(b) Would the answer be different, if P Ltd. in turn pays dividend of ₹ 150,000 to its shareholders and DDT liability thereon is determined to be ₹ 30,000. As per the tax laws, DDT paid by S Ltd. of ₹ 20,000 is allowed as set off against the DDT liability of P Ltd., resulting in P Ltd. paying ₹ 10,000 (₹ 30,000 – ₹ 20,000) as DDT to tax authorities.

(ii) Whether deferred tax liability (DTL) on the accumulated undistributed profits of the Subsidiary company which may be distributed in the foreseeable future is required to be recognised in the consolidated financial statements of the Parent company, i.e. P Ltd.

***Response*:** *It may be noted that the treatment of Dividend Distribution Tax (DDT) in the standalone financial statements of the parent entity and its subsidiary has been dealt with in the FAQ issued by the Accounting Standards Board (ASB) of ICAI on the treatment of Dividend distribution tax.*

(i)

(a) In the consolidated financial statements of P Ltd., the dividend income earned by P Ltd. from S Ltd. and dividend recorded by S Ltd. in its equity will both get eliminated as a result of consolidation adjustments. DDT of ₹ 20,000 paid outside the consolidated Group i.e. to the tax authorities should be charged as expense in the consolidated statement of profit and loss of P Ltd.

(b) If DDT paid by the subsidiary S Ltd. is allowed as a set off against the DDT liability of its parent P Ltd. (as per the tax laws), then the amount of such DDT should be recognised in the consolidated statement of changes in equity of parent P Ltd. Accordingly, in the given situation, DDT of ₹ 30,000 (₹ 20,000 of DDT paid by S Ltd. and ₹ 10,000 of DDT paid by P Ltd.) should be recognised in the consolidated statement of changes in equity of parent P Ltd. The basis for such accounting would be that due to Parent P Ltd's transaction of distributing dividend to its shareholders (a transaction recorded in Parent P Ltd's equity) and the related DDT set-off, this DDT paid by the subsidiary is effectively a tax on distribution of dividend to the shareholders of the Parent company.

(ii) Paragraphs 39 & 40 of Ind AS 12, *Income Taxes, state* as follows:

39 An entity shall recognise a deferred tax liability for all taxable temporary differences associated with investments in subsidiaries, branches and associates, and interests in joint arrangements, except to the extent that both of the following conditions are satisfied:

(a) the parent, investor, joint venturer or joint operator is able to control the timing of the reversal of the temporary difference; and

(b) it is probable that the temporary difference will not reverse in the foreseeable future.

40 As a parent controls the dividend policy of its subsidiary, it is able to control the timing of the reversal of temporary differences associated with that investment (including the temporary differences arising not only from undistributed profits but also from any foreign exchange translation differences). Furthermore, it would often be impracticable to determine the amount of income taxes that would be payable when the temporary difference reverses. Therefore, when the parent has determined that those profits will not be distributed in the foreseeable future the parent does not recognise a deferred tax liability. The same considerations apply to investments in branches.

In accordance with the above, it may be noted that the deferred tax liability (DTL) is not recognised on the accumulated undistributed profits of the subsidiary company in the consolidated financial statements of the parent entity, if it is determined that such accumulated undistributed profits will not be distributed in the foreseeable future.

However, if based on evaluation of facts and circumstances, it is concluded that it is probable that the accumulated undistributed profits will be distributed in the foreseeable future, then DTL on accumulated undistributed profits of the subsidiary company should be recognised in the consolidated statement of profit and loss of the parent company. Where DDT paid by the subsidiary on distribution of its accumulated undistributed profits is allowed as a set off against the parent's own DDT liability, then the amount of such DDT can be recognised in the consolidated statement of changes in equity of parent by crediting an equivalent amount to deferred tax expense in the consolidated statement of profit and loss of P Ltd in the period in which the set-off is availed.

In this regard, it may also be noted that the tax credit is not recognised until the conditions required to receive the tax credit are met. The tax credit on account of DDT paid by the subsidiary is recognised in the year in which they are claimed against parent's DDT liability. This is important because the payment of dividend by Parent P is decided by its shareholders and, therefore, not to recognise a DTL or to recognise any tax credit prior to such shareholder actions may not be appropriate. For example, shareholders of Parent P Ltd may decide not to distribute or even reduce the amount of dividends proposed by the Board of Directors of P Ltd.

(ITFG Clarification Bulletin 9, Issue 1)
(Date of finalisation: May 15, 2017)

Recognition of deferred tax asset on land sold as slump sale

***Issue 68*: A freehold land is held by PQR Ltd. which it expects to sell on a slump-sale basis and not individually. Whether PQR Ltd. is not required to recognise deferred tax asset on such land on the basis that the same will be sold on a slump sale basis and hence a temporary difference would not exist. PQR Ltd. has entered into similar slump sale arrangements in the past.**

Response: As per paragraph 5 of Ind AS 12, "*Temporary differences are differences between the carrying amount of an asset or liability in the balance sheet and its tax base. Temporary differences may be either:*

(a) taxable temporary differences, which are temporary differences that will result in taxable amounts in determining taxable profit (tax loss) of future periods when the carrying amount of the asset or liability is recovered or settled; or

(b) deductible temporary differences, which are temporary differences that will result in amounts that are deductible in determining taxable profit (tax loss) of future periods when the carrying amount of the asset or liability is recovered or settled.

The tax base of an asset or liability is the amount attributed to that asset or liability for tax purposes."

Further paragraphs 15 and 24 of Ind AS 12, state as follows:

15 A deferred tax liability shall be recognised for all taxable temporary differences, except to the extent that the deferred tax liability arises from:

(a) the initial recognition of goodwill; or

(b) the initial recognition of an asset or liability in a transaction which:

(i) is not a business combination; and

(ii) at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).

However, for taxable temporary differences associated with investments in subsidiaries, branches and associates, and interests in joint arrangements, a deferred tax liability shall be recognised in accordance with paragraph 39.

24 A deferred tax asset shall be recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised, unless the deferred tax asset arises from the initial recognition of an asset or liability in a transaction that:

(a) is not a business combination; and

(b) at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).

However, for deductible temporary differences associated with investments in subsidiaries, branches and associates, and interests in joint arrangements, a deferred tax asset shall be recognised in accordance with paragraph 44.

In view of the above provisions of Ind AS 12, it may be noted that deferred tax asset/liability is to be created for all deductible/taxable temporary differences, except in specified situations e.g. if it arises from a transaction that affects neither accounting profit nor taxable profit (tax loss) at the time of the transaction (known as initial recognition exemption).

Paragraph 51 of Ind AS 12 further states that, *"The measurement of deferred tax liabilities and deferred tax assets shall reflect the tax consequences that* *would follow from the manner in which the entity expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.*"

In accordance with the above, it may be noted that creation of deferred tax is dependent upon the tax consequences that will follow on the basis of the expected manner of recovery or settlement of the asset/liability by the entity. The expectation of the entity at the end of the reporting period with regard to the manner of recovery or settlement of its assets and liabilities will require exercise of judgement based on evaluation of facts and circumstances in each case. It may be relevant to consider that there is substance to management's expectation of the entity being able to recover the asset through slump sale or otherwise.

However, it is also important to note the following principle of Ind AS 12:

Paragraph 51B of Ind AS 12 states that, *"If a deferred tax liability or deferred tax asset arises from a non-depreciable asset measured using the revaluation model in Ind AS 16, the measurement of the deferred tax liability or deferred tax asset shall reflect the tax consequences of recovering the carrying amount of the non-depreciable asset through sale, regardless of the basis of measuring the carrying amount of that asset. Accordingly, if the tax law specifies a tax rate applicable to the taxable amount derived from the sale of an asset that differs from the tax rate applicable to the taxable amount derived from using an asset, the former rate is applied in measuring the deferred tax liability or asset related to a non-depreciable asset."*

In accordance with the above, it may be noted that if a non-depreciable asset is measured using the revaluation model, then an entity is required to measure the DTA/DTL considering the tax consequences of recovering the carrying amount through sale.

In the given case, PQR Ltd. will be required to evaluate facts and circumstances to assess whether the freehold land will be sold through slump sale. If it is concluded based on evaluation of facts that the land will be sold through slump sale, then the tax base of the land will be the same as the carrying amount of the land, as indexation benefit is not available in case of slump sale (as per Income Tax Act, 1961) and hence, there will not be any temporary difference.

(ITFG Clarification Bulletin 7, Issue 7)
(Date of finalisation: March 30, 2017)

Recognition of the deferred tax on the differences that are arising from adjustment of exchange difference to the cost of the asset

***Issue 69*: MNC Ltd. is a first-time adopter of Ind AS. It had taken a foreign currency loan for USD 100 million on March 31, 2013 for construction of its property, plant and equipment (PPE). The company had availed the option given under paragraph 46/46A of AS 11, *The Effects of Changes in Foreign Exchange Rates* notified under the Companies (Accounting Standards) Rules, 2006 and accordingly, exchange gain/loss on such foreign currency loan had been added to or deducted from the cost of PPE. On the date of transition to Ind AS, the Company has opted for the exemption given under paragraph D13AA of Ind AS 101, *First-time Adoption of Indian Accounting Standards*.**

As per section 43A of Income Tax Act, 1961 such exchange differences capitalised are not allowed deduction under the Income Tax.

Whether deferred tax is to be recognised on such differences that are arising from adjustment of exchange difference to the cost of the asset or can it be said that these meet the initial recognition exemption under paragraph 15(b) of Ind AS 12, *Income Taxes,* and hence no deferred tax is required to be created on the same?

***Response*:** Paragraph D13AA of Ind AS 101 states as follows:

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

Further, paragraph 7AA of Ind AS 21 states as follows:

"7AA This Standard does not also apply to long-term foreign currency monetary items for which an entity has opted for the exemption given in paragraph D13AA of Appendix D to Ind AS 101. Such an entity may continue to apply the accounting policy so opted for such long- term foreign currency monetary items."

As stated above, it may be noted that the exemption under paragraph D13AA of Ind AS 101 is available only for the exchange differences arising from translation of long-term foreign currency monetary items recognised in the financial statements immediately before the beginning of the first Ind AS financial reporting period.

As per paragraph 5 of Ind AS 12, "*Temporary differences are differences between the carrying amount of an asset or liability in the balance sheet and its tax base. Temporary differences may be either:*

(a) taxable temporary differences, which are temporary differences that will result in taxable amounts in determining taxable profit (tax loss) of future periods when the carrying amount of the asset or liability is recovered or settled; or

(b) deductible temporary differences, which are temporary differences that will result in amounts that are deductible in determining taxable profit (tax loss) of future periods when the carrying amount of the asset or liability is recovered or settled.

The tax base of an asset or liability is the amount attributed to that asset or liability for tax purposes."

It may result in deferred tax depending on treatment of such differences under Income Tax Act, 1961 including Income Computation and Disclosure Standards (ICDS). Paragraph 15 of Ind AS 12, states as follows:

15 A deferred tax liability shall be recognised for all taxable temporary differences, except to the extent that the deferred tax liability arises from:

(a) the initial recognition of goodwill; or

(b) the initial recognition of an asset or liability in a transaction which:

(i) is not a business combination; and

(ii) at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).

However, for taxable temporary differences associated with investments in subsidiaries, branches and associates, and interests in joint arrangements, a deferred tax liability shall be recognised in accordance with paragraph 39.

Similarly, paragraph 24 of Ind AS 12 states as follows:

A deferred tax asset shall be recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised, unless the deferred tax asset arises from the initial recognition of an asset or liability in a transaction that:

(a) is not a business combination; and

(b) at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).

However, for deductible temporary differences associated with investments in subsidiaries, branches and associates, and interests in joint arrangements, a deferred tax asset shall be recognised in accordance with paragraph 44.

In accordance with the above, it may be noted that deferred taxes is required to be recognised for all taxable and deductible temporary differences except in specified situations, e.g. if it arises from initial recognition of an asset or a liability. However, adjustment to the cost of the asset due to exchange difference is a subsequent transaction and does not arise on 'the initial recognition of an asset or liability'. In other words, capitalisation of the exchange differences (including the exchange differences prior to the date of transition) represents subsequent measurement of the liability which has been adjusted to the cost of the asset. Accordingly, in the given case, initial recognition exemption will not be available and deferred tax is required to be recognised on temporary difference arising from capitalised exchange differences.

(ITFG Clarification Bulletin 8, Issue 8)
(Date of finalisation: May 05, 2017)

Ind AS 16, Property, Plant and Equipment

Accounting Treatment of expenditure on the construction/ development of railway siding, road and bridge to facilitate the construction of a new refinery

***Issue 70*: ABC Ltd is setting up a new refinery outside the city limits. In order to facilitate the construction of the refinery and its operations, ABC Ltd. is required to incur expenditure on the construction/development of railway siding, road and bridge. Though ABC Ltd. incurs (or contributes to) the expenditure on the construction/development, it will not have ownership rights on these items and they are also available for use to other entities and public at large. Whether ABC Ltd. can capitalise expenditure incurred on these items as property, plant and equipment (PPE)? If yes, how should these items be depreciated and presented in the financial statements of ABC Ltd.?**

***Response*:** Paragraph 7 of Ind AS 16 states that *"the cost of an item of property, plant and equipment shall be recognised as an asset if, and only if:*

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

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

Further, paragraph 9 of Ind AS 16 provides that, *"This Standard does not prescribe the unit of measure for recognition, i.e., what constitutes an item of property, plant and equipment. Thus, judgement is required in applying the recognition criteria to an entity's specific circumstances. It may be appropriate to aggregate individually insignificant items, such as moulds, tools and dies, and to apply the criteria to the aggregate value*."

Paragraph 16 of Ind AS 16, *inter alia*, states that *the cost of an item of property, plant and equipment comprise any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management*.

In the given case, railway siding, road and bridge are required to facilitate the construction of the refinery and for its operations. Expenditure on these items is required to be incurred in order to get future economic benefits from the project as a whole which can be considered as the unit of measure for the purpose of capitalisation of the said expenditure even though the company cannot restrict the access of others for using the assets individually. It is apparent that the aforesaid expenditure is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

In view of this, even though ABC Ltd. may not be able to recognise expenditure incurred on these assets as an individual item of property, plant and equipment in many cases (where it cannot restrict others from using the asset), expenditure incurred may be capitalised as a part of overall cost of the project. From this, it can be concluded that, in the extant case the expenditure incurred on these assets, i.e., railway siding, road and bridge, should be considered as the cost of constructing the refinery and accordingly, expenditure incurred on these items should be allocated and capitalised as part of the items of property, plant and equipment of the refinery.

Depreciation

As per paragraph 43 of Ind AS 16, each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately.

Further, paragraph 45 of Ind AS 16 provides that, a significant part of an item of property, plant and equipment may have a useful life and a depreciation method that are the same as the useful life and the depreciation method of another significant part of that same item. Such parts may be grouped in determining the depreciation charge.

In view of the above, if these assets have a useful life which is different from the useful life of the item of property, plant and equipment to which they relate, it should be depreciated separately. However, if these assets have a useful life and the depreciation method that are the same as the useful life and the depreciation method of the item of property, plant and equipment to which they relate, these assets may be grouped in determining the depreciation charge. Nevertheless, if it has been included in the cost of property, plant and equipment as a directly attributable cost, it will be depreciated over the useful lives of the said property, plant and equipment. The useful lives of these assets should not exceed that of the asset to which it relates.

Presentation

These assets should be presented within the class of asset to which they relate.

(ITFG Clarification Bulletin 11, Issue 8)
(Date of finalisation: July 31, 2017)

Selection of valuation model of immovable properties

***Issue 71*: (i) ABC Ltd. is covered under Phase II of Ind AS roadmap and is required to apply Ind AS from financial year 2017-18. It has certain immovable properties such as land or building. Whether ABC Ltd. is allowed to use revaluation model under Ind AS 16, *Property, Plant and Equipment* for such immovable properties instead of cost model in its first Ind AS financial statements prepared for the period ending 31st March 2018.**

(ii) Whether ABC Ltd. can opt for cost model for some class of property, plant and equipment and apply revaluation model for other class of property, plant and equipment in its first Ind AS financial statements prepared for the period ending 31st March 2018.

***Response*:** (i) An entity will first be required to evaluate that whether the land and building that it holds is an investment property or its property, plant and equipment (PPE).

Ind AS 40, *Investment Property* provides that *Investment property is property (land or a building—or part of a building—or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both, rather than for:*

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

(b) sale in the ordinary course of business.

Further Ind AS 16, *Property, Plant and Equipment*, states that- *Property, plant and equipment are tangible items that:*

(a) are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and

(b) are expected to be used during more than one period.

In accordance with the above, if land or building is classified as PPE, then the same shall be initially measured at cost and for subsequent measurement the entity has the option to choose cost model or revaluation model as per paragraph 29 of Ind AS 16 as stated below:

"An entity shall choose either the cost model in paragraph 30 or the revaluation model in paragraph 31 as its accounting policy and shall apply that policy to an entire class of property, plant and equipment."

However, if land or building has been held to earn rentals or for capital appreciation or both then the same shall be classified as investment property and only cost model as per paragraph 30 of Ind AS 40 can be used.

As per paragraph 20 of Ind AS 40, "*An investment property shall be measured initially at its cost*." Further paragraph 30 requires that, "*An entity shall adopt as its accounting policy the **cost model prescribed in paragraph 56** to all of its investment property*."

Further, paragraph 56 of Ind AS 40 states as follows:

Cost model

*56 After initial recognition, **an entity shall measure all of its investment properties in accordance with Ind AS 16's requirements for cost model**, other than those that meet the criteria to be classified as held for sale (or are included in a disposal group that is classified as held for sale) in accordance with Ind AS 105, Non-current Assets Held for Sale and Discontinued Operations. Investment properties that meet the criteria to be classified as held for sale (or are included in a disposal group that is classified as held for sale) shall be measured in accordance with Ind AS 105.*

(ii) As per paragraph 31 of Ind AS 16,"*After recognition as an asset, an item of property, plant and equipment whose fair value can be measured reliably shall be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period*."

Further, paragraphs 36 and 37 of Ind AS 16, *inter alia*, state:

"36 If an item of property, plant and equipment is revalued, the entire class of property, plant and equipment to which that asset belongs shall be revalued."

37 A class of property, plant and equipment is a grouping of assets of a similar nature and use in an entity's operations…… ."

In accordance with the above, it may be noted that the standard requires that if revaluation model is chosen then that should be applied to the entire class and not to an individual item of property, plant and equipment. Accordingly, in the given case, the entity may elect to opt for revaluation model for a particular class of assets and cost model for another class of assets which are classified as property, plant and equipment.

(ITFG Clarification Bulletin 12, Issue 1)
(Date of finalisation: October 23, 2017)

Accounting treatment of the wrongly capitalised asset which does not meet the definition of tangible asset

***Issue 72*: ABC Ltd. is a first-time adopter of Ind AS and has opted for deemed cost exemption as per paragraph D7AA of Ind AS 101, *First-time Adoption of Indian Accounting Standards*. It had capitalised an item of property, plant and equipment under previous GAAP even though it did not meet the definition of an asset. Whether this asset cost can also be continued to be capitalised under deemed cost exemption/**

***Response*:** Paragraph D7AA of Ind AS 101, provides that, *"Where there is no change in its functional currency on the date of transition to Ind ASs, a first-time adopter to Ind ASs may elect to continue with the carrying value for all of its property, plant and equipment as recognised in the financial statements as at the date of transition to Ind ASs, measured as per the previous GAAP and use that as its deemed cost as at the date of transition after making necessary adjustments in accordance with paragraph D21 and D21A, of Ind AS 101."*

In accordance with the above, the option of deemed cost exemption can be availed for property, plant and equipment measured as per previous GAAP. The incorrect capitalisation of the item of property, plant and equipment did not meet the definition of asset as per previous GAAP and the definition of 'Property, plant and equipment' as per Ind AS 16, accordingly the deemed cost exemption under paragraph D7AA of Ind AS 101 cannot be availed for those assets.

Further, it is important to note the provisions of paragraph 10 of Ind AS 101, which states that, *"Except as described in paragraphs 13–19 and Appendices B–D, an entity shall, in its opening Ind AS Balance Sheet:*

(a) recognise all assets and liabilities whose recognition is required by Ind ASs;

(b) *not recognise items as assets or liabilities if Ind ASs do not permit such recognition;*

(c) *reclassify items that it recognised in accordance with previous GAAP as one type of asset, liability or component of equity, but are a different type of asset, liability or component of equity in accordance with Ind ASs; and*

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

Paragraph 26 of Ind AS 101 provides that, '*If an entity becomes aware of errors made under previous GAAP, the reconciliations required by paragraph 24(a) and (b) shall distinguish the correction of those errors from changes in accounting policies.'*

Further, paragraph 24 of Ind AS 101 provides that, "*To comply with paragraph 23, an entity's first Ind AS financial statements shall include:*

(a) *reconciliations of its equity reported in accordance with previous GAAP to its equity in accordance with Ind ASs for both of the following dates:*

  (i) *the date of transition to Ind ASs; and*

  (ii) *the end of the latest period presented in the entity's most recent annual financial statements in accordance with previous GAAP.*

(b) *a reconciliation to its total comprehensive income in accordance with Ind ASs for the latest period in the entity's most recent annual financial statements. The starting point for that reconciliation shall be total comprehensive income in accordance with previous GAAP for the same period or, if an entity did not report such a total, profit or loss under previous GAAP."*

In view of the above, the incorrect capitalisation of asset which does not meet the definition of tangible asset will be covered under paragraph 26 of Ind AS 101 being an error, and the disclosure of the same should be done as per paragraph 24 of Ind AS 101 as mentioned above.

(ITFG Clarification Bulletin 8, Issue 4)
(Date of finalisation: May 05, 2017)

Re-computation of Depreciation based on useful life when Ind AS 16 applied retrospectively

<u>*Issue 73*</u>: A Ltd. (first-time adopter to Ind AS) chooses to measure its property, plant and equipment by applying Ind AS 16, *Property, Plant and Equipment* retrospectively. Under previous GAAP, A Ltd. had been applying depreciation rates specified in Schedule XIV to the Companies Act, 1956. Whether A Ltd. is required to recompute depreciation based on useful lives from the date of initial capitalisation of property, plant and equipment or it will have to apply depreciation rates applied under previous GAAP till the date of opening balance sheet?

<u>*Response*</u>:

Ind AS 101 requires retrospective application of Ind AS effective at the end of a first-time adopter's first Ind AS reporting period. However, as an exception to this rule, Ind AS 101, *inter alia*, provides deemed cost exemption, wherein as at the date of transition to Ind AS, a first time adopter may elect to measure all of its items of property, plant and equipment (PPE) at the carrying amounts as per its previous GAAP.

In case the first-time adopter does not elect to choose deemed cost exemption, then the requirements of Ind AS 16 would have to be applied as if the first-time adopter had always applied the Standard. Accordingly, PPE will be measured based on historical cost determined in accordance with Ind AS 16.

Paragraph 50 of Ind AS 16, *Property, Plant & Equipment* states as under*:*

"The depreciable amount of an asset shall be allocated on a systematic basis over its useful life."

Further, paragraph 57 of Ind AS 16, states as follows:

"The useful life of an asset is defined in terms of the asset's expected utility to the entity. The asset management policy of the entity may involve the disposal of assets after a specified time or after consumption of a specified proportion of the future economic benefits embodied in the asset. Therefore, the useful life of an asset may be shorter than its economic life. The estimation of the useful life of the asset is a matter of judgement based on the experience of the entity with similar assets."

As per the above requirements, it may be noted that as per Ind AS 16, a company is required to compute depreciation based on an assessment of useful lives of an asset.

Further, paragraphs 13 & 14 of Ind AS 101, *First-time Adoption of Indian Accounting Standards* state as follows:

"13 This Ind AS prohibits retrospective application of some aspects of other Ind ASs. These exceptions are set out in paragraphs 14–17 and Appendix B.

14 An entity's estimates in accordance with Ind ASs at the date of transition to Ind ASs shall be consistent with estimates made for the same date in accordance with previous GAAP (after adjustments to reflect any difference in accounting policies), unless there is objective evidence that those estimates were in error."

In accordance with the above paragraphs, it may be noted while transitioning to Ind AS, a first-time adopter's estimate of depreciation under previous GAAP can only be changed if those estimates were in error. However, when a company has been computing depreciation as per rates prescribed under Schedule XIV of Companies Act, 1956, then it has not estimated the useful life of an asset but has depreciated its assets as per the minimum requirements of law.

Accordingly, when a first-time adopter chooses to measure its PPE by retrospective application of Ind AS 16, then it will be required to re-compute depreciation by assessing the useful life of an asset in accordance with Ind AS 16 which is consistent with Schedule II to the Companies Act, 2013.

(ITFG Clarification Bulletin 3, Issue 14)
(Date of finalisation: June 22, 2016)

Property, plant and equipment - capitalisation of capital spares when deemed cost exemption availed for property, plant and equipment on transition to Ind AS.

***Issue 74*: ABC Ltd. is covered under Ind AS roadmap and required to prepare its financial statements as per Ind AS from financial year 2016-17 with comparatives for financial year 2015-16. The date of transition to Ind AS is April 1, 2015. The Company has chosen to continue with the carrying value for all of its property, plant and equipment as recognised in the financial statements as at the date of transition to Ind AS, measured as per the previous GAAP. The Company has recorded capital spares in its previous GAAP financial statements as a part of inventory.**

How should the capital spares be accounted under Ind AS on the date of transition to Ind AS, if the Company chooses to apply the previous GAAP as deemed cost exemption?

***Response*:** As per paragraph 8 of Ind AS 16, *Property, Plant and Equipment*, items such as spare parts are to be recognised in accordance with Ind AS 16, when they meet the definition of 'property, plant and equipment'. Otherwise such items are classified as inventory.

As per Ind AS 16, 'property, plant and equipment', are tangible items that:

(a) are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and

(b) are expected to be used during more than one period.

Paragraph 7 of Ind AS 16, *Property, Plant and Equipment,* states as under:

"The cost of an item of property, plant and equipment shall be recognised as an asset if, and only if:

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

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

Therefore, if an item of spare part meets the definition of 'property, plant and equipment' as mentioned above and satisfies the recognition criteria as per paragraph 7 of Ind AS 16, such an item of spare has to be recognised as property, plant and equipment. If that spare part does not meet the definition and recognition criteria as cited above, that spare is to be recognised as inventory.

Paragraph 10 of Ind AS 101, *First-time Adoption of Indian Accounting Standards, inter alia*, states that an entity, shall in its opening Ind AS Balance Sheet, recognise all assets and liabilities whose recognition is required by Ind AS.

As per paragraph D7AA, once the company chooses previous GAAP as deemed cost as provided in paragraph D7AA of Ind AS 101, it is not allowed to adjust the carrying value of property, plant and equipment for any adjustments other than those in accordance with paragraph D21 and D21A of Ind AS 101. In this case, a question arises whether the company may capitalise spares as a part of property, plant and equipment on the date of transition to Ind AS. It may be noted deemed cost exemption as the previous GAAP is in respect of carrying value of property, plant and equipment capitalised under previous GAAP on the date of transition to Ind AS. This condition does not prevent a company to recognise an asset whose recognition is required by Ind AS on the date of transition.

In the given case, the capital spares were recognised as inventory under previous GAAP and they were not appearing under carrying amount of PPE.

In view of the above, it is clear that ABC Ltd. should recognise 'capital spares' if they meet definition of PPE as on the date of transition, in addition to continuing carrying value of PPE as per paragraph D7AA of Ind AS 101.

(ITFG Clarification Bulletin 3, Issue 9)
(Date of finalisation: June 22, 2016)

Property, Plant and Equipment - Capitalisation of expenditure on assets not owned by the company

***Issue 75*: Company X has incurred expenditure on construction of a road on the land which is not owned by the Company. Whether the expenditure incurred on construction of such a road by the Company has to be capitalised or expensed out under Ind AS?**

***Response*:** The capitalisation of expenditure incurred on construction of assets on land not owned by a company would depend on facts and circumstances of each case, particularly, considering paragraph 16(b) of Ind AS 16, *Property, Plant and Equipment (PPE),* which states that such an expenditure should be necessary for making the item of PPE capable of operating in the manner intended by the management.

(ITFG Clarification Bulletin 2, Issue 5)
(Date of finalisation: April 12, 2016)

Property Plant and Equipment- Recognition Criteria of spare part as an item of property, plant and equipment and depreciation thereon

***Issue 76*: A Company has a spare part, which it terms as 'insurance spare', is required to be used along with equipment. Whether the spare part is required to be recognised as part of that equipment? Whether depreciation is required to be calculated separately for that spare part or along with the equipment for which it has been used?**

***Response*:** As per paragraph 8 of Ind AS 16, *Property, Plant and Equipment*, items such as spare parts are to be recognised in accordance with Ind AS 16, when they meet the definition of 'property, plant and equipment'. Otherwise such items are classified as inventory.

As per Ind AS 16, 'property, plant and equipment', are tangible items that:

(a) are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and

(b) are expected to be used during more than one period.

Paragraph 7 of Ind AS 16, *Property, Plant and Equipment,* states as under:

The cost of an item of property, plant and equipment shall be recognised as an asset if, and only if:

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

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

Therefore, if an item of spare part meets the definition of 'property, plant and equipment' as mentioned above and satisfies the recognition criteria as per paragraph 7 of Ind AS 16, such an item of spare part has to be recognised as property, plant and equipment separately from the equipment. If that spare part does not meet the definition and recognition criteria as cited above that spare part is to be recognised as inventory.

The depreciation on such an item of spare part will begin when the asset is available for use i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. In case of a spare part, as it may be readily available for use, it may be depreciated from the date of purchase of the spare part. In determination of the useful life of the spare part, the life of the machine in respect of which it can be used can be one of the determining factors.

(ITFG Clarification Bulletin 2, Issue 4)
(Date of finalisation: April 12, 2016)

Accounting of spare parts which meet the definition of property, plant and equipment on the date of transition

***Issue 77*: XYZ Ltd. is covered under Ind AS roadmap and needs to comply Ind AS from financial year 2016-17. It has recorded certain spare parts in its previous GAAP financial statements as a part of inventory. As per paragraph 8 of Ind AS 16, these items meet the definition of 'property, plant and equipment' and required to be capitalised as PPE on the date of transition to Ind AS. In this regard, clarify the issues given below:**

(i) At what amount such spare parts should be recognised in the first Ind AS financial statements? Whether depreciation should be charged from the date when the same became available for use or date of actual use?

(ii) Explain the words 'more than one period' used in definition of property, plant and equipment.

***Response*:** (i) As per Ind AS 16, *Property, Plant and Equipment,* 'property, plant and equipment', are tangible items that:

(a) are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and

(b) are expected to be used during more than one period.

Further paragraph 7 of Ind AS 16, states as under:

"The cost of an item of property, plant and equipment shall be recognised as an asset if, and only if:

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

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

As per paragraph 8 of Ind AS 16, *Property, Plant and Equipment*, items such as spare parts are to be recognised as property, plant and equipment in accordance with Ind AS 16, when they meet the definition of 'property, plant and equipment'. Otherwise such items are classified as inventory.

Therefore, if an item of spare part meets the definition of 'property, plant and equipment' as mentioned above and satisfies the recognition criteria as per paragraph 7 of Ind AS 16, such an item of spare has to be recognised as property, plant and equipment. If that spare part does not meet the definition and recognition criteria as cited above that spare is to be recognised as inventory [Refer - Issue 9 of ITFG Clarification Bulletin 3].

As per paragraph 10 of Ind AS 101, except for the mandatory exceptions and voluntary exemptions provided in Ind AS 101, an entity shall, in its opening Ind AS Balance Sheet:

(b) not recognise items as assets or liabilities if Ind ASs do not permit such recognition;

(c) reclassify items that it recognised in accordance with previous GAAP as one type of asset, liability or component of equity, but are a different type of asset, liability or component of equity in accordance with Ind ASs; and

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

Paragraphs D5 to D8B provide various deemed cost exemptions that an entity may elect to use on the date of transition. In this regard, it is pertinent to note that paragraph D7AA of Ind AS 101 provides an option to continue the carrying values for all of its property, plant and equipment as recognised in the financial statements as at the date of transition to Ind ASs, measured as per the previous GAAP and use that as its deemed cost as at the date of transition if there is no change in its functional currency. However, the above exemption cannot be used for such spare parts in the given case since the same were not recognised as fixed assets, i.e., PPE, in the previous GAAP.

Moreover, paragraph D7AA does not prevent a company to recognise an asset as PPE whose recognition is required by Ind AS on the date of transition [Refer Issue 9 of ITFG Clarification Bulletin 3].

In view of the above, the entity should apply applicable Ind AS i.e. Ind AS 16 retrospectively to measure the amount that will be recognised for such spare parts on the date of transition to Ind AS.

With regard to deprecation, paragraph 50 of Ind AS 16 provides that the depreciable amount of an asset shall be allocated on a systematic basis over its useful life.

As per paragraph 6 of Ind AS 16, ***Useful life*** is:

(a) the period over which an asset is expected to be available for use by an entity; or

(b) the number of production or similar units expected to be obtained from the asset by an entity.

Paragraph 55 of Ind AS 16, *inter alia,* provides that depreciation of an asset begins when it is available for use, i.e., when it is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Spare parts are generally available for use from the date of its purchase. Accordingly, spare parts recognised as property, plant and equipment shall be depreciated when the same are available for use.

(ii) As per Ind AS 16, 'property, plant and equipment', are tangible items that:

    (a) are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and

    (b) are expected to be used during more than one period.

Accounting policies are the specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements.

The term 'more than one period' is not defined in Ind AS. Ordinarily, the accounting policies are determined for preparing and presenting financial statements on annual basis.

Accordingly, the term 'period', should ordinarily be construed to be the annual period.

(ITFG Clarification Bulletin 5, Issue 6)
(Date of finalisation: September 19, 2016)

Accounting treatment of the Revaluation surplus as per previous GAAP on transition date and Revaluation gain arising after transition date when Ind AS 16 applied retrospectively

***Issue 78*: PQR Ltd. is under Phase II of Ind AS roadmap. On the date of transition i.e. 1.4.2016, it has elected not to use deemed cost exemption given under Ind AS 101, *First-time Adoption of Indian Accounting Standards* for measuring its property, plant and equipment. It has opted to retrospectively apply the requirements of Ind AS 16, *Property, Plant and Equipment* to all items of property, plant and equipment and has opted for revaluation model of Ind AS 16 for subsequent measurement. PQR Ltd. has been applying revaluation model under previous Indian GAAP.**

What will be the accounting treatment of the following revaluation surplus in the Ind AS financial statements of PQR Ltd:

a) Revaluation surplus as per previous GAAP on transition date;

b) Revaluation gain arising after transition date.

Would the answer be different if the company would have opted for deemed cost exemption under paragraph D5 of Ind AS 101.

***Response*:** Paragraph 39 of Ind AS 16, *Property, Plant and Equipment* states as follows:

*39 If an asset's carrying amount is **increased as a result of a revaluation**, the increase shall be **recognised in other comprehensive income** and accumulated in equity under the heading of revaluation surplus. However, the increase shall be recognised in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss.*

Further, as per Ind AS 1, *Presentation of Financial Statements,* other comprehensive income comprises items of income and expense (including reclassification adjustments) that are not recognised in profit or loss as required or permitted by other Ind ASs. The components of other comprehensive income includes changes in revaluation surplus (see Ind AS 16, *Property, Plant and Equipment* and Ind AS 38, *Intangible Assets)*;

In accordance with the above, as per Ind AS 16, revaluation increase should be recognised in other comprehensive income.

(a) In the given case, the company has not elected deemed cost exemption given under Ind AS 101 and has chosen to apply the requirements of Ind AS 16 retrospectively. Assuming the other requirements of Ind AS 16 are met, the company would apply revaluation model of Ind AS 16 to its PPE and the revaluation reserve on transition date determined in accordance with the requirements of Ind AS 16 (carried from previous GAAP) will be recognised as revaluation surplus in equity. The opening balance of revaluation surplus as per previous GAAP should be transferred to retained earnings or if appropriate, another category of equity.

(b) Any revaluation gains arising on subsequent recognition, i.e. after the date of transition, will be recognised in the Other Comprehensive Income.

If the company would have opted exemption under paragraph D5 of Ind AS 101 at the date of transition then the opening balance of revaluation surplus as per previous GAAP should be transferred to retained earnings or if appropriate, another category of equity disclosing the description of the nature and purpose of such amount in accordance with the requirements of paragraph 79(b) of Ind AS 1, *Presentation of Financial Statements*.

This aspect has also been clarified in ITFG Clarification Bulletin 8 (Issue 7).

Accordingly, at the date of transition if a company opts for deemed costs under Ind AS 101, then all revaluations under the previous GAAP up to the date of transition, i.e. opening balance of revaluation reserve will be transferred to retained earnings (or, if appropriate another category of equity) and changes in revaluations after the date of transition (i.e. subsequent recognition) will be recognised through OCI. *It may be noted that if the company has chosen to use revaluation model for subsequent measurement then it has to apply the same policy for all the periods (including transition date) presented in the first Ind AS financial statements*.

(ITFG Clarification Bulletin 14, Issue 6)
(Date of finalisation: February 01, 2018)

Ind AS 17, *Leases*

Classification of land lease under Ind AS

<u>*Issue 79*</u>: XYZ Ltd. has obtained a land from the government on a long-term lease basis which spans 99 years and above. At the end of the lease term, the lease could be extended for another term or the land could be returned to the government authority. Whether such land leases should be classified as finance lease or operating lease in the financial statements of XYZ Ltd. prepared in accordance with Ind AS?

***<u>Response</u>*:** Paragraph 4 of Ind AS 17, *Leases*, *inter alia*, provides as follows:

"A *finance lease* is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Title may or may not be eventually be transferred.

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

Further, paragraph 15A of Ind AS 17, states as follows:

"*15A When a lease includes both land and buildings elements, an entity assesses the classification of each element as a finance or an operating lease separately in accordance with paragraphs 7–13. In determining whether the land element is an operating or a finance lease, an important consideration is that land normally has an indefinite economic life."*

Therefore, one important consideration for evaluating lease of land is that land has an indefinite economic life and it is expected that the value of land generally appreciates.

Paragraphs 10 & 11 of Ind AS 17, *Leases* state as follows:

"10 Whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than the form of the contract. Examples of situations that individually or in combination would normally lead to a lease being classified as a finance lease are:

(a) the lease transfers ownership of the asset to the lessee by the end of the lease term;

(b) the lessee has the option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option becomes exercisable for it to be reasonably certain, at the inception of the lease, that the option will be exercised;

(c) the lease term is for the major part of the economic life of the asset even if title is not transferred;

(d) at the inception of the lease the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset; and

(e) the leased assets are of such a specialised nature that only the lessee can use them without major modifications.

11 Indicators of situations that individually or in combination could also lead to a lease being classified as a finance lease are:

(a) if the lessee can cancel the lease, the lessor's losses associated with the cancellation are borne by the lessee;

(b) gains or losses from the fluctuation in the fair value of the residual accrue to the lessee (for example, in the form of a rent rebate equalling most of the sales proceeds at the end of the lease); and

(c) the lessee has the ability to continue the lease for a secondary period at a rent that is substantially lower than market rent."

In case of lease of land for 99 years and above, if it is likely that such leases meet the criteria that at the inception of the lease the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset then in this case, such lease will be classified as 'finance lease'.

However, it may also be noted that land normally has an indefinite economic life. Where in substance there is no transfer of risks and rewards, it should be considered as an operating lease. Some of the indicators to consider in the overall context of whether there is transfer of risks and rewards incidental to ownership include the lessee's ability to renew lease for another term at substantially below market rent, lessee's option to purchase at price significantly below fair value etc.

Accordingly, classification as operating or finance lease requires exercise of judgement based on evaluation of facts and circumstances in each case, while considering the indicators envisaged as above.

(ITFG Clarification Bulletin 7, Issue 5)
(Date of finalisation: March 30, 2017)

Straight-lining of lease payments if escalation of lease payments is different from general inflation.

***<u>Issue 80</u>*: ABC Ltd. has entered into an operating lease agreement for taking a building on lease. The rent agreement is for 5 years with escalation of lease rent at the rate of 15% p.a. The general inflation in the country expected for the aforesaid period is around 6%.**

Shall the lease payments be straight-lined or not as per Ind AS 17? If yes, should the entire 15% p.a. escalation in lease rent be straight-lined over a period of 5 years or only the difference which exceeds the expected inflation rate will be straight-lined?

***<u>Response</u>*:** Paragraph 33 of Ind AS 17, *Leases,* states as follows:

"Lease payments under an operating lease shall be recognised as an expense on a straight-line basis over the lease term unless either:

(a) another systematic benefit is more representative of the time pattern of the user's benefit even if the payments to the lessors are not on that basis; or

(b) the payments to the lessor are structured to increase in line with expected general inflation to compensate for the lessor's expected inflationary cost increases. If payments to the lessor vary because of factors other than general inflation, then this condition is not met."

As per paragraph 33 of Ind AS 17, lease payments shall be straight-lined over the period of lease unless, *inter alia,* the payments to the lessor are structured to increase in line with expected general inflation to compensate for the lessor's expected inflationary cost increases. If payments to the lessor vary because of factors other than general inflation, then lease payments shall be straight-lined.

Judgement would be required to be made as per the facts and circumstances of each case to determine whether the payments to the lessor are structured to increase in line with expected general inflation. Therefore, it is required to evaluate the lease agreement to ascertain the real intention and attributes of escalation in lease payments, i.e., whether the intention of such escalation is to compensate for expected general inflation or any other factors.

It is not necessary that the rate of the escalation of lease payments should exactly be equal to the expected general inflation. If the actual increase or decrease in the rate of inflation is not materially different as compared to the expected rate of inflation under the lease agreement, it is not required to straight-line the lease payments. However, the purpose of such escalation should only be to compensate the expected general inflation rate.

In the given case, the increase of 15% p.a. in lease rentals does not appear to have any link with general inflation which is expected to be 6%. Accordingly, the entire lease payments should be straight-lined since the increase is not a compensation for inflation.

(ITFG Clarification Bulletin 5, Issue 7)
(Date of finalisation: September 19, 2016)

Accounting treatment of restoration costs in case of a leasehold land

***Issue 81*: A company is using a leasehold land for its business purposes. As per the lease terms, the company is under an obligation to restore the land to its original condition at the end of the lease tenure. What should be the accounting treatment of restoration costs in case of a leasehold land?**

***Response*:** The Company will be required to first evaluate whether the lease is a finance lease or an operating lease, in accordance with the principles of Ind AS 17, *Leases*.

If it is determined that the lease is a finance lease, then as per paragraph 16(c) of Ind AS 16, *Property, Plant and Equipment*, the cost of an item of property, plant and equipment comprises the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

Ind AS 37, *Provisions, Contingent Liabilities and Contingent Assets* contains requirements on how to measure decommissioning, restoration and similar liabilities. Further, Appendix A to Ind AS 16 also provides guidance on how to account for the effect of changes in the measurement of existing decommissioning, restoration and similar liabilities.

Paragraph 8 of Appendix A of Ind AS 16 states that the periodic unwinding of the discount shall be recognised in profit or loss as a finance cost as it occurs. Capitalisation under Ind AS 23 is not permitted.

In accordance with the above, all site restoration costs need to be estimated and capitalised at initial recognition, in order that such costs can be recovered over the life of the item of property, plant and equipment, even if the expenditure will only be incurred at the end of the item's life. Where an obligation exists to restore a site to its former condition at the end of its useful life, the present value of the related future payments is capitalised along with the cost of acquisition or construction upon completion and a corresponding liability is recognised.

Thereafter, the asset comprising the decommissioning cost is depreciated over its useful life, while the discounted provision is progressively unwound, with the unwinding charge shown as finance cost in accordance with paragraph 8 of Appendix A of Ind AS 16 as stated above.

Alternatively, if it is determined that the lease is an operating lease and the entity incurs amount to construct the asset/ structure on land which it is required to remove those on expiration of the lease, it should account for the removal obligation as it has a present obligation under the lease to remove the improvements at the end of the lease term. In such situations, the entity will capitalise leasehold building/improvements and amortise them over the term of the lease. The removal obligation arises when the entity completes the construction, which is the past event. The present value of expected outflow should be recognised as a liability when the construction is completed. An asset of the same amount should be recognised and amortised over the remaining lease term.

(ITFG Clarification Bulletin 14, Issue 2)
(Date of finalisation: February 01, 2018)

Ind AS 18, *Revenue*

Classification of expense of providing free third party goods under Customer Loyalty Programmes

***Issue 82*: Company X participated in a customer loyalty programme operated by a third party. Under the programme, members earn points for purchases made in X's stores. The members can redeem the accumulated award points for goods supplied by the third party. X has fulfilled its obligation to programme members once the members have been granted points when making purchases in its stores. The obligation to supply the redeemed goods lies with the third party. At the end of 31 March 2017, X has granted award points with an estimated fair value of ₹ 20,000 and owes the third party ₹ 17,000.**

In the above situation, what should be the classification of the expense of providing free third party goods i.e. in the above example, should ₹ 17,000 be:

- **classified as changes in inventories of finished goods, stock in trade and WIP or**
- **classified as marketing expense or**
- **reduced from revenue?**

***Response*:** Paragraph 8 of Appendix B, *Customer Loyalty Programmes* of Ind AS 18, *Revenue* states as follows:

"8 If a third party supplies the awards, the entity shall assess whether it is collecting the consideration allocated to the award credits on its own account (i.e. as the principal in the transaction) or on behalf of the third party (i.e. as an agent for the third party).

(a) If the entity is collecting the consideration on behalf of the third party, it shall:

(i) measure its revenue as the net amount retained on its own account, i.e. the difference between the consideration allocated to the award credits and the amount payable to the third party for supplying the awards; and

(ii) recognise this net amount as revenue when the third party

becomes obliged to supply the awards and entitled to receive consideration for doing so. These events may occur as soon as the award credits are granted. Alternatively, if the customer can choose to claim awards from either the entity or a third party, these events may occur only when the customer chooses to claim awards from the third party.

(b) If the entity is collecting the consideration on its own account, it shall measure its revenue as the gross consideration allocated to the award credits and recognise the revenue when it fulfills its obligations in respect of the awards."

In accordance with the above, if the entity is acting as a principal then it shall recognise the revenue at gross amount and the expense of providing free third party goods will be included in the cost of goods sold.

If the entity is acting as an agent, then in accordance with paragraph 8(a) (i), it shall measure its revenue at the net amount, i.e. the difference between the consideration allocated to the award credits and the amount payable to the third party.

Accordingly, in the given case the entity will assess based on facts and circumstances as to whether it is acting as an agent or principal. If it is determined that Company X is acting as an agent, then entity will recognise commission income of ₹ 3,000. If it is determined that Company X is acting as a principal, then company X shall recognise revenue of ₹ 20,000 and ₹ 17,000 shall be charged to the Statement of Profit & Loss as cost of goods sold

(ITFG Clarification Bulletin 10, Issue 6)
(Date of finalisation: July 5, 2017)

Revenue Recognition - Treatment of Service Tax

***Issue 83*: How revenue should be recognised in case Service Tax is collected from customer for rendering of services?**

***Response*:** Paragraph 8 of Ind AS 18, *inter alia*, provides that revenue includes only the gross inflows of economic benefits received and receivable by the entity on its own account. Amounts collected on behalf of third parties such as sales taxes, goods and services taxes and value added taxes are not economic benefits which flow to the entity and do not result in increases in equity. Therefore, they are excluded from revenue.

In view of the above, since service tax collected represents the amount collected on behalf of a third party, viz., the government, revenue should be net of service tax collected.

(ITFG Clarification Bulletin 4, Issue 2)
(Date of finalisation: August 19, 2016)

Revenue Recognition - presentation of Excise Duty (Gross or net of sales)

***Issue 84*: ABC Ltd., which is a manufacturer of TV sets, sells a TV at ₹ 50,000 which includes excise duty of ₹ 5,000. What is the amount to be recognised as revenue? How excise duty should be presented in financial statements? Is there any change in the presentation of excise duty as compared to presentation prescribed in AS 9?**

***Response*:** Paragraph 8 of Ind AS 18, *inter alia*, provides that revenue includes only the gross inflows of economic benefits received and receivable by the entity on its own account. Amounts collected on behalf of third parties such as sales taxes, goods and services taxes and value added taxes are not economic benefits which flow to the entity and do not result in increases in equity. Therefore, they are excluded from revenue.

Excise duty is a liability of the manufacturer which forms part of the cost of production, irrespective whether the goods are sold or not. Therefore, recovery of excise duty flows to the entity on its own account and the same should be included in the amount of revenue. Accordingly, in the present case, revenue should be recognised at ₹ 50,000/-

With regard to disclosure of Excise Duty, explanation to paragraph 10 of AS 9, *Revenue Recognition,* specifically provides that the excise duty included in the turnover should be shown as reduction from the gross turnover on the face of the statement of profit and loss.

Ind AS 18, *Revenue*, does not specifically prescribe any guidance for presentation of excise duty. However, under Ind AS reporting framework, revenue from sale of products is presented by including the Excise Duty as discussed above. As per Division - II of Schedule III to the Companies Act, 2013 (i.e. Ind AS based Schedule III) – Note 3 of General Instructions for Preparation of Statement of Profit and Loss, provides that revenue from operations shall disclose separately in the notes:

(a) sale of products **(including Excise Duty)**;

(b) sale of services; and

(c) other operating revenues.

In view of above, since the revenue is the gross amount including excise duty, in the statement of profit and loss prepared under Ind AS, the excise duty should be reflected as an expense.

(ITFG Clarification Bulletin 4, Issue 1)
(Date of finalisation: August 19, 2016)

Whether an entity should adjust the consideration (including advance payments) for the effect of time value of money

***Issue 85*: On entering into contracts to supply goods and services, an entity requires advance payments from its customers. The period and effective interest rate between the date of receipt of the advance payment and the date that the entity transfers the risks and rewards of the goods and services to the customer are considered significant.**

Whether the entity is required to adjust such advance payments received from a customer for goods or services to be provided over a long term for the effect of time value of money in accordance with Ind AS?

***Response*:** Assuming that the contract established between the customer and the supplier does not contain a lease under Appendix C *Determining Whether an Arrangement contains a Lease* to Ind AS 17, and is not within the scope of Appendix C *Transfers of Assets from Customers* to Ind AS 18. Furthermore, the contract does not meet the definition of a derivative under Ind AS 109, *Financial Instruments.*

Paragraph 9 of Ind AS 18, *Revenue* requires entities to measure revenue 'at the fair value of the consideration received or receivable'.

Further, paragraph 11 of Ind AS 18, *inter-alia* provides that, 'In most cases, the consideration is in the form of cash or cash equivalents and the amount of revenue is the amount of cash or cash equivalents received or receivable. However, when the inflow of cash or cash equivalents is deferred, the fair value of the consideration may be less than the nominal amount of cash received or receivable. For example, an entity may provide interest-free credit to the buyer or accept a note receivable bearing a below-market interest rate from the buyer as consideration for the sale of goods. When the arrangement effectively constitutes a financing transaction, the fair value of the consideration is determined by discounting all future receipts using an imputed rate of interest.'

An analogy must be drawn from the above paragraph and accordingly, when the entity has received advance payments from the customer for providing promised goods or services, then it must evaluate whether the payment terms provide it with a significant benefit of financing. While making such an evaluation judgement is to be exercised and consideration be given to factors such as whether, the arrangement has been entered in the normal course of business, the advance payment is per typical payment terms within industry and having a primary purpose other than financing, it is a security for a future supply of limited goods or services or other relevant factors depending on facts and circumstances of each *case* [emphasis added]. If it is concluded that the arrangement does effectively constitute a significant financing component, i.e., a loan provided by the customer to the supplier for providing the promised goods, then the entity should adjust the consideration (including advance payments) for the effect of time value of money.

(ITFG Clarification Bulletin 14, Issue 3)

(Date of finalisation: February 1, 2018)

Ind AS 20, Accounting for Government Grants and Disclosure of Government Assistance

Accounting of below-market rate interest loan - exemption under para B10 of Ind AS 101

Issue 86 **:(i) P Ltd., had obtained a below-market rate of interest loan of ₹ 10,00,000 from Government as on April 1, 2014 for 5 years. The date of transition to Ind AS for Entity P is April 1, 2016. Paragraph B10 of Ind AS 101, *First-time Adoption of Indian Accounting Standards*, requires a first-time adopter to use its previous GAAP carrying amount of government loans existing at the date of transition to Ind AS as the Ind AS carrying amount of such loans at that date.**

Under previous GAAP, the carrying amount was ₹ 10,00,000 at the date of transition to Ind AS. The amount repayable will be ₹ 10,05,000 at April 1, 2019. No other payment is required under the terms of the loan and there are no future performance conditions attached to the loan. Whether the exemption under paragraph B10 is only for the date of transition to Ind AS or all the subsequent period till the existing loan is presented i.e. 31.3.2019.

(ii) Further P Ltd., also has deferment of liability payable to government based on agreement i.e. liability similar to sales tax deferment for 10 years, can the P Ltd take exemption under B10 stating it is similar to government loan?

Response**:** (i) Paragraph B10 of Ind AS 101, *First-time Adoption of Indian Accounting Standards* states as follows:

"*B10 A first-time adopter shall classify all government loans received as a financial liability or an equity instrument in accordance with Ind AS 32, Financial Instruments: Presentation. Except as permitted by paragraph B11, a first-time adopter shall apply the requirements in Ind AS 109, Financial Instruments, and Ind AS 20, Accounting for Government Grants and Disclosure of Government Assistance, prospectively to government loans existing at the date of transition to Ind ASs and shall not recognise the corresponding benefit of the government loan at a below-market rate of interest as a government grant. Consequently, if a first-time adopter did not,* *under its previous GAAP, recognise and measure a government loan at a below-market rate of interest on a basis consistent with Ind AS requirements, it shall use its previous GAAP carrying amount of the loan at the date of transition to Ind ASs as the carrying amount of the loan in the opening Ind AS Balance Sheet. An entity shall apply Ind AS 109 to the measurement of such loans after the date of transition to Ind ASs*."

Paragraph 10A of Ind AS 20 states that, "*The benefit of a government loan at a below-market rate of interest is treated as a government grant. The loan shall be recognised and measured in accordance with Ind AS 109, Financial Instruments. The benefit of the below market rate of interest shall be measured as the difference between the initial carrying value of the loan determined in accordance with Ind AS 109, and the proceeds received. The benefit is accounted for in accordance with this Standard. The entity shall consider the conditions and obligations that have been, or must be, met when identifying the costs for which the benefit of the loan is intended to compensate."*

In accordance with the above, a first-time adopter is required to use its previous GAAP carrying amount of government loans existing at the date of transition to Ind AS as the Ind AS carrying amount of such loans at that date. A first-time adopter applies Ind AS 32, *Financial Instruments: Presentation* to classify such a loan as a financial liability or an equity instrument. It shall apply the requirements of Ind AS 20 and Ind AS 109 prospectively to government loans existing at the date of transition to Ind AS, **unless the necessary information needed to apply the requirements of Ind AS 109 and Ind AS 20, retrospectively was obtained at the time of initially accounting for that loan.** As a result of not applying Ind AS 20 and Ind AS 109 retrospectively to government loans at the date of transition, the corresponding benefit of the government loan at a below-market rate of interest is not recognised as a government grant.

It is pertinent to note that subsequently, the first-time adopter applies Ind AS 109 to such a loan. To do so, the entity calculates the effective interest rate by comparing the carrying amount of the loan at the date of transition to Ind AS with the amount and timing of expected repayments to the government.

In the given case, as per Ind AS 32, the loan meets the definition of a financial liability. P Ltd. uses the previous GAAP carrying amount of the loan at the date of transition to Ind AS as the carrying amount of the loan in the opening Ind AS balance sheet. Further, in order to measure the loan after the date of transition to Ind AS, the effective interest rate starting from April 1, 2016 shall be calculated.

(ii) As per Ind AS 20, "*Government grants are assistance by government in the form of transfers of resources to an entity in return for past or future compliance with certain conditions relating to the operating activities of the entity. They exclude those forms of government assistance which cannot reasonably have a value placed upon them and transactions with government which cannot be distinguished from the normal trading transactions of the entity.*"

Further, paragraphs 9 and 10 of Ind AS 20 state as follows:

9 The manner in which a grant is received does not affect the accounting method to be adopted in regard to the grant. Thus a grant is accounted for in the same manner whether it is received in cash or as a reduction of a liability to the government.

In a scheme of deferral of sales tax, the amount of sales tax collected by the company from its customers is retained by the company and is required to be repaid after specified years (10 years in the example above). This makes such an arrangement similar in nature to an interest free loan and hence the treatment as mentioned in part (i) above shall also be applied to such balances outstanding at the date of transition.

(ITFG Clarification Bulletin 12, Issue 7)
(Date of finalisation: October 23, 2017)

Accounting treatment of exemption of custom duty under EPCG scheme

***Issue 87*: MNC Ltd. has received grant 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. Whether the same is a government grant under Ind AS 20, Government Grants and Disclosure of Government Assistance? If yes, then whether it is a Grant related to asset or Grant related to income and how the same is to be accounted for?**

***Response*:** Paragraph 3 of Ind AS 20, *Government Grants and Disclosure of Government Assistance*, states as follows:

"3 Government grants are assistance by government in the form of transfers of resources to an entity in return for past or future compliance with certain conditions relating to the operating activities of the entity. They exclude those forms of government assistance which cannot reasonably have a value

placed upon them and transactions with government which cannot be distinguished from the normal trading transactions of the entity."

In accordance with the above, in the given case exemption of custom duty under EPCG scheme is a government grant and should be accounted for as per the provisions of Ind AS 20.

Ind AS 20 defines grant related to assets and grants related to income as follows:

*"**Grants related to asse**t are government grants whose primary condition is that an entity qualifying for them should purchase, construct or otherwise acquire long-term assets. Subsidiary conditions may also be attached restricting the type or location of the assets or the periods during which they are to be acquired or held.*

***Grants related to income** are government grants other than those related to assets."*

It is pertinent to note that the classification of the grant as related to asset or income will require exercise of judgement and careful examination of the facts, objective and conditions attached to the scheme of the government. Care is also required to ascertain the purpose of the grant and the costs for which the grant is intended to compensate.

Based on the evaluation of facts, if it is ascertained that the grant is an asset related grant then the same shall be presented as per paragraph 24 & 26 of Ind AS 20 which has been stated below:

Presentation of grants related to assets

24 Government grants related to assets, including non-monetary grants at fair value, shall be presented in the balance sheet by setting up the grant as deferred income.

26 The grant set up as deferred income is recognised in profit or loss on a systematic basis over the useful life of the asset."

If it is determined that the grant is related to income then the same shall be presented as follows:

Presentation of grants related to income

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

It may be further noted that as per paragraph 12 of Ind AS 20, government grants shall be accounted as follows:

"12 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

In the given case, if based on the terms and conditions of the scheme, the grant received is to compensate the import cost of assets subject to an export obligation as prescribed in the EPCG Scheme; recognition of grant in the statement of profit and loss should be linked to fulfilment of associated export obligations.

However, if the grant received is to compensate the import cost of the asset and based on the examination of the terms and conditions of the grant, if it can be reasonably concluded that conditions relating to export of goods are subsidiary conditions, then it is appropriate to recognise such grant in profit or loss over the life of the underlying asset.

(ITFG Clarification Bulletin 11, Issue 5)
(Date of finalisation: July 31, 2017)

Accounting treatment of the grants in the nature of promoters' contribution on the date of transition to Ind AS and post transition to Ind AS

***Issue 88*: ABC Co. is a government company and is a first-time adopter of Ind AS. As per the previous GAAP, the contributions received by ABC Co. from the government (which holds 100% shareholding in ABC Co.) which is in the nature of promoters' contribution have been recognised in capital reserve and treated as part of shareholders' funds in accordance with the provisions of AS 12, *Accounting for Government Grants*.**

1) Whether the accounting treatment of the grants in the nature of promoters' contribution as per AS 12 is also permitted under Ind AS 20 *Accounting for Government Grants and Disclosure of Government Assistance*. If not, then what will be the accounting treatment of such grants recognised in capital reserve as per previous GAAP on the date of transition to Ind AS.

2) What will be the accounting treatment of the grants in the nature of promoters' contribution which ABC Co. receives post transition to Ind AS?

***Response*:** 1) Paragraph 2 of Ind AS 20, *Accounting for Government Grants and Disclosure of Government Assistance, inter-alia*, states as follows:

"2 This Standard does not deal with:

(a)…

(c) government participation in the ownership of the entity."

In accordance with the above, it may be noted that Ind AS 20 specifically scopes out the participation by the government in the ownership of an entity.

In this fact pattern, Government has 100% shareholding in the entity. Accordingly, the entity needs to determine whether the payment is provided as a shareholder contribution or as a government. Equity contributions will be recorded in equity while grants will affect the statement of profit and loss.

Where it is concluded that the contributions are in the nature of government grant, the entity shall apply the principles of Ind AS 20 retrospectively as specified in 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 as either a capital or an income grant and does not permit recognition of government grants in the nature of promoter's contribution directly to shareholders' funds.

Where it is concluded that the contributions are in the nature of shareholder contributions are recognised in capital reserve under previous GAAP, it is important to note the provisions of paragraph 10 of Ind AS 101, which states that:

"10 Except as described in paragraphs 13–19 and Appendices B–D, an entity shall, in its opening Ind AS Balance Sheet:

(a) recognise all assets and liabilities whose recognition is required by Ind ASs;

(b) not recognise items as assets or liabilities if Ind ASs do not permit such recognition;

(c) reclassify items that it recognised in accordance with previous GAAP as one type of asset, liability or component of equity, but are a different type of asset, liability or component of equity in accordance with Ind ASs; and

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

Accordingly, as per the above requirements of paragraph 10(c) in the given case, contributions recognised in the Capital Reserve should be transferred to appropriate category under 'Other Equity' at the date of transition to Ind AS.

(2) The entity shall apply the same principles as mentioned above for accounting the contributions received by the entity subsequent to the transition date.

(ITFG Clarification Bulletin 9, Issue 3)

(Date of finalisation: May 15, 2017)

Ind AS 21, The Effects of Changes in Foreign Exchange Rates

Determination of functional currency and presentation currency for preparation of annual financial statements in case of Group

***Issue 89*: Company X, which is incorporated in India is the wholly-owned subsidiary of Company Y. In accordance with the principles of Ind AS 21 *The Effects of Changes in Foreign Exchange Rates,* Company X has ascertained its functional currency to be USD. Company X has subsidiaries and joint ventures outside India and prepares both standalone as well as consolidated financial statements. The functional currency of the parent company, i.e. Company Y continues to be ₹. Company Y will require Company X to provide its annual consolidated financial statements presented in ₹ for consolidation and reporting at ultimate parent level.**

Whether Company X would present its annual financial statements as per Ind AS in its functional currency (i.e. USD) or in the functional currency of the parent company (₹)? Further, whether statutory auditors of Company X will provide their audit report on financial statements prepared in ₹ or financial statements prepared in USD?

***Response*:**

As per paragraph 17 of Ind AS 21, *"In preparing financial statements, each entity—whether a stand-alone entity, an entity with foreign operations (such as a parent) or a foreign operation (such as a subsidiary or branch)—determines its functional currency in accordance with paragraphs 9–14. The entity translates foreign currency items into its functional currency and reports the effects of such translation in accordance with paragraphs 20–37 and 50.*"

Paragraph 21 of Ind AS 21 states that, "*A foreign currency transaction shall be recorded, on initial recognition in the functional currency, by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction."*

In accordance with the above, it may be noted that each entity is required to determine its functional currency in accordance with Ind AS 21 and is required to translate foreign currency items into functional currency.

Further, Paragraph 18 of Ind AS 21 states as follows:

> *"Many reporting entities comprise a number of individual entities (e.g. a group is made up of a parent and one or more subsidiaries). Various types of entities, whether members of a group or otherwise, may have investments in associates or joint arrangements. They may also have branches. It is necessary for the results and financial position of each individual entity included in the reporting entity to be translated into the currency in which the reporting entity presents its financial statements. This Standard permits the presentation currency of a reporting entity to be any currency (or currencies). The results and financial position of any individual entity within the reporting entity whose functional currency differs from the presentation currency are translated in accordance with paragraphs 38–50."*

Paragraphs 38 & 39 of Ind AS 21 are stated below:

"38 An entity may present its financial statements in any currency (or currencies). If the presentation currency differs from the entity's functional currency, it translates its results and financial position into the presentation currency. For example, when a group contains individual entities with different functional currencies, the results and financial position of each entity are expressed in a common currency so that consolidated financial statements may be presented.

39 The results and financial position of an entity whose functional currency is not the currency of a hyperinflationary economy shall be translated into a different presentation currency using the following procedures:

(a) assets and liabilities for each balance sheet presented (i.e. including comparatives) shall be translated at the closing rate at the date of that balance sheet;

(b) income and expenses for each statement of profit and loss presented (i.e. including comparatives) shall be translated at exchange rates at the dates of the transactions; and

(c) all resulting exchange differences shall be recognised in other comprehensive income."

In accordance with the above paragraphs, it may be noted that entities within a group may have different functional currencies. Further, as Ind AS does not prohibit the use of any currency as presentation currency, an entity may present its financial statements in any currency by applying the translation procedures from functional to presentation currency as stated above.

Accordingly, in the given case, if Company X is statutorily required to present its financial statements in ₹, which is different from its functional currency, i.e. USD, then it may do so by choosing the ₹ as presentation currency and prepare and present its financial statements by applying the provisions of paragraphs 38 and 39 of Ind AS 21.

As Company X is statutorily required to present its financial statements in ₹, the auditor of Company X will be required to give audit report on financial statements prepared in ₹.

(ITFG Clarification Bulletin 7, Issue 2)
(Date of finalisation: March 30, 2017)

Identification of functional currency of an entity

***Issue 90*: XY Ltd. is being covered under Phase I of Ind AS and needs to apply Ind AS from the financial year 2016-17. It has two businesses, Business X and Business Y. As per Accounting Standards, the financial statements of the Company are prepared in Indian Rupee ("₹"), as required by the Companies Act 2013 and thereby, all transactions of both business X as well as business Y are recorded and measured in ₹.**

Under Ind AS, the functional currency of the Business X is concluded to be US Dollar ("USD") while the functional currency of the Business Y is concluded to be ₹. In which currency, Company XY will prepare its financial statements as per Ind AS?

***Response*:** As per paragraph 8 of Ind AS 21, *The Effects of Changes in Foreign Exchange Rates*, functional currency is the currency of the primary economic environment in which the entity operates.

Further, paragraph 17 of Ind AS 21 states that:

"In preparing financial statements, each entity - whether a stand-alone entity, an entity with foreign operations (such as a parent) or a foreign operation (such as a subsidiary or branch)—determines its functional currency in accordance with paragraphs 9–14 of Ind AS 21."

Paragraphs 9-14 of Ind AS 21, elaborate the factors that need to be considered by an entity while determining its functional currency.

In view of the above, it is concluded that functional currency needs to be identified at the entity level, considering the economic environment in which the entity operates, and not at the level of a business or a division. Accordingly, in the given case, if XY Ltd. after applying paragraphs 9-14 of Ind AS 21, concludes that its functional currency is USD at the entity level, then it shall prepare its financial statements as per USD.

(ITFG Clarification Bulletin 3, Issue 3)
(Date of finalisation: June 22, 2016)

Ind AS 23, Borrowing Costs

Capitalisation of Dividend Distribution Tax (DDT) as borrowing costs of the qualifying asset

***<u>Issue 91</u>*: Can Dividend Distribution Tax (DDT) paid on distribution of dividend to preference shareholders (that are classified as liability as per Ind AS 32, *Financial Instruments: Presentation)*, be capitalised as borrowing costs with the qualifying asset in accordance with the principles of Ind AS 23, *Borrowing Costs*?**

***<u>Response</u>*:** Paragraphs 5 and 6 of Ind AS 23, *Borrowing Costs*, state as follows:

> *"5 Borrowing costs are interest and other costs that an entity incurs in connection with the borrowing of funds.*
>
> *6 Borrowing costs may include:*
>
> *(a) interest expense calculated using the effective interest method as described in Ind AS 109, Financial Instruments; (b) …."*

With regard to the recognition of dividend declared on financial instruments, paragraphs 35 and 36 of Ind AS 32 reproduced hereunder may be noted:

> *"35 Interest, dividends, losses and gains relating to a financial instrument or a component that is a financial liability shall be recognised as income or expense in profit or loss. Distributions to holders of an equity instrument shall be recognised by the entity directly in equity. Transaction costs of an equity transaction shall be accounted for as a deduction from equity.*
>
> *36 The classification of a financial instrument as a financial liability or an equity instrument determines whether interest, dividends, losses and gains relating to that instrument are recognised as income or expense in profit or loss. Thus, dividend payments on shares wholly recognised as liabilities are recognised as expenses in the same way as interest on a bond. Similarly, gains and losses associated with redemptions or refinancings of financial liabilities are recognised in profit or loss, whereas redemptions or refinancings of equity instruments are recognised as changes in equity. Changes in the fair value of an equity instrument are not recognised in the financial statements."*

In view of the above, if a financial instrument is classified as debt, the dividend or interest thereon is in the nature of interest which is charged to profit or loss.

Further, paragraph 8 of Ind AS 23 states that, *"An entity shall capitalise borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. An entity shall recognise other borrowing costs as an expense in the period in which it incurs them."*

Paragraphs B5.4.4 and B5.4.8 of Ind AS 109, *Financial Instruments*, state as follows:

> *"B5.4.4 When applying the effective interest method, an entity generally amortises any fees, points paid or received, transaction costs and other premiums or discounts that are included in the calculation of the effective interest rate over the expected life of the financial instrument....."*

The Guidance Note on Ind AS Schedule III provides following guidance in respect of dividend on redeemable preference shares:

> *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 effective interest method should be presented as 'Interest expense' under 'Finance cost'. Accordingly, the corresponding Dividend Distribution Tax on such portion of non-discretionary dividends should also be presented in the Statement of Profit and Loss under 'Interest expense'.*

In the given case, assuming that the requirements of paragraph 8 of Ind AS 23 for capitalisation are met then the dividend on the preference shares that are classified as a liability, in accordance with the principles of Ind AS 32, *Financial Instruments: Presentation* would be treated as interest and DDT paid thereon will be treated as cost eligible for capitalisation. Thus, in the given case, DDT is in the nature of incremental cost that an entity incurs in connection with obtaining the funds for qualifying asset. Hence DDT should be capitalised along with interest. Further, dividend distribution tax paid on such dividend will form part of the effective interest rate calculation (EIR) to compute the effective interest expense to be capitalised with the qualifying asset.

(ITFG Clarification Bulletin 13, Issue 1)

(Date of finalisation: January 16, 2018)

Capitalising of the processing fees as borrowing costs when the loans are specifically borrowed for the purpose of a qualifying asset

***Issue 92*: As per Ind AS 23, *Borrowing Costs,* an entity shall capitalise borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. An entity shall recognise other borrowing costs as an expense in the period in which it incurs them.**

When the loans are specifically borrowed for the purpose of a qualifying asset and the processing charges incurred thereon have been incurred by the company, then whether the entire processing charges needs to be capitalised to the cost of the qualifying asset or the processing charges to the extent amortised up to the period of capitalisation needs to be capitalised?

***Response*:** As per paragraph 6 of Ind AS 23, *Borrowing Costs,* borrowing costs includes interest expense calculated using the effective interest method as described in Ind AS 109, *Financial Instruments*.

Appendix A of Ind AS 109, *Financial Instruments*, defines 'Effective interest 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. When calculating the effective interest rate, an entity shall estimate the expected cash flows by considering all the contractual terms of the financial instrument (for example, prepayment, extension, call and similar options) but shall not consider the expected credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see paragraphs B5.4.1–B5.4.3), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Paragraph B5.4.1 of Ind AS 109, *Financial Instruments*, states as follows:

> "*In applying the effective interest method, an entity identifies fees that are an integral part of the effective interest rate of a financial instrument. The description of fees for financial services may not be indicative of the nature and substance of the services provided. Fees that are an integral*

> *part of the effective interest rate of a financial instrument are treated as an adjustment to the effective interest rate, 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*."

Further, paragraph B5.4.2 of Ind AS 109, *inter-alia*, states that, "*fees that are an integral part of the effective interest rate of a financial instrument include:*

> *(c) origination fees paid on issuing financial liabilities measured at amortised cost. These fees are an integral part of generating an involvement with a financial liability. An entity distinguishes fees and costs that are an integral part of the effective interest rate for the financial liability from origination fees and transaction costs relating to the right to provide services, such as investment management services."*

In accordance with the above, the processing fee is an integral part of the effective interest rate of a financial instrument and shall be included while calculating the effective interest rate. Accordingly, the processing charges to the extent amortised only up to the period of capitalisation of the qualifying asset can be capitalised.

(ITFG Clarification Bulletin 14, Issue 1)
(Date of finalisation: February 1, 2018)

Ind AS 24, Related Party Disclosures

Whether sitting fees paid to independent director and Non-executive director is required to be disclosed in the financial statements prepared as per Ind AS

***Issue 93*: Whether sitting fees paid to independent director and Non-executive director is required to be disclosed in the financial statements prepared as per Ind AS?**

Response: As per paragraph 9 of Ind AS 24, *Related Party Disclosures, "Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity."*

In accordance with the above definition, key management personnel (KMP) includes any director of the entity who are having authority and responsibility for planning, directing and controlling the activities of the entity. Accordingly, independent and non-executive directors are also covered under the definition of KMP in accordance with Ind AS.

Paragraph 17 of Ind AS 24 requires the following disclosures about employee benefits for key management personnel:

"*An entity shall disclose key management personnel compensation in total and for each of the following categories:*

(a) short-term employee benefits;

(b) post-employment benefits;

(c) other long-term benefits;

(d) termination benefits; and

(e) share-based payment."

Further, paragraph 7 and 9 of Ind AS 19, *Employee Benefits*, states that-

"7 An employee may provide services to an entity on a full-time, part-time, permanent, casual or temporary basis. For the purpose of this Standard, ***employees include directors and other management personnel."***

"9 Short-term employee benefits include items such as the following, ***if***

***expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related services**:*

(a) wages, salaries and social security contributions;

(b) paid annual leave and paid sick leave;

(c) profit-sharing and bonuses; and

(d) non-monetary benefits (such as medical care, housing, cars and free or subsidised goods or services) for current employees."

In accordance with the above provisions, non- executive directors meeting this criteria are covered under the definition of key management personnel. The sitting fees paid to directors will fall under the definition of "Short-term employee benefits" as per Ind AS 19 and is required to be disclosed in accordance with the paragraph 17 of Ind AS 24.

(ITFG Clarification Bulletin 11, Issue 9)

(Date of finalisation: July 31, 2017)

Ind AS 27, Separate Financial Statements

Post Ind AS adoption accounting treatment of profit share from investment in limited liability partnership which is under joint control (in separate financial statements)

***<u>Issue 94</u>*: Company A Ltd. has equity investment in a Limited Liability Partnership (LLP). Company A Ltd. has joint control over the LLP and assessed that investment in LLP is a joint venture. How investment in LLP be accounted for in the separate financial statements of Company A Ltd? Whether profit share from LLP will be adjusted to the carrying amount of the investment in LLP in the separate financial statements of Company A Ltd.?**

***<u>Response</u>*:** Paragraph 26 of Ind AS 111, *Joint Arrangements,* prescribes the accounting treatment for investment in joint arrangements in separate financial statement of joint operator or joint venture as follows:

"26 In its separate financial statements, a joint operator or joint venturer shall account for its interest in:

(a) a joint operation in accordance with paragraph 20-22;

(b) a joint venture in accordance with paragraph 10 of Ind AS 27, Separate Financial Statements."

Paragraph 10 of Ind AS 27, *Separate Financial Statements*, *inter alia*, provides that when an entity prepares separate financial statements, it shall account for investments in subsidiaries, joint ventures and associates either:

(a) at cost, or

(b) in accordance with Ind AS 109.

In the given case, Company A Ltd. has joint control over the LLP and has assessed that investment in LLP is a joint venture. Accordingly, the entity shall account for its investment in the joint venture in its separate financial statements as per paragraph 10 of Ind AS 27, i.e. at cost or in accordance with Ind AS 109. Therefore, adjustment of profit share from LLP to the carrying amount of the investment in LLP in its separate financial statements is not permitted.

The accounting of return on investment (i.e. profit share from LLP) will depend on the terms of contract between Company A Ltd. and LLP. The share in profit in LLP shall be recognised as income in the statement of profit and loss as and when the right to receive its profit share is established.

(ITFG Clarification Bulletin 5, Issue 8)
(Date of finalisation: September 19, 2016)

Measurement of investment in subsidiaries at cost if valued at fair value on date of transition

***Issue 95*: Company A has made investment in subsidiary S Ltd. Company A elects to measure the investment in S Ltd. at fair value on the date of transition as per Ind AS 101. Can Company A opt to carry the investment in S Ltd. at cost after the date of transition as per Ind AS 27?**

Response: Paragraph D15 of Ind AS 101, *First-time Adoption of Indian Accounting Standards* states as under:

"If a first-time adopter measures such an investment at cost in accordance with Ind AS 27, it shall measure that investment at one of the following amounts in its separate opening Ind AS Balance Sheet:

(a) cost determined in accordance with Ind AS 27; or

(b) deemed cost. The deemed cost of such an investment shall be its:

(i) fair value at the entity's date of transition to Ind ASs in its separate financial statements; or

(ii) previous GAAP carrying amount at that date.

A first-time adopter may choose either (i) or (ii) above to measure its investment in each subsidiary, joint venture or associate that it elects to measure using a deemed cost."

Further, paragraph 10 of Ind AS 27, *Separate Financial Statements,* inter-alia states as under:

"When an entity prepares separate financial statements, it shall account for investments in subsidiaries, joint ventures and associates either:

(a) at cost, or

(b) in accordance with Ind AS 109."

In accordance with the above, it may be noted that for a first-time adopter cost of investment in a subsidiary shall be one of the following amounts:

- cost determined in accordance with Ind AS 27 (i.e. retrospective application of Ind AS 27)
- fair value at the entity's date of transition to Ind AS
- previous GAAP carrying amount

Accordingly, if a company chooses to measure its investment at fair value at the date of transition then that is deemed to be cost of such investment for the company and, therefore, it shall carry its investment at that amount (i.e. fair value at the date of transition) after the date of transition.

Accordingly, in the given case, Company A can carry investment in S Ltd. at transition date fair value which is deemed to be its cost as per paragraph 10 of Ind AS 27.

(ITFG Clarification Bulletin 3, Issue 12)
(Date of finalisation: June 22, 2016)

Ind AS 32, Financial Instruments: Presentation

Computation of financial liability in case of convertible debentures sharing same coupon rate and market rate

***<u>Issue 96</u>*: A company ABC Limited has issued compulsorily convertible debentures at 14.5 % coupon rate which will be converted at the end of 10 years. The unsecured loan market rate of interest is 14.5% (Assuming this rate can be considered as the appropriate market rate for the given purpose). Coupon rate on debentures is same as that of the market rate of interest although coupon rate on instruments with conversion feature is generally lower than market rate of interest on unsecured loans. How the financial liability (debt portion) would be computed in such situation. (It is assumed that the equity conversion option requires the company to deliver a fixed number of its own shares for a fixed amount of another financial asset indicating that it meets the 'fixed for fixed' criterion under Ind AS 32).**

***<u>Response</u>*:** As per Ind AS 32, *Financial Instruments: Presentation*, in case of compound financial instruments, it is required to separate it into two components, i.e., financial liability (debt) and equity component. When allocating the initial carrying amount of the compound instrument to the underlying financial liability and equity component, an entity first determine the fair value of the liability component (assuming there is no embedded derivative). The fair value of the liability component is determined with reference to the fair value of a similar stand-alone debt instrument. The amount allocated to the equity component is residual amount after deducting the fair value of the financial liability component from the fair value of the entire compound instrument.

The application guidance of Ind AS 32 provides additional guidance on compound financial instruments from issuers' point of view.

AG31 A common form of compound financial instrument is a debt instrument with an embedded conversion option, such as a bond convertible into ordinary shares of the issuer, and without any other embedded derivative features. Paragraph 28 requires the issuer of such a financial instrument to present the liability component and the equity component separately in the balance sheet, as follows:

(a) *The issuer's obligation to make scheduled payments of interest and principal is a financial liability that exists as long as the instrument is not converted. On initial recognition, the fair value of the liability component is the present value of the contractually determined stream of future cash flows discounted at the rate of interest applied at that time by the market to instruments of comparable credit status and providing substantially the same cash flows, on the same terms, but without the conversion option.*

(b) *The equity instrument is an embedded option to convert the liability into equity of the issuer. This option has value on initial recognition even when it is out of the money.*

Basis above guidance, the fair value of the liability shall be the present value of the contractually determined stream of future cash flows discounted at the rate of interest applied at that time by the market to instruments of comparable credit status and providing substantially the same cash flows, on the same terms, but without the conversion option. The amount allocated to the equity component will be the residual amount after deducting the fair value of the financial liability component as determined above from the fair value of the entire compound instrument (for purpose of this issue, transaction costs have been ignored).

(ITFG Clarification Bulletin 13, Issue 10)
(Date of finalisation: January 16, 2018)

Treatment of dividend on financial instruments declared after the end of the reporting period

***Issue 97*: ABC Ltd. has declared dividend on a financial instrument (which has been classified as a liability in accordance with Ind AS 32, *Financial Instruments: Presentation*), after the end of the reporting period. Whether ABC Ltd. is required to accrue such dividends in the financial statements for the year even if it is declared after the end of the reporting period?**

***Response*:**

Assuming ABC Ltd. has correctly classified the financial instrument as financial liability as per Ind AS 32, then it shall account for dividend in accordance with the following provisions of paragraph 35 of Ind AS 32:

"*35 Interest, dividends, losses and gains relating to a financial instrument* *or a component that is a financial liability shall be recognised as income or expense in profit or loss. Distributions to holders of an equity instrument shall be recognised by the entity directly in equity. Transaction costs of an equity transaction shall be accounted for as a deduction from equity.*"

Further, paragraph 12 of Ind AS 10 states that, *'If an entity declares dividends to holders of equity instruments after the reporting period, the entity shall not recognise those dividends as a liability at the end of the reporting period.'*

It may also be noted that the above paragraph of Ind AS 10 applies only to those financial instruments which are classified as equity instruments. The payment of dividend/interest to financial instruments classified as liability accrues at the end of the reporting period even if it is paid or declared after the end of the reporting period. Accordingly, in the given case, ABC Ltd. is required to account for the dividend, even if it is declared after the end of the reporting period.

Further, accounting for dividend on financial instrument which is classified as financial liability is governed by classification of such instrument under Ind AS 109. If it is classified as subsequently measured at Amortised Cost, dividend will be accrued as part of interest expense recognised based on effective interest method.

(ITFG Clarification Bulletin 7, Issue 6)
(Date of finalisation: March 30, 2017)

Treatment of optionally convertible preference shares in Standalone financial statements and consolidated financial statements

***Issue 98*: A holding company H Ltd., which is covered under phase II of Ind AS has a subsidiary S Ltd. H Ltd. is holding 57% of equity in S Ltd. The subsidiary S Ltd., has issued 1.5% optionally convertible preference shares to its holding company, which are non-cumulative. All preference shares are issued to holding company. The subsidiary company has the option to convert or redeem the stated preference shares. H Limited does not have any right for the redemption of such preference shares. How will these instruments be accounted for in the following financial statements:**

(i) Stand-alone financial statements of S Ltd;

(ii) Stand-alone financial statements of H Ltd; and

(iii) Consolidated financial statements of the Group.

***Response*:** It has been assumed that S Ltd. has an option to convert the instrument into a fixed number of its own shares and dividend payment is discretionary.

Paragraph 16 of Ind AS 32, *Financial Instruments: Presentation, inter alia,* states that, *"when an issuer applies the definitions in paragraph 11 to determine whether a financial instrument is an equity instrument rather than a financial liability, the instrument is an equity instrument if, and only if, both conditions (a) and (b) below are met.*

(a) The instrument includes no contractual obligation:

(i) to deliver cash or another financial asset to another entity; or

(ii) to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the issuer.

(b) If the instrument will or may be settled in the issuer's own equity instruments, it is:

(i) a non-derivative that includes no contractual obligation for the issuer to deliver a variable number of its own equity instruments; or

(ii) a derivative that will be settled only by the issuer exchanging a fixed amount of cash or another financial asset for a fixed number of its own equity instruments. For this purpose, rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency are equity instruments if the entity offers the rights, options or warrants pro-rata to all of its existing owners of the same class of its own non-derivative equity instruments. Apart from the aforesaid, the equity conversion option embedded in a convertible bond denominated in foreign currency to acquire a fixed number of the entity's own equity instruments is an equity instrument if the exercise price is fixed in any currency. Also, for these purposes the issuer's own equity instruments do not include instruments that have all the features and meet the conditions described in paragraphs 16A and 16B or paragraphs 16C and 16D, or

instruments that are contracts for the future receipt or delivery of the issuer's own equity instruments."

(i) Provided the conversion feature is considered substantive, the instrument can be viewed as an equity instrument, because the issuer has the ability to convert the instrument into a fixed number of its own shares at any time. The issuer, therefore, has the ability to avoid making a cash payment or settling the instrument in a variable number of its own shares. Any feature that might have been considered to be an embedded derivative would not meet the definition of a derivative on a stand-alone basis, given the ability to avoid payment. Hence, the issuer's conversion and redemption options would not be separated, and the entire instrument would be classified as equity in the separate financial statements of S Ltd.

(ii) In the separate financial statements of H Limited, the investment should be considered to be an investment in subsidiary and therefore would be excluded from the scope of Ind AS 109 unless H Ltd has elected otherwise.

Paragraph 10 of Ind AS 27, *Separate Financial Statements*, states that when an entity prepares separate financial statements, it shall account for investments in subsidiaries, joint ventures and associates either:

(a) at cost, or

(b) in accordance with Ind AS 109.

In view of the above assuming that the company H Ltd. has not elected to account for its investment in accordance with Ind AS 109, it would account for it at cost.

(iii) In the consolidated financial statements of the Group, these transactions will be eliminated, being intra-group transactions in accordance with Ind AS 110.

(ITFG Clarification Bulletin 14, Issue 7)
(Date of finalisation: February 01, 2018)

Ind AS 33, Earnings per Share

Presentation of earning per share for separate and consolidated financial statements

<u>*Issue 99*</u>: Paragraph 9 of Ind AS 33, *Earnings per Share* states that, *"An entity shall calculate basic earnings per share amounts for profit or loss attributable to ordinary equity holders of the parent entity and, if presented, profit or loss from continuing operations attributable to those equity holders."*

Does this mean that a subsidiary company, not wholly owned, should present EPS only for the portion of the profit which is attributable to the parent entity?

<u>*Response*</u>: Paragraph 4 of Ind AS 33 states as follows:

"4 When an entity presents both consolidated financial statements and separate financial statements prepared in accordance with Ind AS 110, Consolidated Financial Statements, and Ind AS 27, Separate Financial Statements, respectively, the disclosures required by this Standard shall be presented both in the consolidated financial statements and separate financial statements. In consolidated financial statements such disclosures shall be based on consolidated information and in separate financial statements such disclosures shall be based on information given in separate financial statements. An entity shall not present in consolidated financial statements, earnings per share based on the information given in separate financial statements and shall not present in separate financial statements, earnings per share based on the information given in consolidated financial statements."

In accordance with the above an entity is required to disclose EPS in both its Stand-alone Financial Statements (SFS) and in Consolidated Financial Statements (CFS) (if presented by the entity).

Paragraph 9 states that an entity shall calculate basic earnings per share amounts for profit or loss attributable to ordinary equity holders of the parent entity and, if presented, profit or loss from continuing operations attributable to those equity holders.

Further, paragraph A1 of Appendix A of Ind AS 33 also states that, *"For the purpose of calculating earnings per share based on the consolidated* *financial statements, profit or loss attributable to the parent entity refers to profit or loss of the consolidated entity after adjusting for non- controlling interests."*

It is pertinent to note that the requirements of paragraph 9 of Ind AS 33 have been provided in the context of calculating EPS in the consolidated financial statements of an entity.

However, analogy may be drawn from paragraph 9 of Ind AS 33 that in case of separate financial statements, the parent entity mentioned in paragraph 9 will imply the legal entity of which separate financial statements are being prepared and accordingly, when an entity presents EPS in its separate financial statements, then the same shall be calculated based on the profit or loss attributable to its equity shareholders.

(ITFG Clarification Bulletin 11, Issue 3)
(Date of finalisation: July 31 2017)

Treatment of Foreign Currency Monetary Item Translation Difference Account for the purpose of calculation of basic earnings per share (EPS)

***Issue 100*: MNC Ltd. is a first-time adopter of Ind AS. It had availed the option given under paragraph 46/46A of AS 11, *The Effects of Changes in Foreign Exchange Rates* notified under the Companies (Accounting Standards) Rules, 2006. MNC Ltd. has opted for the exemption given under paragraph D13AA of Ind AS 101, *First-time Adoption of Indian Accounting Standards* and accordingly, debited exchange differences arising from translation of long term foreign currency monetary items to Foreign Currency Monetary Item Translation Difference Account.**

Whether the amount debited to Foreign Currency Monetary Item Translation Difference Account is required to be reduced from profit or loss from continuing operations for the purpose of calculating basic earnings per share (EPS) as per paragraph 12 of Ind AS 33, *Earnings per Share*?

***Response*:** Paragraph 12 of Ind AS 33 states as follows:

"For the purpose of calculating basic earnings per share, the amounts attributable to ordinary equity holders of the parent entity in respect of:

(a) profit or loss from continuing operations attributable to the parent entity; and

(b) profit or loss attributable to the parent entity

shall be the amounts in (a) and (b) adjusted for the after-tax amounts of preference dividends, differences arising on the settlement of preference shares, and other similar effects of preference shares classified as equity.

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

In accordance with the above, it is pertinent to note that the above paragraph refers to those items of income or expense which as per Ind AS would have been required to be recognised in profit or loss but are recognised in securities premium account/other reserves.

Accordingly, the exchange differences arising from translation of long term foreign currency monetary items that are debited to Foreign Currency Monetary Translation Reserve Account as per paragraph 46/46A of AS 11 is an option available under Ind AS.

Accordingly, exchange differences that are being debited to Foreign Currency Monetary Item Translation Difference Account is in accordance with Ind AS and therefore, the same is not required to be reduced from profit or loss from continuing operations for the purpose of calculating basic earnings per share.

(ITFG Clarification Bulletin 10, Issue 5)
(Date of finalisation: July 05, 2017)

Ind AS 37, Provisions, Contingent Liabilities and Contingent Assets

Whether provision for unspent Corporate Social Responsibility expenditure is required to be made as per Ind AS

***Issue 101*: Whether provision for unspent Corporate Social Responsibility expenditure is required to be made as per Ind AS?**

***Response*:** Paragraph 14 of Ind AS 37, *Provisions, Contingent Liabilities and Contingent Assets* states:

"*A provision shall be recognised when:*

(a) an entity has a present obligation (legal or constructive) as a result of a past event;

(b) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and

(c) a reliable estimate can be made of the amount of the obligation.

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

Section 135 (5) of the Companies Act, 2013 (the Act) requires a company to spend a certain amount as expenditure towards Corporate Social Responsibility (CSR). The proviso to section 135 (5) of the Act provides that if the specified amount is not spent by the company during the year, the Directors' Report should disclose the reasons for not spending the amount.

In accordance with the above, it may be noted that provision for the amount which is not spent, i.e., any shortfall in the amount that was expected to be spent as per the provisions of the Act on CSR activities and the amount actually spent at the end of a reporting period, may not be required in the financial statements.

However, if a company has already undertaken certain CSR activity for which an obligation has been created, for example, by entering into 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 Clarification Bulletin 8, Issue 1)
(Date of finalisation: May 5, 2017)

Ind AS 38, Intangible Assets

Applicability of revenue based amortisation for intangible assets arising service concession arrangements in respect of toll roads for new arrangements entered after the date of transition

***Issue 102*: Paragraph 7AA of Ind 38, *Intangible Assets* read with paragraph D22 of Ind AS 101, *First-time Adoption of Indian Accounting Standards* permits revenue based amortisation for the intangible assets arising from service concession arrangements in respect of toll roads recognised in the financial statements for the period ending immediately before the beginning of the first Ind AS reporting period. However, Schedule II to the Companies Act, 2013, permits revenue based amortisation for such intangible asset without any reference to any financial year. Whether a company is permitted to follow revenue based amortisation even for such new arrangements entered into after Ind AS become applicable?**

***Response*:** Paragraph D22 of Ind AS 101, *inter alia,* states as follows:

"D22 A first-time adopter may apply the following provisions while applying the Appendix A to Ind AS 11:

(i) Subject to paragraph (ii), changes in accounting policies are accounted for in accordance with Ind AS 8, i.e. retrospectively, except for the policy adopted for amortisation of intangible assets arising from service concession arrangements related to toll roads recognised in the financial statements for the period ending immediately before the beginning of the first Ind AS financial reporting period as per the previous GAAP................"

Paragraph D7AA of Ind AS 38, *Intangible Assets,* states as follows:

> "7AA The amortisation method specified in this Standard does not apply to an entity that opts to amortise the intangible assets arising from service concession arrangements in respect of toll roads recognised in the financial statements for the period ending immediately before the beginning of the first Ind AS reporting period as per the exception given in paragraph D22 of Appendix D to Ind AS 101."

Schedule II to the Companies Act, 2013, provides that for intangible assets, the provisions of the accounting standards applicable for the time being in force shall apply, except in case of intangible assets (Toll Roads) created under 'Build, Operate and Transfer', 'Build, Own, Operate and Transfer' or any other form of public private partnership route in case of road projects. Amortisation in such cases may be done on the basis of revenue as specified Schedule II.

Paragraph 7AA of Ind 38 read with paragraph D22 of Ind AS 101, specifically provides exemption for service concession arrangements in respect of toll roads recognised in the financial statements for the period ending immediately before the beginning of the first Ind AS reporting period as per the previous GAAP, i.e., as per Schedule II to the Companies Act, 2013, considering the requirements contained in that Schedule. Companies (Accounts) Rules, 2014 prescribes to follow Ind AS in preparation of financial statements.

Hence, in harmonisation of Rules and Ind AS 38 read with Ind AS 101, principles of Ind AS 38 should be followed for all service concession arrangements including roll roads once Ind AS is applicable to an entity.

(ITFG Clarification Bulletin 3, Issue 13)

(Date of finalisation: June 22, 2016)

Schedule III

Disclosure of operating profit on the face of Statement of Profit and Loss in accordance with Ind AS based Schedule III

***Issue 103*: Can a company disclose operating profit on the face of Statement of Profit and Loss in accordance with Ind AS based Schedule III?**

***Response*:** As per Ind AS based Schedule III, aggregate of 'Revenue from operations' and 'Other income' is to be disclosed on face of the Statement of Profit and Loss. Revenue from operations is to be separately disclosed in the notes, showing revenue from:

(a) Sale of products (including Excise Duty);

(b) Sale of services; and

(c) Other operating revenues

The aggregate of 'Other income' is to be disclosed on face of the Statement of Profit and Loss. As per Note 5 of General Instructions for the Preparation of Statement of Profit and Loss 'Other Income' shall be classified as:

(a) interest Income;

(b) dividend Income; and

(c) other non-operating income (net of expenses directly attributable to such income).

Paragraph 9.1.8 of the Guidance Note on Ind AS based Schedule III, states that, "*The term "other operating revenue" is not defined. This 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. Whether a particular income constitutes "other operating revenue" or "other income" is to be decided based on the facts of each case and detailed understanding of the company's activities.*"

Accordingly, disclosure of income shall be governed as stated above. Further it is also pertinent to note that Ind AS Schedule III 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 Act or Ind AS.

As per the Guidance Note on Ind AS based Schedule III, the application of the above requirement is a matter of professional judgement. The following examples illustrate this requirement. Earnings before Interest, Tax, Depreciation and Amortisation is often an important measure of financial performance of the company relevant to the various users of financial statements and stakeholders of the company. Hence, a company may choose to present the same as an additional line item on the face of the Statement of Profit and Loss. The method of computation adopted by companies for presenting such measures should be followed consistently over the years. Further, companies should also disclose the policy followed in the measurement of such line items.

In respect of operating profit disclosure, certain items which are credited to profit and loss account may not form part of operating profit measure and therefore 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 Schedule III applicable to Ind AS companies. It is also to be noted that Ind AS Schedule III and Ind AS requires classification of expense by nature and not function. The operating profit measure sub-total would result in a more appropriate presentation of performance for entities classifying expenses by function. Since classification of expenses by function is not permitted under Ind AS and Ind AS Schedule III, it may not be appropriate 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 Clarification Bulletin 13, Issue 5)
(Date of finalisation: January 16, 2018)

Applicability of Ind AS based Schedule III on voluntary adoption of Ind AS

***Issue 104*: Companies which have chosen for voluntary adoption of Ind AS from the financial year 2015-16 do not have clear format that should be used for the preparation of financial statements. In the absence of any specific format, whether a company may apply Ind AS based Schedule III (i.e. the Division II of Schedule III notified by MCA)?**

***Response*:** The Ministry of Corporate Affairs, by notification dated April 6, 2016, amended Schedule III by incorporating Division-II for preparation of financial statements as per Ind AS with effect from the date of publication in the Official Gazette i.e. April 6, 2016. It may be noted that as on March 31, 2016, there was no specific Schedule prescribed under the Companies Act, 2013, for companies voluntarily adopting Ind AS from financial year 2015-16. However, it may further be noted that there is no prohibition in amended Schedule III incorporating Division II for its early or voluntary adoption.

In view of the above, a company voluntarily adopting Ind AS from financial year 2015-16 may use the format specified in Division-II of Revised Schedule III (which is in compliance with Ind AS notified as Companies (Indian Accounting Standards) Rules, 2015) for the preparation of financial statements as per Ind AS for financial year 2015-16, as going forward also the same format shall be applied.

(ITFG Clarification Bulletin 3, Issue 1)
(Date of finalisation: June 22, 2016)

APPENDICES

APPENDIX I

Frequently Asked Questions (FAQs) issued by the Accounting Standards Board of ICAI

FAQ on utilisation of Securities Premium Account

Question: Company[1] ABC Ltd. had issued non-convertible debentures redeemable at premium, which were outstanding as on March 31, 2015. The Company has measured this financial liability at amortised cost in accordance with Ind AS 109, *Financial Instruments.* In the past, the Company had utilised the Securities Premium Account for providing for the debenture redemption premium payable and writing off debenture issue expenses in view of the requirements of Section 78 of the Companies Act, 1956 and Section 52 of the Companies Act 2013 (such utilisation is not allowed once Ind AS becomes applicable).

As the amount of Securities Premium Account had been utilised to provide for debenture redemption premium payable and to write off debenture issue expenses, what retrospective accounting adjustments in this regard are required to be done in the books under Ind AS on transition date.

Response: Non-convertible debentures (financial liability) in the given case are classified as subsequently measured at amortised cost under Ind AS 109. Accordingly, Company ABC Ltd. will have to arrive at the amortised cost at the date of transition by applying the effective interest method (EIM) with retrospective effect from the date of issue of debentures. In view of requirements of Ind AS 109, amortised cost computation using EIM includes all transaction costs that are directly attributable to the acquisition or issue of debentures, such as, expenses incurred on issue of debentures and premiums and discounts, if any.

In the above background, the Securities Premium Account utilised in past as described above, may result into higher carrying amount of non-convertible

[1] This FAQ replaces the earlier Issue no. 7 of the Ind AS Transition Facilitation Group (ITFG) Clarification Bulletin 2 issued by the Accounting Standards Board.

debentures as per Indian GAAP compared to amortised cost carrying amount required as per Ind AS 109 as on transition date and the excess amount needs to be reversed into an appropriate component of equity.

In this regard, the following requirement of Ind AS 101, *First-time Adoption of Indian Accounting Standards*, may be noted:

"11. The accounting policies that an entity uses in its opening Ind AS Balance Sheet may differ from those that it used for the same date using its previous GAAP. The resulting adjustments arise from events and transactions before the date of transition to Ind ASs. Therefore, an entity shall recognise those adjustments directly in retained earnings (or, if appropriate, another category of equity) at the date of transition to Ind ASs."

In view of the above-mentioned requirement of Ind AS 101, it may be mentioned that the appropriate category of equity for reversal of the excess carrying amount of non-convertible debentures in this case is the Securities Premium Account. Accordingly, the excess of carrying value of financial liability as per Indian GAAP over the amortised cost amount arrived at by using EIM as per Ind AS 109 as on transition date should be reversed by crediting the Securities Premium Account with corresponding debit to the relevant account which was credited earlier.

FAQ on Dividend Distribution Tax

This FAQ on Dividend Distribution Tax has been issued by the Accounting Standards Board (ASB) of the Institute of Chartered Accountants of India (ICAI). The purpose of this FAQ is to illustrate and to assist in clarifying the requirements regarding treatment of Dividend Distribution Tax

Question: What are the presentation requirements as per Ind AS for dividend and dividend distribution tax thereon, if an entity has issued certain financial instruments that are classified as debt as per the provisions of Ind AS 32, *Financial Instruments: Presentation*? What would be the presentation requirements in this regard, if the financial instruments issued are classified as equity or if these are compound financial instruments and bifurcated into debt and equity?

Response:

With regard to the recognition of dividend declared on financial instruments, paragraphs 35 and 36 of Ind AS 32 reproduced hereunder may be noted:

''35 Interest, dividends, losses and gains relating to a financial instrument or a component that is a financial liability shall be

recognised as income or expense in profit or loss. Distributions to holders of an equity instrument shall be recognised by the entity directly in equity. Transaction costs of an equity transaction shall be accounted for as a deduction from equity.

36 The classification of a financial instrument as a financial liability or an equity instrument determines whether interest, dividends, losses and gains relating to that instrument are recognised as income or expense in profit or loss. Thus, dividend payments on shares wholly recognised as liabilities are recognised as expenses in the same way as interest on a bond. Similarly, gains and losses associated with redemptions or refinancings of financial liabilities are recognised in profit or loss, whereas redemptions or refinancings of equity instruments are recognised as changes in equity. Changes in the fair value of an equity instrument are not recognised in the financial statements.''

In view of the above, if a financial instrument is classified as debt, the dividend or interest paid thereon is in the nature of interest which is charged to profit or loss. Dividend or interest paid on a financial instrument which is classified as equity, should be recognised in the Statement of Changes in Equity. In case of a compound financial instrument, the dividend or interest allocated to debt portion shall be charged to profit or loss and the portion of dividend or interest pertaining to equity shall be recognised in Statement of Changes in Equity.

With regard to the income tax consequences of dividend, paragraphs 52A and 52B of Ind AS 12, *Income Taxes,* provide as under:

52A In some jurisdictions, income taxes are payable at a higher or lower rate if part or all of the net profit or retained earnings is paid out as a dividend to shareholders of the entity. In some other jurisdictions, income taxes may be refundable or payable if part or all of the net profit or retained earnings is paid out as a dividend to shareholders of the entity. In these circumstances, current and deferred tax assets and liabilities are measured at the tax rate applicable to undistributed profits.

52B In the circumstances described in paragraph 52A, the income tax consequences of dividends are recognised when a liability to pay the dividend is recognised. The income tax consequences of dividends are more directly linked to past transactions or events than to distributions to owners. Therefore, the income tax consequences of dividends are recognised in profit or loss for the period as required by paragraph 58 except to the extent that the income tax consequences of dividends arise from the circumstances described in paragraph 58(a) and (b).

Paragraph 52A deals with the aspect where income taxes are payable at a higher or lower rate if part or all of the net profit or retained earnings is paid out as a dividend to shareholders. However, as per paragraph 52B, income tax consequences of dividends are to be presented in profit or loss where it is linked to past transactions and events recognised. The ASB is of the view that in India the rate of income tax for company on taxable income does not change if a company distributes dividend. In India, the dividend distribution tax is a tax that is computed on the basis of the amount of dividend distributed to shareholders rather than based on the amount of profits earned and it arises at the point of time when the profits are distributed. Therefore, Indian scenario is different from the income tax consequences in other jurisdictions, which are covered by paragraph 52A of Ind AS 12.

In this context, following paragraph 65A of Ind AS 12, *Income Taxes,* as reproduced below may also be noted:

"65A When an entity pays dividends to its shareholders, it may be required to pay a portion of the dividends to taxation authorities on behalf of shareholders. In many jurisdictions, this amount is referred to as a withholding tax. Such an amount paid or payable to taxation authorities is charged to equity as a part of the dividends."

In India, dividends are not taxable in the hands of shareholders considering that DDT is paid by the company that paid the dividend. Had there been no DDT mechanism, dividend would have been taxable in the hands of recipients, though recently it has been made taxable if the amount of dividend exceeds a specified limit. Therefore, in view of paragraph 65A, DDT is, in substance, of the nature of withholding tax. Therefore, the Board is of the view that the nature of payment of DDT in India is not similar to the scenario covered under the current paragraph 52A. Accordingly, the following paragraph of Ind AS 12, *Income Taxes* is relevant with regard to the presentation of dividend distribution tax paid:

"61A Current tax and deferred tax shall be recognised outside profit or loss if the tax relates to items that are recognised, in the same or a different period, outside profit or loss. Therefore, current tax and deferred tax that relates to items that are recognised, in the same or a different period:

(a) in other comprehensive income, shall be recognised in other comprehensive income.

(b) directly in equity, shall be recognised directly in equity."

In view of the above, presentation of on the dividends should be consistent with the presentation of the transaction that creates those income tax consequences. Therefore, DDT should be charged to profit or loss if the dividend itself is charged to profit or loss. If the dividend is recognised in equity, the presentation of DDT should be consistent with the presentation of the dividend, i.e., to be recognised in equity. Accordingly, in case of combined financial instruments, bifurcated into debt and equity, the portion of DDT related to dividend/interest to the debt component should be recognised in profit or loss and that related to equity component should be recognised in equity.

FAQ on Elaboration of terms 'infrequent number of sales' or 'insignificant in value' used in Ind AS 109

Question: Ind AS 109, *Financial Instruments*, requires an entity to classify financial assets on the basis of the entity's business model for managing the financial assets. In this regard, under a business model whose objective is to hold assets in order to collect contractual cash flows, the Standard provides that for this purpose, it is necessary to consider the frequency, value and timing of sales in prior periods. Ind AS 109 appears to envisage sale of assets held under the amortised cost category before maturity, the application guidance of Ind AS 109 states that such sales may be consistent with a business model whose objective is to hold financial assets in order to collect contractual cash flows if those sales are infrequent (even if significant in value) or insignificant in value both individually and in aggregate (even if frequent).

In view of the above, the following may be clarified:

a) How should the terms 'infrequent number of sales' or 'insignificant in value' be interpreted and determined. Can indicative rebuttable thresholds be prescribed for sales that are more than insignificant in value?

b) What is the relation between the terms 'immaterial' and 'insignificant'?

Response: Ind AS 109 does not define the terms 'infrequent number of sales' or 'insignificant in value'. However, these terms have been used in the Standard in the context of determination of business model. Under Ind AS 109, generally, sales which are 'infrequent in number' or 'insignificant in value' are considered to be consistent with a business model whose objective is to hold financial assets in order to collect contractual cash flows. The Standard does not lay down any thresholds for value or number in this regard.

However, the Standard provides detailed guidance on the hold to collect business model. In 2012, IASB had made limited amendments in IFRS 9 to clarify the objective of the hold to collect business model by providing additional application guidance. Ind AS 109 discusses various situations including credit risk where business model may be to hold assets to collect contractual cash flows even if the entity sells financial assets before maturity. Ind AS 109 provides that frequency and value of sales due to an increase in the assets' credit risk may not be inconsistent with a business model whose objective is to hold financial assets to collect contractual cash flows. Accordingly, while determining the business model, management may decide the situations in which sales of financial assets occurring before the maturity date may not be considered inconsistent with the entity's business model whose objective is to hold assets in order to collect contractual cash flows, e.g., an entity may lay down some criteria such as, if an entity sells a security which is initially rated as AAA security and subsequently, it is rated as BB, it will not be inconsistent with the entity's business model whose objective is to hold assets in order to collect contractual cash flows because the management may want to rebalance its portfolio by selling it rather than waiting till the maturity date. There can be other situations also depending upon the facts and circumstances which need to be judged by the management.

In this regard, apart from the guidance contained in the Standard, the Basis of Conclusions to IFRS 9 contains an additional instance in which sales of financial assets occurring before the maturity date may not be considered inconsistent with the entity's business model whose objective is to hold assets in order to collect contractual cash flows. The instance relates to change in the regulatory treatment of a particular type of financial asset which may cause an entity to undertake a significant rebalancing of its portfolio in a particular period.

In view of the above, following may be concluded:

(a) On the reading of Ind AS 109 along with the Basis of Conclusions to IFRS 9, it can be concluded that it is a matter of judgement which should be assessed keeping in view the facts and circumstances pertaining to each case. Therefore, no rule of thumb in terms of even indicative percentage can be laid down to determine 'infrequent number of sales' or

'insignificant in value', since it may not be applicable in all cases considering the differing quantum, configuration and nature of financial assets in different entities. Hence, no indicative rebuttable thresholds can be prescribed for sales that are more than insignificant in value.

(b) With regard to relation between terms 'immaterial' and 'insignificant', it may be noted that guidance on the term 'materiality' is already there in Ind AS which also does not lay down any criteria based on indicative fixed percentages. However, the term 'insignificant' has not been defined and can be interpreted to mean 'less than material' or almost 'negligible'.

FAQ on deemed cost of Property, Plant and Equipment under Ind AS 101, *First-time Adoption of Indian Accounting Standards*

Issue: Ind AS 101 provides that the net carrying amounts of all of its Property, Plant and Equipment as per previous GAAP can be used as deemed cost on the date of transition to Ind AS. In that case, whether the accumulated depreciation and provision for impairment under previous GAAP would be treated as nil on the date of transition. In case the response is in the affirmative, then how the provision for impairment provided before the date of transition as per previous GAAP would be reversed in later years if there is a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized?

Response:

In the context of the issue, the following paragraphs of Ind AS 101, *First-time Adoption of Indian Accounting Standards*, and the definition of 'deemed cost' contained in the Standard may be noted:

"D5 An entity may elect to measure an item of property, plant and equipment at the date of transition to Ind ASs at its fair value and *use that fair value as its deemed cost* at that date."

"D7AA Where there is no change in its functional currency on the date of transition to Ind ASs, a first-time adopter to Ind ASs may elect to continue with the carrying value for all of its property, plant and equipment as recognised in the financial statements as at the date of transition to Ind ASs, measured as per the previous GAAP and *use that as its deemed cost* as at the date of transition after making necessary adjustments in accordance with paragraph D21 and D21A, of this Ind AS

Definition of Deemed Cost

"An amount used as a surrogate for cost or depreciated cost at a given date.

Subsequent depreciation or amortisation assumes that the entity had initially recognised the asset or liability at the given date and that its cost was equal to the deemed cost."

In view of the above, with regard to deemed cost, Ind AS 101, *inter alia*, provides an option to continue with the carrying value for all of its property, plant and equipment measured as per previous GAAP and use that as deemed cost on the date of transition. As per the definition of deemed cost, it is the amount used as a surrogate for the cost or depreciated cost and for the purpose of subsequent depreciation or amortisation, deemed cost becomes the cost as the starting point. Accordingly, from the date of transition, the deemed cost, i.e., carrying values of PPE as per the previous GAAP in the given case, is the cost and any accumulated depreciation and provision for impairment under previous GAAP have no relevance as would be the case if fair value were to be taken as deemed cost as per paragraph D5 above. Accordingly, provision for impairment provided before the date of transition as per previous GAAP cannot be reversed in later years.

However, information regarding gross block of assets, accumulated depreciation and provision for impairment under previous GAAP can be disclosed by way of note forming part of the financial statements. This information can be disclosed only as additional disclosures and the same cannot be considered for subsequent recognition and/or measurement purposes.

FAQs on requirements to prepare Consolidated Financial Statements

These FAQs on Consolidated Financial Statements have been issued by the Accounting Standards Board (ASB) of the Institute of Chartered Accountants of India (ICAI). The purpose of these FAQs is to illustrate and to assist in clarifying the requirements regarding preparation of Consolidated Financial Statements

1 (i) Whether a company H ltd is required to consolidate its subsidiary which is a Limited Liability Partnership (LLP) or a partnership firm?

(ii) Would the answer be different if LLP is an associate or joint venture of H Ltd?

(i) As per rule 6 of Companies (Accounts) Rules, 2014, under the heading 'Manner of consolidation of accounts' it is provided that consolidation of financial statements of a company shall be done in accordance with the provisions of Schedule III to the Companies Act, 2013 and the applicable Accounting Standards.

It is noted that relevant Indian Accounting Standard i.e., Ind AS 110, Consolidated Financial Statements provides that where an entity has control on one or more other entities, the controlling entity is required to consolidate all the controlled entities. Since, the word 'entity' includes a company as well as any other form of entity, therefore, LLPs and partnership firms are required to be consolidated. Similarly, under Accounting Standard (AS) 21, as per the definition of subsidiary, an enterprise controlled by the parent is required to be consolidated. The term 'enterprise' includes a company and any enterprise other than a company. Therefore, under AS also, LLPs and partnership firms are required to be consolidated.

Accordingly, in the given case, H ltd is required to consolidate its subsidiary which is an LLP or a partnership firm.

(ii) If LLP or a partnership firm is an associate or joint venture of H ltd, even then the LLP and the partnership firm need to be consolidated in accordance with the requirements of applicable Accounting Standards.

2. A Company H ltd has no subsidiaries, but has investment in an associate and a joint venture. Whether H Ltd. is required to prepare consolidated financial statements for the year ending March 31, 2016, in the context of Companies (Accounting Standards) Rules, 2006.

Section 129 (3) of the Companies Act, 2013 provides that where a company has one or more subsidiaries, it shall prepare a consolidated financial statement of the company and of all the subsidiaries. Further, an Explanation to this sub section provides that the word "subsidiary" shall include associate company and joint venture.

In view of the above, in the given case, though H ltd does not have any subsidiary, it is required to prepare consolidated financial statements for its associate and joint venture in accordance with the applicable Accounting Standards, viz, AS 23, Accounting for Investments in Associates in Consolidated Financial Statements and *AS 27, Financial Reporting of Interests in Joint Ventures*, respectively.

APPENDIX II

Extracts of Companies (Indian Accounting Standards) Rules 2015 read with Companies (Indian Accounting Standards) (Amendment) Rules, 2016

2. Definitions. - (1) In these rules, unless the context otherwise requires,-

(a) "Accounting Standards" means the standards of accounting, or any addendum thereto for companies or class of companies as specified in rule 3;

(b) "Act" means the Companies Act, 2013 (18 of 2013);

(c) "Annexure" in relation to these rules means the Annexure containing the Indian Accounting Standards (Ind AS) appended to these rules;

(d) "entity" means a company as defined in clause (20) of section 2 of the Act;

(e) "financial statements" means financial statements as defined in clause (40) of section 2 of the Act;

(f) "net worth" shall have the meaning assigned to it in clause (57) of section 2 of the Act.

(g) "Non-Banking Financial Company" means a Non-Banking Financial Company as defined in clause (f) of section 45-I 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, Pensions Fund Companies, Asset Management Companies and Core Investment Companies.

(2) Words and expressions used herein and not defined in these rules but

defined in the Act shall have the same meaning respectively assigned to them in the Act.

3. Applicability of Accounting Standards. - (1) The accounting standards as specified in the Annexure to these rules to be called the Indian Accounting Standards (Ind AS) shall be the accounting standards applicable to classes of companies specified in rule 4.

(2) The Accounting standards as specified in Annexure to the Companies (Accounting Standards) Rules, 2006 shall be the Accounting Standards applicable to the companies other than the classes of companies specified in rule 4.

(3) A company which follows the Indian Accounting Standards (Ind AS) specified in Annexure to these rules in accordance with the provisions of rule 4 shall follow such standards only.

(4) A company which follows the accounting standards specified in Annexure to the Companies (Accounting Standards) Rules, 2006 shall comply with such standards only and not the Standards specified in Annexure to these rules.

4. Obligation to comply with Indian Accounting Standards (Ind AS). - (1) The Companies and their auditors shall comply with the Indian Accounting Standards (Ind AS) specified in Annexure to these rules in preparation of their financial statements and audit respectively, in the following manner, namely:-

(i) any company and its holding, subsidiary, joint venture or associate company may comply with the Indian Accounting Standards (Ind AS) for financial statements for accounting periods beginning on or after 1stApril, 2015, with the comparatives for the periods ending on 31st March, 2015, or thereafter;

(ii) the following companies shall comply with the Indian Accounting Standards (Ind AS) for the accounting periods beginning on or after 1st April, 2016, with the comparatives for the periods ending on 31st March, 2016, or thereafter, namely:-

    (a) companies whose equity or debt securities are listed or are in the process of being listed on any stock exchange in India or outside India and having net worth of rupees five hundred crore or more;

(b) companies other than those covered by sub-clause (a) of clause (ii) of sub rule (1) and having net worth of rupees five hundred crore or more;

(c) holding, subsidiary, joint venture or associate companies of companies covered by sub-clause (a) of clause (ii) of sub- rule (1) and sub-clause (b) of clause (ii) of sub- rule (1) as the case may be; and

(iii) the following companies shall comply with the Indian Accounting Standards (Ind AS) for the accounting periods beginning on or after 1st April, 2017, with the comparatives for the periods ending on 31st March, 2017, or thereafter, namely:-

(a) companies whose equity or debt securities are listed or are in the process of being listed on any stock exchange in India or outside India and having net worth of less than rupees five hundred crore;

(b) companies other than those covered in clause (ii) of sub- rule (1) and sub-clause (a) of clause (iii) of sub-rule (1), that is, unlisted companies having net worth of rupees two hundred and fifty crore or more but less than rupees five hundred crore.

(c) holding, subsidiary, joint venture or associate companies of companies covered under sub-clause (a) of clause (iii) of sub-rule (1) and sub-clause (b) of clause (iii) of sub- rule (1), as the case may be:

(iv) Notwithstanding the requirement of clause (i) to (iii), Non-Banking Financial Companies (NBFCs) shall comply with the Indian Accounting Standards (Ind AS) in preparation of their financial statements and audit respectively, in the following manner, namely :-

(a) The following NBFCs shall company with the Indian Accounting Standards (Ind AS) for accounting periods beginning on or after the 1st April, 2018, with comparatives for the periods ending on 31st March, 2018, or thereafter-

(A) NBFCs having net worth of rupees five hundred crores or more;

(B) holding, subsidiary, joint venture or associate companies of companies covered under item (A), other than those already covered under clauses (i), (ii) and (iii) of sub-rule (1) of rule 4.

(b) The following NBFCs shall comply with the Indian Accounting Standards (Ind AS) for accounting periods beginning on or after the 1st April, 2019, with comparatives for the periods ending on 31st march, 2019, or thereafter-

(A) NBFCs whose equity or debt securities are listed or in the process of listing on any stock exchanges in India or outside India and having net worth less than rupees five hundred crore;

(B) NBFCs, that are unlisted companies, having net worth of rupees two-hundred and fifty crore or more but less than rupees five hundred crore; and

(C) holding, subsidiary, joint venture or associate companies of companies covered under item (A) or item (B) of sub-clause (b), other than those already covered in clauses (i), (ii) and (iii) of sub-rule (1) or item (B) of sub-clause (a) of clause (iv).

Explanation. – For the purposes of clause (iv), if in a group of Companies, some entities apply Accounting Standards specified in the Annexure to the Companies (Accounting Standards) Rules, 2006 and others apply accounting standards as specified in the Annexure to these rules, in such cases, for the purpose of individual financial statements, the entities should apply respective standards applicable to them. For preparation of consolidated financial statements, the following conditions are to be followed, namely:-

(i) Where an NBFC is a parent (at ultimate level or at intermediate level), and prepares consolidated financial statements as per Accounting Standards specified in the Annexure to the Companies (Accounting Standards) Rules, 2006, and its subsidiaries, associates and joint ventures, if covered by clause (i), (ii) and (iii) of sub-rule (1) has to provide the relevant financial statement data in accordance with the accounting policies followed by the parent company for consolidation purposes (until the NBFC is covered under clause (iv) of sub-rule (1);

(ii) where a parent is a company covered under clause (i), (ii) and (iii) of sub-rule (1) and has an NBFC subsidiary, associate or a joint venture, the parent has to prepare Ind AS- compliant consolidated financial statements and the NBFC subsidiary, associate or a joint venture has to provide the relevant financial statement data in accordance with the accounting policies followed by the parent company for consolidation purposes (until the NBFC is covered under clause (iv) of sub-rule (1).

(v) Notwithstanding clauses (i) to (iv), the holding, subsidiary, joint venture or associates companies of Scheduled commercial banks (excluding RRBs) would be required to prepare Ind AS based financial statements for accounting periods beginning from 1st April, 2018 onwards, with comparatives for the periods ending 31st March, 2018 or thereafter.

Provided that nothing in this sub-rule, except clause (i), shall apply to companies whose securities are listed or are in the process of being listed on SME exchange as referred to in Chapter XB or on the Institutional Trading Platform without initial public offering in accordance with the provisions of Chapter XC of the Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2009.

Explanation 1. - SME Exchange shall have the same meaning as assigned to it in Chapter XB of the Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2009.

Explanation 2. - "Comparatives" shall mean comparative figures for the preceding accounting period.

(2) For the purposes of calculation of net worth of companies under clause (i), (ii) and (iii) of sub-rule (1), the following principles shall apply, namely:-

(a) the net worth shall be calculated in accordance with the stand-alone financial statements of the company as on 31st March, 2014 or the first audited financial statements for accounting period which ends after that date;

(b) for companies which are not in existence on 31st March, 2014 or an existing company falling under any of thresholds specified in sub-rule (1) for the first time after 31st March, 2014, the net worth shall be calculated on the basis of the first audited financial statements ending after that date in respect of which it meets the thresholds specified in sub-rule (1).

Explanation. - For the purposes of sub-clause (b), the companies meeting the specified thresholds given in sub-rule (1) for the first time at the end of an accounting year shall apply Indian Accounting Standards (Ind AS) from the immediate next accounting year in the manner specified in sub-rule (1).

Illustration .- (i) The companies meeting threshold for the first time as on 31st March, 2017 shall apply Ind AS for the financial year 2017-18 onwards.

(ii) The companies meeting threshold for the first time as on 31st March, 2018 shall apply Ind AS for the financial year 2018-19 onwards and so on.

(2A) For the purposes of calculation of net worth of Non-Banking Financial Companies covered under clause (iv) of sub-rule (1), the following principles shall apply, namely :-

(a) the net worth shall be calculated in accordance with the stand-alone financial statements of the NBFCs as on 31st March, 2016 or the first audited financial statements for accounting period which ends after that date;

(b) for NBFCs which are not in existence on 31st March, 2016 or an existing NBFC falling first time, after 31st March, 2016, the net worth shall be calculated on the basis of the first audited stand-alone financial statements ending after that date, in respect of which it meets the thresholds.

Explanation. – For the purposes of sub-clause (b), the NBFCs meeting the specified thresholds given in sub-clause (b) of clause (iv) of sub-rule (1) for the first time at the end of an accounting year shall apply Indian Accounting Standards (Ind ASs) from the immediate next accounting year in the manner specified in sub-clause (b) of clause (iv) of sub-rule (1).

Illustration – (i) The NBFCs meeting threshold for the time as on 31st March, 2019 shall apply Ind AS for the financial year 2019-20 onwards.

(ii) The NBFCs meeting threshold for the time as on 31st March, 2020 shall apply Ind AS for the financial year 2020-21 onwards and so on.

(3) Standards in Annexure to these rules once required to be complied with in accordance with these rules, shall apply to both stand-alone financial statements and consolidated financial statements.

(4) Companies to which Indian Accounting Standards (Ind AS) are applicable as specified in these rules shall prepare their first set of financial statements in accordance with the Indian Accounting Standards (Ind AS) effective at the end of its first Indian Accounting Standards (Ind AS) reporting period.

Explanation.- For the removal of doubts, it is hereby clarified that the companies preparing financial statements applying the Indian Accounting Standards (Ind AS) for the accounting period beginning on 1st April, 2016 or 1st April, 2018, as the case may be shall apply the Indian Accounting Standards (Ind AS) effective for the financial year ending on 31st March, 2017 or 31st March, 2019, as the case may be.

(5) Overseas subsidiary, associate, joint venture and other similar entities of an Indian company may prepare its standalone financial statements in accordance with the requirements of the specific jurisdiction:

Provided that such Indian company shall prepare its consolidated financial statements in accordance with the Indian Accounting Standards (Ind AS) if it meets the criteria as specified in sub-rule (1).

(6) Indian company which is a subsidiary, associate, joint venture and other similar entities of a foreign company shall prepare its financial statements in accordance with the Indian Accounting Standards (Ind AS) if it meets the criteria as specified in sub-rule (1).

(7) Any company opting to apply the Indian Accounting Standards (Ind AS) voluntarily as specified in sub-rule (1) for its financial statements shall prepare its financial statements as per the Indian Accounting Standards (Ind AS) consistently.

(8) Once the Indian Accounting Standards (Ind AS) are applied voluntarily, it shall be irrevocable and such companies shall not be required to prepare another set of financial statements in accordance with Accounting Standards specified in Annexure to Companies (Accounting Standards) Rules, 2006.

(9) Once a company starts following the Indian Accounting Standards (Ind AS) on the basis of criteria specified in sub-rule (1), it shall be required to follow the Indian Accounting Standards (Ind AS) for all the subsequent financial statements even if any of the criteria specified in this rule does not subsequently apply to it.

5. The Banking Companies and Insurance Companies shall apply the Ind ASs as notified by the Reserve Bank of India (RBI) and Insurance Regulatory Development Authority (IRDA) respectively. An insurer or insurance company shall however, provide Ind AS compliant financial statement data for the purposes of preparation of consolidated financial statements by its parent or investor or venturer, as required by the parent or investor or venturer to comply with the requirements of these rules.

APPENDIX III
Indexation of Issues- Standard-wise

Ind AS	Issues directly dealing with the Standard	Other Issues which makes reference to the Standard
Ind AS 1	-	Issue 25
Ind AS 2	-	Issue 60
Ind AS 8	Issue 64	Issue 63
Ind AS 10	-	Issue 97
Ind AS 12	Issue 65, 66, 67, 68 & 69	Issue 25
Ind AS 16	Issue 70, 71, 72, 73, 74, 75, 76, 77 & 78	Issue 28 & 30
Ind AS 17	Issue 79, 80 & 81	-
Ind AS 18	Issue 82, 83, 84 & 85	-
Ind AS 20	Issue 86, 87 & 88	Issue 27 & 34
Ind AS 21	Issue 89 & 90	Issue 69
Ind AS 23	Issue 91& 92	-
Ind AS 24	Issue 93	-
Ind AS 27	Issue 94 & 95	Issue 43 & 45, 98
Ind AS 28	-	Issue 14 & 15
Ind AS 32	Issue 96, 97 & 98	Issue 60, 86
Ind AS 33	Issue 99 & 100	-
Ind AS 36	-	Issue 28
Ind AS 37	Issue 101	-
Ind AS 38	Issue 102	Issue 46
Ind AS 40	-	Issue 71

Ind AS 101	Issue 22 to Issue 47	Issue 12, 52, 69, 72, 73, 74, 77, 78, 86, 95, 102
Ind AS 103	Issue 48, 49 and 50	Issue 47
Ind AS 107	Issue 51 & 52	-
Ind AS 105	-	Issue 29
Ind AS 108	Issue 53	-
Ind AS 109	Issue 54,55,56,57,58,59 & 60	Issue 26,35,39, 40,45,51,86, 91,92, 94, 95
Ind AS 110	Issue 61,62 &63	Issue 16, 45, 31 & 98
Ind AS 111	-	Issue 94
Ind AS 112	-	Issue 61

APPENDIX IV

Indexation of Issues in order of ITFG Clarification Bulletins

			as per IFRS		
2	4	Ind AS 16	Property Plant and Equipment- Recognition Criteria of spare part as an item of property, plant and equipment and depreciation thereon	76	120-121
2	5	Ind AS 16	Property, Plant and Equipment - Capitalisation of expenditure on assets not owned by the company	75	120
2	6	Ind AS 101	Revision of balance of Foreign Currency Monetary Item Translation Difference Account (FCMITDA) at the time of first time adoption of Ind AS on account of finance cost	40	55-58
3	1	Schedule III	Applicability of Ind AS based Schedule III on voluntary adoption of Ind AS	104	168-169
3	2	Roadmap	Applicability of Ind AS to Core Investment Company (CIC)	11	14-15
3	3	Ind AS 21	Identification of functional currency of an entity	90	145-146
3	4	Roadmap	Applicability of Ind AS to holding, subsidiary , joint venture and associate company through direct or indirect association in case of voluntary adoption by the parent company	15	20-21
3	5	Roadmap	Applicability of Ind AS - associate company Consideration of share warrants which are convertible into equity shares	14	17-20
3	6	Roadmap	Applicability of Ind AS - associate company. In case of quarterly results	10	13-14
3	7	Roadmap	Applicability of Ind AS to holding company when subsidiary meets the criteria for applicability of Ind AS	9	11-12

3	8	Roadmap	Applicability of Ind AS - change in status of listed company	8	10-11
3	9	Ind AS 16	Property, plant and equipment - capitalisation of capital spares when deemed cost exemption availed for property, plant and equipment on transition to Ind AS	74	118-120
3	10	Ind AS 101	Applicability of paragraph D13AA on foreign currency swaps in case of hedged items	39	54-55
3	11	Ind AS 101	Applicability of paragraph D7AA for capital work in progress	30	43-44
3	12	Ind AS 27	Measurement of investment in subsidiaries at cost if valued at fair value on date of transition	95	154-155
3	13	Ind AS 38	Applicability of revenue based amortisation for intangible assets arising service concession arrangements in respect of toll roads for new arrangements entered after the date of transition	102	165-166
3	14	Ind AS 16	Re-computation of Depreciation based on useful life when Ind AS 16 applied retrospectively	73	117-118
4	1	Ind AS 18	Revenue Recognition - presentation of Excise Duty (Gross or net of sales)	84	133-134
4	2	Ind AS 18	Revenue Recognition - Treatment of Service Tax	83	132-133
4	3	Roadmap	Applicability of Ind AS - In Case of Negative net worth	20	27-29
4	4	Roadmap	Applicability of Ind AS- Date of Transition	7	9-10
5	1	Roadmap	Applicability of Ind AS to holding company, if subsidiary company incorporated for divestment purpose complies with Ind AS.	16	21-23

5	3	Ind AS 101	Selective adoption of deemed cost exemption under paragraph D7AA	33	46-47
5	4	Ind AS 101	Treatment of unadjusted processing of fees on loans taken before the date of transition -In case of deemed cost exemption	35	49-50
5	5	Ind AS 101	Treatment of Government Grant on the date of transition-In case of deemed cost exemption	34	47-49
5	6	Ind AS 16	Accounting of spare parts which meet the definition of property, plant and equipment on the date of transition	77	121-124
5	7	Ind AS 17	Straight-lining of lease payments if escalation of lease payments is different from general inflation.	80	128-129
5	8	Ind AS 27	Post Ind AS adoption accounting treatment of profit share from investment in limited liability partnership which is under joint control (in separate financial statements)	94	153-154
6	1	Roadmap	Applicability of Ind AS - Net worth criteria	19	26-27
6	2	Roadmap	Applicability of Ind AS - Section 8 company	6	8-9
6	3	Roadmap	Applicability of Ind AS to holding company(NBFC) of the subsidiary which is covered under the criteria of Ind AS roadmap	5	6-8
6	4	Roadmap	Computation of net worth for Ind AS applicability- Government Grant to be considered as capital reserve	18	25
7	1	Ind AS 101	Exemption under paragraph D13AA to foreign currency loan drawn after Ind AS applicability to the entity	38	53-54
7	2	Ind AS 21	Determination of functional currency and presentation currency for preparation of annual financial statements in case of Group	89	143-145

7	3	Ind AS 101	Reversal of impact of paragraph 46A of AS 11 when exemption as per paragraph D7AA of Ind AS 101 availed	32	45-46
7	4	Ind AS 101	Applicability of paragraph D13AA on long term foreign exchange contracts	36	51-52
7	5	Ind AS 17	Classification of land lease under Ind AS	79	126-127
7	6	Ind AS 32	Treatment of dividend on financial instruments declared after the end of the reporting period	97	157-158
7	7	Ind AS 12	Recognition of deferred tax asset on land sold as slump sale	68	105-107
7	8	Ind AS 101	Exemption of paragraph D15 on investment in debentures of subsidiary company	45	63-65
7	9	Ind AS 101	Exemption under paragraph D22 of Ind AS 101 in respect of intangible assets arising from service concession arrangements (toll roads)which are in progress.	46	65-66
8	1	Ind AS 37	Whether provision for unspent Corporate Social Responsibility expenditure is required to be made as per Ind AS	101	164
8	2	Ind AS 8	Disclosure of the new Ind AS which is not yet effective (Ind AS 115)	64	99
8	3	Ind AS 101	Date of Transition to Ind AS	22	31
8	4	Ind AS 16	Accounting treatment of the wrongly capitalised asset which does not meet the definition of tangible asset	72	115-116
8	5	Ind AS 101	Reversal of the impairment provision recognised in books as at the date of transition when exemption under paragraph D6 of Ind AS 101 availed	28	40-41

8	6	Ind AS 101	Accounting treatment of non-controlling interest in case of business combinations in its consolidated financial statements as on the date of transition	47	66-68
8	7	Ind AS 101	Accounting treatment of the balance outstanding in the "Revaluation Reserve" and deferred tax on this transition revaluation reserve	25	34-35
8	8	Ind AS 12	Recognition of the deferred tax on the differences that are arising from adjustment of exchange difference to the cost of the asset	69	108-110
8	9	Ind AS 107	Recognition of the dividend income on an investment in debt instrument in the books of an investor	51	76-78
9	1	Ind AS 12	Accounting treatment of dividend distribution tax (DDT) and deferred tax liability (DTL) on the accumulated undistributed profits of the subsidiary company	67	103-105
9	2	Ind AS 103	Business Combinations of entities under common control	49	71-74
9	3	Ind AS 20	Accounting treatment of the grants in the nature of promoters' contribution on the date of transition to Ind AS and post transition to Ind AS	88	140-142
10	1	Ind AS 101	Accounting Treatment of interest free loan to subsidiary company when exemption under paragraph D15 of Ind AS 101 availed	43	60-61
10	2	Ind AS 109	Accounting treatment of processing fees belonging to undisbursed term loan amount	57	86-88
10	3	Ind AS 12	Recognition of deferred tax asset on the tax deductible goodwill in the consolidated financial statements	66	101-102

10	4	Ind AS 101	Availment of deemed cost exemption for the assets classified as 'Assets held for sale' but which do not fulfil the criteria for classifying as held for sale in accordance with Ind AS 105 on the date of transition	29	41-43
10	5	Ind AS 33	Treatment of Foreign Currency Monetary Item Translation Difference Account for the purpose of calculation of basic earnings per share (EPS)	100	162-163
10	6	Ind AS 18	Classification of expense of providing free third party goods under Customer Loyalty Programmes	82	131-132
11	1	Roadmap	Applicability of Ind AS - Net Worth Criteria Treatment of ESOP Reserve	17	24
11	2	Ind AS 12	Accounting treatment of Tax Holidays under Ind AS	65	100-101
11	3	Ind AS 33	Presentation of earning per share for separate and consolidated financial statements	99	161-162
11	4	Ind AS 101	Measurement of Investment in Subsidiary when exemption under paragraph D15 of Ind AS 101 availed	44	61-63
11	5	Ind AS 20	Accounting treatment of exemption of custom duty under EPCG scheme	87	138-140
11	6	Ind AS 110	Treatment of depreciation in consolidated financial statements when different method of depreciation applied by entities	63	96-98
11	7	Roadmap	Applicability of Ind AS to non-corporate entities	4	5-6
11	8	Ind AS 16	Accounting Treatment of expenditure on the construction/development of railway siding, road and bridge to facilitate the construction of a new	70	111-113

			refinery		
11	9	Ind AS 24	Whether sitting fees paid to independent director and Non-executive director is required to be disclosed in the financial statements prepared as per Ind AS	93	151-152
12	1	Ind AS 16	Selection of valuation model of immovable properties	71	113-115
12	2	Ind AS 101	Accounting Treatment of the Government Grant received before the date of transition and measurement of property, plant and equipment at the date of transition to Ind AS	27	38-39
12	3	Ind AS 109	Accounting of Financial Guarantee Contract - Comfort Letter	59	89-90
12	4	Ind AS 109	Accounting Treatment of prepayment premium and processing fees of obtaining new loan to prepay old loan	58	88-89
12	5	Ind AS 101	Deemed cost exemption under paragraph D7AA (Treatment of intragroup profit)	31	44-45
12	6	Roadmap	Applicability of Ind AS to India branch office of foreign company	3	5
12	7	Ind AS 20	Accounting of below-market rate interest loan - exemption under para B10 of Ind AS 101	86	136-138
12	8	Ind AS 103	Date of acquisition (i.e. date of obtaining control) under two scenario in case of court scheme, whether business combination is or is not under common control.	48	69-71
12	9	Ind AS 101	Applicability of Ind AS 109, Financial Instruments, if financial instruments have been acquired as part of the business combinations and the exemption under paragraph C1 of Ind AS 101 availed	26	35-38

12	10	Ind AS 101	Adjustments due to other Ind AS if deemed cost exemption availed	23	32-33
12	11	Ind AS 109	Valuation of financial guarantee contract	54	82-83
13	1	Ind AS 23	Capitalisation of Dividend Distribution Tax(DDT) as borrowing costs of the qualifying asset	91	147-148
13	2	Ind AS 109	Accounting Treatment of financial guarantee received from the Director	55	83-85
13	3	Ind AS 108	Disclosures by the entity in case it is operating into one segment	53	80-81
13	4	Roadmap	Applicability of Ind AS to NBFCs in case not registered with RBI	2	4
13	5	Schedule III	Disclosure of operating profit on the face of Statement of Profit and Loss in accordance with Ind AS based Schedule III	103	167-168
13	6	Ind AS 109	Recognition of renegotiation gain/loss on Financial Instruments done in subsequent year but before the approval of financial statements	56	85-86
13	7	Ind AS 110	Accounting Treatment of loss of investment in subsidiary	61	92-93
13	8	Ind AS 107	Foreign currency risk disclosure in case of option taken under paragraph D13AA of Ind AS 101	52	78-79
13	9	Ind AS 110	Accounting treatment of dividend distribution tax in the consolidated financial statements in case of partly-owned subsidiary - different scenarios	62	93-96
13	10	Ind AS 32	Computation of financial liability in case of convertible debentures sharing same coupon rate and market rate	96	156-157
14	1	Ind AS 23	Capitalising of the processing fees as borrowing costs when the loans are specifically borrowed for the purpose of a qualifying asset	92	149-150

14	2	Ind AS 17	Accounting treatment of restoration costs in case of a leasehold land	81	129-130
14	3	Ind AS 18	Whether an entity should adjust the consideration (including advance payments) for the effect of time value of money	85	134-135
14	4	Ind AS 103	Incorporation of effect of business combination in the standalone financial statements in case of scheme of arrangement	50	74-75
14	5	Ind AS 109	Accounting treatment of shares held as stock-in trade in accordance with Ind AS	60	90-91
14	6	Ind AS 16	Accounting treatment of the Revaluation surplus as per previous GAAP on transition date and Revaluation gain arising after transition date when Ind AS 16 applied retrospectively	78	124-125
14	7	Ind AS 32	Treatment of optionally convertible preference shares in Standalone financial statements and consolidated financial statements	98	158-160