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Indian Accounting Standards (Ind AS)

BASIC CONCEPTS

Ind AS are considered a "principles-based" set of standards. In fact, they establish broad rules rather than dictating specific treatments.

Roadmap for Implementation of Indian Accounting Standards (Ind AS)

1st April 2015 or thereafter : Voluntary Basis for all companies

(with Comparatives)

Phase I **1st April 2016: Mandatory Basis**

(a) Companies listed/in process of listing on Stock Exchanges in India or Outside India having net worth ≥ INR 5 Billion

(b) Unlisted Companies having net worth ≥ INR 5 Billion

(c) Parent, Subsidiary, Associate and J.V. of Above

Phase II **1st April 2017: Mandatory Basis**

(a) All companies which are listed/or in process of listing inside or outside India on Stock Exchanges not covered in Phase I (other than companies listed on SME Exchanges)

(b) Unlisted companies having net worth INR 5 Billion > INR 2.5 Billion

(c) Parent, Subsidiary, Associate and J.V. of Above

- Companies listed on SME exchange not required to apply Ind AS.
- Once Ind ASs are applicable, an entity shall be required to follow the Ind AS for all the subsequent financial statements.
- Companies not covered by the above roadmap shall continue to apply existing Accounting Standards notified in Companies (Accounting Standards) Rules, 2006.

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Question 1

Briefly explain the following terms:

(i) Other comprehensive income

(ii) Prior period errors

(iii) Types of leases

Answer

(i) Other comprehensive income comprises items of income and expenses (including reclassification adjustments) that are not recognised in profit or loss as required or permitted by other Ind ASs.

The Standard requires an entity to disclose reclassification adjustments and income tax relating to each component of other comprehensive income. Reclassification adjustments are the amounts reclassified to profit or loss in the current period that were previously recognised in other comprehensive income.

The other comprehensive income section shall present line items for amounts of other comprehensive income in the period, classified by nature (including share of the other comprehensive income of associates and joint ventures accounted for using the equity method) and grouped into those that, in accordance with other Ind AS:

(a) will not be reclassified subsequently to profit or loss; and

(b) will be reclassified subsequently to profit or loss when specific conditions are met.

(ii) Prior period errors are omissions from, and misstatements in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that:

was available when financial statements for those periods were approved for issue; and could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

Such errors include the effects of:

(a) mathematical mistakes,

(b) mistakes in applying accounting policies,

(c) oversights or

(d) misinterpretations of facts, and

(e) fraud.

Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.

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Except to the extent that it is impracticable to determine either the period-specific effects or the cumulative effect of the error, the Standard requires to correct material prior period errors retrospectively in the first set of financial statements approved for issue after their discovery by:

(a) restating the comparative amounts for the prior period(s) presented in which the error occurred; or

(b) if the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and equity for the earliest prior period presented.

Omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions that users make on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor.

(iii) 1. Finance Lease: A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Risks include the possibilities of losses from idle capacity or technological obsolescence and of variations in return because of changing economic conditions.

Rewards may be represented by the expectation of profitable operation over the asset's economic life and of gain from appreciation in value or realisation of a residual value.

Title may or may not eventually be transferred.

2. Operating Lease: An operating lease is a lease other than a finance lease.

3. Non-cancellable Lease: A non-cancellable lease is a lease that is cancellable only:

(a) upon the occurrence of some remote contingency;

(b) with the permission of the lessor;

(c) if the lessee enters into a new lease for the same or an equivalent asset with the same lessor; or

(d) upon payment by the lessee of such an additional amount that, at inception of the lease, continuation of the lease is reasonably certain.

Question 2

Write short notes on types of Employee Benefits:

Answer

Employee benefits include:

(a) Short-term Employee Benefits: Short-term employee benefits are employee benefits (other than termination benefits) that are expected to be settled wholly before twelve

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months after the end of the annual reporting period in which the employees render the related services. It includes:

(i) wages, salaries and social security contributions;

(ii) paid annual leave and paid sick leave;

(iii) profit-sharing and bonuses; and

(iv) non-monetary benefits (such as medical care, housing, cars and free or subsidised goods or services) for current employees;

(b) Post-employment Benefits: Post-employment benefits are employee benefits (other than termination benefits and short-term employee benefits) that are payable after the completion of employment. Post-employment benefit plans are formal or informal arrangements under which an entity provides post-employment benefits for one or more employees, such as the following:

(i) retirement benefits (e.g. pensions and lump sum payments on retirement); and

(ii) other post-employment benefits, such as post-employment life insurance and post-employment medical care;

(c) Other Long-term Employee Benefits: Other long-term employee benefits are all employee benefits other than short-term employee benefits, post-employment benefits and termination benefits, such as the following:

(i) long-term paid absences such as long-service leave or sabbatical leave;

(ii) jubilee or other long-service benefits; and

(iii) long-term disability benefits; and

(d) Termination Benefits: Termination benefits are employee benefits provided in exchange for the termination of an employee's employment.

Question 3

Cost of a machine acquired on 01.04.2012 was ₹ 5,00,000. The machine is expected to realize ₹ 50,000 at the end of its working life of 10 years. Straight-line depreciation of ₹ 45,000 per year has been charged upto 2014-2015. From 2015-16, the company switched over to 15% p.a. reducing balance method of depreciation in respect of the machine. The new rate of depreciation is based on revised useful life of 15 years. The new rate shall apply with retrospective effect from 01.04.2014. State how would you deal with the above in the annual accounts of the Company for the year ended 31st March, 2016 in the light of Ind AS 8.

Solution:

WDV of asset at the end of year 2014-15 = ₹ 5,00,000 – ₹ 45,000 x 3 = ₹ 3,65,000

WDV of asset at the end of year 2014-15 (by reducing balance method)

= ₹ 5,00,000 x 85% x 85% x 85%

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	= ₹ 3,07,062.50
Depreciation for the year 2015-16 @ 15%	= 3,07,062.50 x 15% = 46,059.38
Excess depreciation to be charged in year 2015-16	= 3,65,000 – 3,07,062.50 = 57,937.50
Total depreciation to be charged in year 2015-16	= ₹ 57,937.50 + 46,059.38
	= ₹ 1,03,997 (approx.)

As per Ind AS 8 the revision of remaining useful life is a change in accounting estimate, and adoption of reducing balance method of depreciation instead of the straight-line method is change in accounting policy. Since it is difficult to segregate impact of these two changes, the entire amount of difference between depreciation at old rate and depreciation charged in 2015-16 is regarded as an effect of change in accounting estimate as per provisions of para 35 of the standard. The effect of this change in accounting estimate should be properly disclosed in the financial statements of the company for the year ended 31st March, 2016.

Question 4

Write short note on some key differences between Ind AS and Existing AS with respect to:

(a) Property, Plant and Equipment

(b) Changes in Accounting Policy and Prior period items.

(c) Inventories.

Answer

(a) Property, Plant and Equipment

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

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

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

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

(ii) ***Subsequent Expenditure*****:** As per Ind AS 16, initial costs as well as the subsequent costs are evaluated on the same recognition principles to determine whether the same should be recognised as an item of property, plant and equipment. Existing AS 10 on the other hand, prescribes separate recognition principles for subsequent expenditure. As per existing AS 10, subsequent expenditures related to an item of fixed asset are capitalised only if they increase the future benefits from the existing asset beyond its previously assessed standard of performance.

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

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

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

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

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

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

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should be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the balance sheet date.

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

(viii) ***Transfers from Revaluation Surplus:*** Ind AS 16 provides that the revaluation surplus included in equity in respect of an item of property, plant and equipment may be transferred to the retained earnings when the asset is derecognised. This may involve transferring the whole of the surplus when the asset is retired or disposed of However, some of the surplus may be transferred as the asset is used by an entity. In such a case, the amount of the surplus transferred would be the difference between the depreciation based on the revalued carrying amount of the asset and depreciation based on its original cost. Transfers from revaluation surplus to the retained earnings are not made through profit or loss.

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

(ix) ***Restatement with Reference to Observable Market Data:*** Ind AS 16 requires that when the carrying amount of asset is adjusted to the revalued amounts then gross carrying amount may be restated with reference to observable market data or restated proportionately to the change in the carrying amount. Existing AS 10 does not require any reference to observable market data.

(x) ***Self-constructed Assets****:* With regard to self-constructed assets, Ind AS 16, specifically states that the cost of abnormal amounts of wasted material, labour, or other resources incurred in the construction of an asset is not included in the cost of the assets. Existing AS 10 while dealing with self-constructed fixed assets does not mention the same.

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

(xii) ***Fixed Assets Jointly Owned:*** Existing AS 10 specifically deals with the fixed assets owned by the entity jointly with others. Ind AS 16 does not specifically deal with this.

(xiii) ***Several Assets purchased for a Consolidated Consideration:*** Existing AS 10 specifically deals with the situation where several assets are purchased for a consolidated price. It provides that the consideration should be apportioned to the various assets on the basis of their respective fair values. However, Ind AS 16 does not specifically deal with this situation.

(xiv) ***Review of Residual Value and Useful Life:*** Ind AS 16 requires that the residual value and useful life of an asset be reviewed at least at each financial year-end and, if expectations differ from previous estimates, the change(s) should be accounted for as a change in an accounting estimate in accordance with AS 5. Under existing AS 6, such a review is not obligatory as it simply provides that useful life of an asset may be reviewed periodically.

(xv) ***Review of Depreciation Method:*** Ind AS 16 requires that the depreciation method applied to an asset should be reviewed at least at each financial year-end and, if there has been a significant change in the expected pattern of consumption of the future economic benefits embodied in the asset, the method should be changed to reflect the changed pattern. In existing AS 6, change in depreciation method can be made only if the adoption of the new method is required by statute or for compliance with an accounting standard or if it is considered that the change would result in a more appropriate preparation or presentation of the financial statements.

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

(xvii) ***Compensation from Third Parties for Items of PPE that were Impaired, Lost or Given up:*** Ind AS 16 requires that compensation from third parties for items of property, plant and equipment that were impaired, lost or given up should be included in the statement of profit and loss when the compensation becomes receivable. Existing AS 10 does not specifically deal with this aspect.

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(xviii) ***Gains on De-recognition of Items of PPE:*** Ind AS 16 specifically provides that gains arising on derecognition of an item of property, plant and equipment should not be treated as revenue as defined in AS 9. Existing AS 10 is silent on this aspect.

(xix) ***Subsequent Sale of PPE Held for Rental to Others, in Ordinary Course of Business:*** Ind AS 16 deals with the situation where entities hold the items of property, plant and equipment for rental to others and subsequently sell the same. No such provision is there in existing AS 10.

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

(xxi) ***PPE acquired in Exchange for a Non-monetary Asset:*** Ind AS 16 requires that if property, plant and equipment is acquired in exchange for a non-monetary asset, it should be recognised at its fair value unless (a) the exchange transaction lacks commercial substance or (b) the fair value of neither the asset received nor the asset given up is reliably measurable.

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

(xxii) ***Accounting for Changes in Measurement of Certain Items:*** Ind AS 16 includes Appendix A which addresses how the changes in the measurement of an existing decommissioning, restoration and similar liabilities that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits required to settle the obligation, or a change in the discount rate, shall be accounted for.

(b) Changes in Accounting Policy and Prior period items

(i) ***Objective*:** Objective of existing AS 5 is to prescribe the classification and disclosure of certain items in the statement of profit and loss for uniform preparation and presentation of financial statements. Objective of Ind AS 8 is to prescribe the criteria for selecting and changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates and corrections of errors. Ind AS 8 intends to enhance the relevance and

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reliability of an entity's financial statements and the comparability of those financial statements over time and with the financial statements of other entities.

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

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

(iv) ***Change in Accounting Policies***: In addition to the situations allowed under Ind AS 8 for changing an accounting policy, existing AS 5 allows change in accounting policy if required by statute.

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

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

(vii) ***Prior Period Items***: Existing AS 5 defines prior period items as incomes or expenses which arise in the current period as a result of errors or omissions in the preparation of financial statements of one or more prior periods. Ind AS 8 uses the term 'errors' and relates it to errors or omissions arising from a failure to use or misuse of reliable information (in addition to mathematical mistakes, mistakes in application of accounting policies etc.) that was available when the financial statements of the prior periods were approved for issuance and could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements. Ind AS 8 specifically states that errors include frauds, which is not covered in existing AS 5.

(viii) ***Rectification of Material Prior Period Errors:*** Ind AS 8 requires rectification of material prior period errors with retrospective effect subject to limited exceptions viz., where it is impracticable to determine the period specific effects or the

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cumulative effect of applying a new accounting policy. On the other hand, existing AS 5 requires the rectification of prior period items with prospective effect.

(c) Inventories

(i) ***Subsequent Recognition:*** Ind AS 2 deals with the subsequent recognition of cost/carrying amount of inventories as an expense, whereas the existing AS 2 does not provide the same.

(ii) ***Inventory of Service Provider:*** Ind AS 2 provides explanation with regard to inventories of service providers whereas the existing AS 2 does not contain such an explanation.

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

(iv) ***Inventory held by Commodity Broker-traders:*** Ind AS 2 does not apply to measurement of inventories held by commodity broker-traders, who measure their inventories at fair value less costs to sell. However, this aspect is not there in the existing AS 2.

(v) ***Definition of Fair Value and Distinction Between NRV and Fair Value:*** Ind AS 2 defines fair value and provides an explanation in respect of distinction between 'net realisable value' and 'fair value'. The existing AS 2 does not contain the definition of fair value and such explanation.

(vi) ***Subsequent Assessment of NRV:*** Ind AS 2 provides detailed guidance in case of subsequent assessment of net realisable value. It also deals with the reversal of the write-down of inventories to net realisable value to the extent of the amount of original write-down, and the recognition and disclosure thereof in the financial statements. The existing AS 2 does not deal with such reversal.

(vii) ***Inventories Acquired on Deferred Settlement Terms:*** An entity may purchase inventories on deferred settlement terms. When the arrangement effectively contains a financing element, that element, for example a difference between the purchase price for normal credit terms and the amount paid, is recognised as interest expense over the period of the financing.

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

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

Question 5

Differentiate the following items with reference to Existing Accounting Standards and Ind AS:

(i) Extra ordinary items

(ii) Contingencies.

Answer

Existing Accounting Standards	Ind AS
Extraordinary Items	
Events or transactions, clearly distinct from the ordinary activities of the entity, which are not expected to recur frequently and regularly, are termed as extra-ordinary items. Disclosure of the nature and amount of such item is required in the income statement to perceive the impact of current and future profits.	Ind AS 1 prohibits presentation of any items of income or expense as extraordinary.
Contingencies	
Contingent Liabilities are disclosed unless the probability of outflow is remote. Contingent gains are neither recognized nor disclosed.	Unrecognized possible losses and possible gains are disclosed.

Question 6

Differentiate the following items with reference to Existing Accounting Standards and Ind AS:

(i) Discontinued vs discontinuing operations – definition and measurement

(ii) Acquired intangible assets.

Answer

Treatment under Accounting Standard and IFRS

		Existing Accounting Standards	Ind AS
(i)	**Discontinuing operation - definition**	In the existing AS 24, there is no concept of discontinued	Under Ind AS 105, a discontinued operation is a

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	and measurement	operations but it deals with discontinuing operations. Operations and cash flows that can be clearly distinguished for financial reporting and represent major line of business or geographical area of operations are discontinued operations.	component of an entity that either has been disposed of or is classified as held for sale.
		The existing AS 24 requires to apply the principles set out in other relevant Accounting Standards, e.g., the existing AS 10 requires that the fixed assets retired from active use and held for disposal should be stated at the lower of their net book value and net realisable value and shown separately in the financial statements.	Under Ind AS 105, non-current assets (disposal groups) held for sale are measured at the lower of carrying amount and fair value less costs to sell, and are presented separately in the balance sheet. However, it also includes a subsidiary acquired exclusively with a view to resale. Discontinued operations are measured at lower of carrying amount and fair value less cost to sell.
(ii)	**Acquired intangible assets**	AS 26 requires that if an intangible asset is acquired in exchange of a non-monetary asset, the principles of AS 10 "Fixed Assets" to be followed i.e. when an asset is acquired in exchange for another asset, its cost is usually determined by reference to the fair market value of the consideration given. It may be appropriate to consider also the fair market value of the asset acquired if this is more clearly evident. An alternative accounting treatment is to record the asset acquired at the net book value	IAS 38 requires that if an intangible asset is acquired in exchange of a non - monetary asset, it should be recognised at the fair value of the asset given up

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		of the asset given up; in each case an adjustment is made for any balance receipt or payment of cash or other consideration.	
		As per AS 26, intangible assets acquired free of charge or for nominal consideration by way of government grant is recognised at nominal value or at acquisition cost, as appropriate, plus any expenditure that is attributable to making the asset ready for intended use.	As per IAS 38, when intangible assets are acquired free of charge or for nominal consideration by way of government grant, an entity should, in accordance with IAS 20, record both the grant and the intangible asset at fair value. If an entity chooses not to recognise the asset initially at fair value, the entity may recognise the asset initially at a nominal amount, as per IAS 20, plus any expenditure that is directly attributable to preparing the asset for its intended use.
		There is no such provision in the existing standard.	As per Ind AS 38, in the case of separately acquired intangibles, the criterion of probable inflow of expected future economic benefits is always considered satisfied, even if there is uncertainty about the timing or the amount of the inflow.

Question 7

Differentiate the following items with reference to Existing Accounting Standards and Ind AS:

(a) Impairment of Assets

(b) Business Combinations.

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Answer

(a) Impairment of assets

(i) ***Financial Assets:*** Ind AS 36 applies to financial assets classified as subsidiaries, as defined in Ind AS 110, associates as defined in Ind AS 28, joint ventures as defined in Ind AS 111. The existing AS 28 does not apply to the above assets.

(ii) ***Biological Assets:*** Ind AS 36 specifically excludes biological assets related to agricultural activity. Existing AS 28 does not specifically exclude biological assets.

(iii) ***Impairment Testing for an Intangible Asset with an Indefinite Useful Life:*** Ind AS 36 requires annual impairment testing for an intangible asset with an indefinite useful life or not yet available for use and goodwill acquired in a business combination. The existing AS 28 does not require the annual impairment testing for the goodwill unless there is an indication of impairment.

(iv) ***Additional Guidance:*** Ind AS 36 gives additional guidance on, *inter alia*, the following aspects compared to the existing AS 28:

(a) estimating the value in use of an asset;

(b) for managements to assess the reasonableness of the assumptions on which cash flows are based; and

(c) using present value techniques in measuring an asset's value in use.

(v) ***Reversal of Goodwill:*** The existing AS 28 requires that the impairment loss recognised for goodwill should be reversed in a subsequent period when it was caused by a specific external event of an exceptional nature that is not expected to recur and subsequent external events that have occurred that reverse the effect of that event whereas Ind AS 36 prohibits the recognition of reversals of impairment loss for goodwill.

(vi) ***Bottom up and Top Down Test:*** In the existing AS 28, goodwill is allocated to CGUs only when the allocation can be done on a reasonable and consistent basis. If that requirement is not met for a specific CGU under review, the smallest CGU to which the carrying amount of goodwill can be allocated on a reasonable and consistent basis must be identified and the impairment test carried out at this level. Thus, when all or a portion of goodwill cannot be allocated reasonably and consistently to the CGU being tested for impairment, two levels of impairment tests are carried out, viz., bottom-up test and top-down test.

In Ind AS 36, goodwill is allocated to cash-generating units (CGUs) or groups of CGUs that are expected to benefit from the synergies of the business combination from which it arose. There is no bottom-up or top-down approach for allocation of goodwill.

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(viii) ***Disclosures:*** Ind AS 36 requires certain extra disclosures as compared to the existing AS 28.

(b) Business Combinations

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

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

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

(iv) ***Minority / Non–controlling****:* Ind AS 103 requires that for each business combination, the acquirer shall measure any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets. On other hand, the existing AS 14 states that the minority interest is the amount of equity attributable to minorities at the date on which investment in a subsidiary is made and it is shown outside shareholders' equity.

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

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

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

(viii) ***Bargain Purchase Gain****:* Ind AS 103 requires bargain purchase gain arising on business combination to be recognised in other comprehensive income and accumulated in equity as capital reserve, unless there is no clear evidence for the underlying reason for classification of the business combination as a bargain purchase, in which case, it shall be recognised directly in equity as capital reserve. Under existing AS 14 the excess amount is treated as capital reserve.

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(ix) ***Accounting for Common Control Transactions**:* Appendix C of Ind AS 103 deals with accounting for common control transactions, which prescribes a method of accounting different from Ind AS 103. Existing AS 14 does not prescribe accounting for such transactions different from other amalgamations.

Question 8

Explain the differences between Ind AS 1 and IAS 1 which results into carve out and which do not result into carve outs.

Answer

Major Changes in Ind AS 1 *vis-à-vis* IAS 1

A. Resulting in Carve outs/carve ins

This carve-out is due to difference in application of accounting principles and practices and economic conditions prevailing in India.

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

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

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

B. Not Resulting in Carve outs

1. ***Statement of Profit or Loss:*** With regard to preparation of statement of profit and loss, IAS 1 provides an option either to follow the single statement approach or to follow the two statement approach. An entity may present a single statement of profit or loss and other comprehensive income, with profit or loss and other comprehensive income presented in two sections or an entity may present the profit or loss section in a separate

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statement of profit or loss which shall immediately precede the statement presenting comprehensive income beginning with profit or loss.

Ind AS 1 allows only the single statement approach with profit or loss and other comprehensive income presented in two sections.

2. ***Different Terminology:*** IAS 1 gives the option to individual entities to follow different terminology for the titles of financial statements. Ind AS 1 is changed to remove alternatives by giving one terminology to be used by all entities.

3. ***Periodicity:*** IAS 1 permits the periodicity, for example, of 52 weeks for preparation of financial statements. Ind AS 1 does not permit it.

4. ***Analysis / Classification of Expenses:*** IAS 1 requires an entity to present an analysis of expenses recognised in profit or loss using a classification based on either their nature or their function within the equity. Ind AS 1 requires only nature-wise classification of expenses.

5. ***Materiality:*** IAS 1 requires that items of dissimilar nature or function shall be presented separately unless these are immaterial and paragraph 31 provides that specific disclosure required by IFRS need not be provided if the information is not material. In Ind AS 1, such paragraphs have been modified to include words 'except when required by law'.

6. ***Disclosures regarding Reconciliation:*** Ind AS 1 dealing with disclosures regarding reconciliation between the carrying amount at the beginning and the end of the period for each component of equity, has been amended to include disclosure regarding recognition of bargain purchase gain arising on business combination in line with treatment prescribed in this regard in Ind AS 103.

Question 9

Explain the carve outs in Ind AS 101 from IFRS 1 alongwith the reasons.

Answer

Major Changes in Ind AS 101 Resulting in Carve Outs from IFRS 1

i. ***Definition of Previous GAAP under Ind AS 101:*** IFRS 1 defines previous GAAP as the basis of accounting that a first-time adopter used immediately before adopting IFRS.

***Carve out**:* Ind AS 101 defines previous GAAP as the basis of accounting that a first-time adopter used for its reporting requirement in India immediately before adopting Ind ASs. The changes made it mandatory for Indian entities to consider the financial statements prepared in accordance with existing notified Accounting Standards as was applicable to them as previous GAAP when it transitions to Ind ASs.

***Reason**:* The change makes it mandatory for Indian companies to consider the financial statements prepared in accordance with existing Accounting Standards notified under the Companies (Accounting Standards) Rules, 2006 as previous GAAP when it transitions to

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Ind AS as the law prevailing in India recognises the financial statements prepared in accordance with the Companies Act.

(ii) ***Allowing the use of Carrying Cost of Property, Plant and Equipment (PPE) on the Date of Transition of Ind AS 101:*** IFRS 1 *First time adoption of International Accounting Standards* provides that on the date of transition either the items of Property, Plant and Equipment shall be determined by applying IAS 16 '*Property, Plant and Equipment'* retrospectively or the same should be recorded at fair value.

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

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

(iii) ***Long-term Foreign Currency Monetary Items:*** No provision is given in IFRS 1 regarding Long-term Foreign Currency Monetary Items.

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

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

(iv) ***Financial Assets or Intangible Assets accounted for in accordance with Appendix C, Service Concession Arrangements to Ind AS 115, 'Revenue from Contracts with Customers'***

IFRS 1 provides that a first-time adopter may apply the transitional provisions in IFRIC 12 for account for financial assets or intangible assets.

Carve Out: Ind AS 101 provides that a first-time adopter may apply the following provisions while applying the Appendix C to Ind AS 115:

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(a) 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 amortization of intangible assets arising from service concession arrangements related to toll roads recognised in the financial statements for the period ending immediately before the beginning of the first Ind AS financial reporting period as per the previous GAAP.

(b) If, for any particular service arrangement, it is impracticable for an operator to apply this Appendix retrospectively at the date of transition to Ind ASs, it shall:

   (i) recognise financial assets and intangible assets that existed at the date of transition to Ind ASs;

   (ii) use the previous carrying amounts of those financial and intangible assets (however previously classified) as their carrying amounts as at that date; and

   (iii) test financial and intangible assets recognised at that date for impairment, unless this is not practicable, in which case the amounts shall be tested for impairment as at the start of the current period.

(c) There are two aspects to retrospective determination: reclassification and re-measurement. It will usually be practicable to determine retrospectively the appropriate classification of all amounts previously included in an operator's Balance Sheet, but that retrospective re-measurement of service arrangement assets might not always be practicable. However, the fact should be disclosed.

As a consequence to the above, a paragraph has been inserted in Ind AS 38 to scope out the entity, to apply amortisation method, 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 Ind AS 101.

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

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Question 10

Explain the carve outs in Ind AS 103 from IFRS 3 alongwith the reasons.

Answer

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

Carve out: Ind AS 103 requires the bargain purchase gain to be recognised in other comprehensive income and accumulated in equity as capital reserve, unless there is no clear evidence for the underlying reason for classification of the business combination as a bargain purchase, in which case, it shall be recognised directly in equity as capital reserve. A similar carve-out is made in Ind AS 28, Investments in Associates and Joint Ventures.

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

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