Ind AS pocket guide 2016

Concepts and principles of Ind AS in a nutshell

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Introduction

This pocket guide provides a brief summary of the recognition, measurement, presentation and disclosure requirements under the Indian Accounting Standards (referred to as Ind AS or Standards in the guide) prescribed under section 133 of the Companies Act, 2013, as notified under the Companies (Indian Accounting Standard) Rules, 2015, in a simple and concise manner.

It aims to present the fundamental concepts and principles of Ind AS in a nutshell. It provides a high-level understanding of Ind AS rather than a set of detailed definitive interpretations of standards. The application of Ind AS to a specific company or a transaction is a matter of judgement given its particular facts and circumstances.

We hope you will find this pocket guide useful as a ready reference before delving deeper into the technical details of Ind AS.

This guide has been updated for announcements up to December 2015.

Contents

Applicability and accounting principles of Indian Accounting Standards (Ind AS)

Presently, the Institute of Chartered Accountants of India (ICAI) has issued 39 Indian Accounting Standards (Ind AS) which have been notified under the Companies (Indian Accounting Standards) Rules, 2015 ('Ind AS Rules'), of the Companies Act, 2013.

Applicability of Ind AS

As per the notification released by the Ministry of Corporate Affairs (MCA) on 16 February 2015, the roadmap for Ind AS implementation is as follows:

Financial year	Mandatorily applicable to
2016-17	Companies (listed and unlisted) whose net worth is equal to or greater than 500 crore INR
2017-18	Unlisted companies whose net worth is equal to or greater than 250 crore INR and all listed companies
2018-19 onwards	When a company's net worth becomes greater than 250 crore INR
2015-16 or later	Entities, not under the mandatory road-map, may later voluntarily adopt Ind AS

Whenever a company gets covered under the roadmap, Ind AS becomes mandatory, its holding, subsidiary, associate and joint venture companies will also have to adopt Ind AS (irrespective of their net worth).

For the purpose of computing the net worth, reference should be made to the definition under the Companies Act, 2013. In accordance with section 2 (57) of the Companies Act, 2013, net worth is computed 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.

Ind AS will apply to both consolidated as well as standalone financial statements of a company. While overseas subsidiary, associate or joint venture companies are not required to prepare standalone financial statements under Ind AS, they will need to prepare Ind AS adjusted financial information to enable consolidation by the Indian parent.

Presently, insurance companies, banking companies and non-banking finance companies (NBFCs) are not required to apply Ind AS. The Ind AS rules are silent when these companies are subsidiaries, associates or joint ventures of a parent covered under the roadmap. It appears that these companies will need to report Ind AS adjusted financial information to enable consolidation by the parent.

In case of conflict between Ind AS and the law, the provisions of law will prevail and financial statements are to be prepared in compliance with the law.

Principles of Ind AS

The entities' general purpose financial statements give information about performance, position and cash flow that is useful to a range of users in making financial decisions. These users include shareholders, creditors, employees and the general public.

A complete set of financial statements under Ind AS includes the following:

- Balance sheet at the end of the period
- Statement of profit and loss for the period
- Statement of changes in equity for the period
- Statement of cash flows for the period; notes, comprising a summary of significant accounting policies and other explanatory information
- Comparative financial information in respect of the preceding period as specified
- Balance sheet as at the beginning of the preceding period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements having an impact on the balance sheet as at the beginning of the preceding period.

India has chosen a path of International Financial Reporting Standards (IFRS) convergence rather than adoption. Hence, Ind AS are primarily based on the IFRS issued by the International Accounting Standards Board (IASB). However, there are certain carve-outs from the IFRS. There are also certain general differences between Ind AS and IFRS:

- The transitional provisions given in each of the standards under IFRS have not been given in Ind AS, since all transitional provisions related to Ind AS, wherever considered appropriate, have been included in Ind AS 101, 'First-time adoption of Indian Accounting Standards', corresponding to IFRS 1, 'First-time adoption of International Financial Reporting Standards'.
- Different terminology is used in Ind AS when compared to IFRS, e.g. the term 'balance sheet' is used instead of 'statement of financial position' and 'statement of profit and loss' is used instead of 'statement of comprehensive income'.

Standards related to financial reporting and disclosures

First-time adoption of Ind AS: Ind AS 101

An entity moving from Indian GAAP to Ind AS needs to apply the requirements of Ind AS 101. It applies to an entity's first Ind AS financial statements and the interim reports presented under Ind AS 34, 'Interim financial reporting', which are part of that period.

The basic requirement is for full retrospective application of all Ind AS, effective at the reporting date. However, there are a number of optional exemptions and mandatory exceptions to the requirement of retrospective application.

The exemptions cover standards for which it is considered that retrospective application could prove too difficult or could result in a cost likely to exceed related benefits to users. The exemptions are optional. Any, all or none of the exemptions may be applied.

The optional exemptions relate to the following:

- Share-based payment transactions
- Insurance contracts
- Deemed cost
- Leases
- Cumulative translation differences
- Investment in subsidiaries, joint ventures and associates
- Assets and liabilities of subsidiaries, joint ventures and associates
- Compound financial instruments
- Designation of previously recognised financial instruments
- Fair value measurement of financial assets or financial liabilities at initial recognition

- Decommissioning liabilities included in the cost of property, plant and equipment
- Financial assets or intangible assets accounted for in accordance with service concession arrangements
- Borrowing costs
- Extinguishing financial liabilities with equity instruments
- Severe hyperinflation
- Joint arrangements
- Stripping costs in the production phase of a surface mine
- Designation of contracts to buy or sell a non-financial item
- Revenue from contracts with customers (Ind AS 115)
- Non-current assets held for sale and discontinued operations

Further, there are mandatory exceptions in applying the Ind AS requirements as summarised below:

- Derecognition of financial assets and liabilities
- Hedge accounting
- Non-controlling interests
- Classification and measurement of financial assets
- Impairment of financial assets
- Embedded derivatives
- Government loans
- Estimates

Comparative information is prepared and presented on the basis of Ind AS. Almost all adjustments arising from the first-time application of Ind AS are adjusted against opening retained earnings (or, if appropriate, another category of equity) of the first period that is presented on an Ind AS basis. Disclosures of certain reconciliations from Indian GAAP to Ind AS are required.

Presentation of financial statements: Ind AS 1

The objective of financial statements is to provide information that is useful in making economic decisions. This standard prescribes the basis for the presentation of general purpose financial statements in order to ensure comparability both with the entity's financial statements of previous periods and with those of other entities. It sets out overall requirements for the presentation of financial statements, guidelines for their structure and minimum requirements for their content.

Financial statements are prepared on a going concern basis unless management intends to either liquidate the entity or to cease trading, or has no realistic alternative but to do so. Management prepares its financial statements, except for cash flow information, under the accrual basis of accounting. There are minimum disclosures to be made in the financial statements and in the notes under Ind AS.

An entity shall present a single statement of profit and loss, with profit and loss and other comprehensive income presented in separate sections within the same statement. The sections shall be presented together with the profit and loss section presented first, followed directly by the other comprehensive section.

An entity shall present, with equal prominence, all of the financial statements in a complete set of financial statements. Financial statements disclose corresponding information for the preceding period, unless a standard or interpretation permits or requires otherwise.

Material items

The nature and amount of items of income and expense are disclosed separately where they are material. Disclosure may be in the statement or in the notes. Such income and expenses might include restructuring costs; write-downs of inventories or property, plant and equipment; litigation settlements; and gains or losses on disposals of property, plant and equipment.

Presentation of true and fair view

Financial statements shall present a true and fair view of the financial position, financial performance and cash flows of an entity. The application of Ind AS, with additional disclosures when necessary, is presumed to result in financial statements that present a true and fair view.

Going concern and accrual basis of accounting

An entity shall prepare financial statements on a going concern basis unless management intends to either liquidate the entity or cease trading, or has no realistic alternative but to do so.

An entity shall prepare its financial statements, except for cash flow information, using the accrual basis of accounting.

Offsetting

An entity shall not offset assets and liabilities or income and expenses, unless required or permitted by Ind AS.

Balance sheet

The balance sheet presents an entity's financial position at a specific point in time. Subject to meeting certain minimum presentation and disclosure requirements, management may use its judgement regarding the form of presentation, such as which sub-classifications to present and what information to disclose on the face of the statement or in the notes.

Ind AS 1 specifies that the following items, as a minimum, are presented on the face of the balance sheet:

- Assets: Property, plant and equipment; investment property; intangible assets; financial assets; investments accounted for using the equity method; biological assets; deferred tax assets; current tax assets; inventories; trade and other receivables; and cash and cash equivalents
- Equity: Issued capital and reserves attributable to the parent's owners; and non-controlling interest

- Liabilities: Deferred tax liabilities; current tax liabilities; financial liabilities; provisions; and trade and other payables
- Assets and liabilities held for sale: The total of assets classified as held for sale and assets included in disposal groups classified as held for sale; and liabilities included in disposal groups classified as held for sale in accordance with Ind AS 105, 'non-current assets held for sale and discontinued operations'.

Current and non-current assets and liabilities are presented as separate classifications in the statement, unless the presentation based on liquidity provides reliable and more relevant information.

Statement of profit and loss

The statement of profit and loss presents an entity's performance over a specific period. The statement of profit and loss includes all items of income and expense and includes each component of other comprehensive income classified by nature.

Items to be presented in statement of profit and loss

Ind AS 1 specifies certain items presented in the statement of profit and loss.

Additional line items or sub-headings are presented in this statement when relevant to an understanding of the entity's financial performance.

Any item of income or expense is not presented as extraordinary item in the statement of profit and loss or in the notes.

The expenses are classified in the statement of profit and loss based on the nature of expense.

Other comprehensive income

An entity shall present items of other comprehensive income grouped into those that will be reclassified subsequently to profit or loss and those that will not be reclassified. An entity shall disclose reclassification adjustments relating to the components of other comprehensive income.

An entity presents each component of other comprehensive income in the statement either as: (i) net of its related tax effects, or (ii) before its related tax effects, with the aggregate tax effect of these components shown separately.

An entity needs to also disclose reclassification adjustments relating to components of other comprehensive income.

Statement of changes in equity

The following items are presented in the statement of changes in equity:

- Total comprehensive income for the period, showing separately the total amounts attributable to the parent's owners and to non-controlling interest
- For each component of equity, the effects of retrospective application or retrospective restatement recognised in accordance with Ind AS 8, 'Accounting policies, changes in accounting estimates, and errors'.

- For each component of equity, reconciliation between the carrying amount at the beginning and the end of the period, separately disclosing changes resulting from the following:
  - Profit or loss
  - Other comprehensive income
  - Transactions with owners in their capacity as owners, showing separately contributions by and distributions to owners and changes in ownership interests in subsidiaries that do not result in a loss of control
  - Any item recognised directly in equity such as capital reserve on bargain purchase in a business combination transaction

The amounts of dividends recognised as distributions to owners during the period, and the related amount of dividends per share, shall be disclosed.

Statement of cash flows

Cash flow statements are addressed in a separate summary dealing with the requirements of Ind AS 7.

Notes to the financial statements

The notes are an integral part of the financial statements. Notes provide information additional to the amounts disclosed in the 'primary' statements. They also include accounting policies, critical accounting estimates and judgements, disclosures on capital and puttable financial instruments classified as equity.

Ind AS 1 requires disclosures regarding reconciliation between the carrying amount at the beginning and the end of the period for each component of equity including disclosure regarding recognition of bargain purchase gain arising on business combination in line with the treatment prescribed in this regard in Ind AS 103.

Statement of cash flows: Ind AS 7

The statement of cash flows (cash flow statement) is one of the primary statements in financial reporting (along with the statement of profit and loss, the balance sheet and the statement of changes in equity). It presents the generation and use of 'cash and cash equivalents' by category (operating, investing and finance) over a specific period of time. It provides users with a basis to assess the entity's ability to generate and utilise its cash.

Operating activities are the entity's revenue-producing activities. Investing activities are the acquisition and disposal of long-term assets (including business combinations) and investments that are not cash equivalents. Financing activities are the changes in equity and borrowings.

Management may present operating cash flows by using either the direct method (gross cash receipts/payments) or the indirect method (adjusting net profit or loss for non-operating and non-cash transactions, and for changes in working capital).

Cash flows from investing and financing activities are reported gross separately (that is, gross cash receipts and gross cash payments) unless they meet certain specified criteria.

Interest paid and interest and dividends received are classified as financing cash flows and investing cash flows respectively.

This is because they are costs of obtaining financial resources or returns on investments. Dividends paid should be classified as cash flows from financing activities because they are costs of obtaining financial resources.

Cash flows relating to taxation on income are classified and separately disclosed under operating activities unless they can be specifically attributed to investing or financing activities.

The total that summarises the effect of the operating, investing and financing cash flows is the movement in the balance of cash and cash equivalents for the period.

Bank borrowings are generally considered as financing activities. However, bank overdrafts, which are repayable on demand form an integral part of an entity's cash management, are included as a component of cash and cash equivalents.

Separate disclosure is made of significant non-cash transactions (such as the issue of equity for the acquisition of a subsidiary or the acquisition of an asset through a finance lease).

Non-cash transactions include impairment losses/reversals, depreciation, amortisation, fair value gains/losses and income statement charges for provisions.

Accounting policies, changes in accounting estimates and errors: Ind AS 8

An entity follows the accounting policies required by Ind AS relevant to the circumstances of the entity. However, for some situations, standards offer a choice. There are other situations where no guidance is given by Ind AS. In these situations, management needs to select appropriate accounting policies.

Management uses its judgement in developing and applying an accounting policy that results in relevant and reliable information. Reliable information demonstrates faithful representation, substance over form, neutrality, prudence and completeness. If there is no Ind AS or interpretation that is specifically applicable, management needs to consider the applicability of the requirements in Ind AS on similar and related issues, and then the definitions, recognition criteria and measurement concepts for assets, liabilities, income and expenses in the framework. In making the judgement on the selection of accounting policies, management may also first consider the most recent pronouncements of IASB and in absence thereof, those of the other standard-setting bodies that use a similar conceptual framework to develop accounting standards, other accounting literature and accepted industry practices, to the extent that these do not conflict with Ind AS.

Accounting policies need to be applied consistently to similar transactions and events (unless a standard permits or requires otherwise).

Changes in accounting policies

Changes in accounting policies made on adoption of a new standard are accounted for in accordance with the transition provisions (if any) within that standard. If specific transition provisions do not exist, a change in policy (whether required or voluntary) is accounted for retrospectively (that is, by restating all comparative figures presented) unless this is impracticable.

Issue of new or revised standards not yet effective

Standards are normally published in advance of the required implementation date. In the intervening period, where a new or revised standard relevant to an entity has been issued but is not yet effective, management discloses this fact. It also provides the known or reasonably estimable information relevant to assessing the impact the application of the standard might have on the entity's financial statements in the period of initial recognition.

Changes in accounting estimates

An entity prospectively recognises changes in accounting estimates by including the effects in profit or loss in the period affected (the period of the change and future periods), except if the change in estimate gives rise to changes in assets, liabilities or equity. In this case, it is recognised by adjusting the carrying amount of the related asset, liability or equity in the period of the change.

Errors

Errors may arise from mistakes and oversights or misinterpretation of information.

Errors discovered in a subsequent period are prior-period errors. Material prior-period errors are adjusted retrospectively (that is, by restating comparative figures) unless this is impracticable (that is, it cannot be done, after 'making every reasonable effort to do so').

Events after the reporting period: Ind AS 10

It is not generally practicable for preparers to finalise financial statements without a period of time elapsing between the balance sheet date and the date on which the financial statements are approved for issue. The question therefore arises whether events occurring between the balance sheet date and the date of approval (that is, events after the reporting period) should be reflected in the financial statements.

Events after the reporting period are either adjusting events or non-adjusting events. Adjusting events provide further evidence of conditions that existed at the balance sheet date, for example, determining after the year end the consideration for assets sold before the year end. Non-adjusting events relate to conditions that arose after the balance sheet date–for example, announcing a plan to discontinue an operation after the year end.

The carrying amounts of assets and liabilities at the balance sheet date are adjusted only for adjusting events or events that indicate that the going-concern assumption in relation to the whole entity is not appropriate. Significant non-adjusting post-balance-sheet events, such as the issue of shares or major business combinations, are disclosed.

Dividends proposed or declared after the balance sheet date but before the financial statements have been approved for issue are not recognised as a liability at the balance sheet date. Details of these dividends are, however, disclosed.

An entity discloses the date on which the financial statements were approved for issue and the persons approving the issue and, where necessary, the fact that the owners or other persons have the ability to amend the financial statements after issue.

Non-current assets held for sale and discontinued operations: Ind AS 105

Ind AS 105, 'Non-current assets held for sale and discontinued operations', is relevant when any disposal occurs or is planned including distribution of non-current assets to shareholders. The held-for-sale criteria in Ind AS 105 apply to non-current assets (or disposal groups) whose value will be recovered principally through sale rather than through continuing use. The criteria do not apply to assets that are being scrapped, wound down or abandoned.

Ind AS 105 defines a disposal group as a group of assets to be disposed of, by sale or otherwise, together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction.

The non-current asset (or disposal group) is classified as 'held for sale' if it is available for immediate sale in its present condition and its sale is highly probable. A sale is 'highly probable' where:

- There is evidence of management commitment
- There is an active programme to locate a buyer and complete the plan
- The asset is actively marketed for sale at a reasonable price compared to its fair value
- The sale is expected to be completed within 12 months of the date of classification
- Actions required to complete the plan indicate that it is unlikely that there will be significant changes to the plan or that it will be withdrawn

A non-current asset (or disposal group) is classified as 'held for distribution to owners' when the entity is committed to such distribution (that is, the assets must be available for immediate distribution in their present condition and the distribution must be highly probable). For a distribution to be highly probable, actions to complete the distribution need to have been initiated and should be expected to be completed within one year from the date of classification. Actions required to complete the distribution need to indicate that it is unlikely that significant changes to the distribution will be made or that the distribution will be withdrawn. The probability of shareholders' approval (if required in the jurisdiction) should be considered in the assessment of 'highly probable'.

Non-current assets (or disposal groups) classified as held for sale or as held for distribution are:

- Measured at the lower of the carrying amount and fair value less costs to sell
- Not depreciated or amortised
- Presented separately in the balance sheet (assets and liabilities should not be offset)

A discontinued operation is a component of an entity that can be distinguished operationally and financially for financial reporting purposes from the rest of the entity and:

- Represents a separate major line of business or geographical area of operation
- Is part of a single coordinated plan to dispose of a separate major line of business or major geographical area of operation
- Is a subsidiary acquired exclusively with a view for resale

An operation is classified as discontinued only at the date on which the operation meets the criteria to be classified as held for sale or when the entity has disposed of the operation.

Although balance sheet information is neither restated nor remeasured for discontinued operations, the statement of profit and loss information does have to be restated for the comparative period. Discontinued operations are presented separately in the statement of profit and loss and the cash flow statement. There are additional disclosure requirements in relation to discontinued operations.

The date of disposal of a subsidiary or disposal group is the date on which the control passes. The consolidated income statement includes the results of a subsidiary or disposal group up to the date of disposal and the gain or loss on disposal.

Fair value measurement: Ind AS 113

Ind AS 113 defines fair value as 'The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date' (Ind AS 113 para 9).

The key principle is that fair value is the exit price from the perspective of market participants who hold the asset or owe the liability at the measurement date. It is based on the perspective of market participants rather than the entity itself, so fair value is not affected by an entity's intentions towards the asset, liability or equity item that is being fair valued.

A fair value measurement requires management to determine four things:

- The particular asset or liability that is the subject of the measurement (consistent with its unit of account)
- The highest and best use for a non-financial asset
- The principal (or most advantageous) market
- The valuation technique (Ind AS 113 para B2)

Ind AS 113 addresses how to measure fair value but does not stipulate when fair value can or should be used.

Operating segments: Ind AS 108

Segment guidance requires an entity to disclose information that enables users of the financial statements to evaluate the nature and financial effects of the business activities and the economic environments through the eyes of management ('management approach').

The identification of an entity's operating segments is the core determinant for the level of information included in the segment disclosures. Operating segments are components of an entity, identified based on the breakout of information contained in the internal reports that are regularly used by the entity's chief operating decision-maker (CODM) to allocate resources and to assess performance.

Reportable segments are individual operating segments or a group of operating segments for which segment information must be separately reported (that is, disclosed). Aggregation of one or more operating segments into a single reportable segment is permitted (but not required) where certain conditions are met, the principal condition being that the operating segments should have similar economic characteristics. Whether multiple operating segments can be aggregated into a single reportable segment is a matter of significant judgement.

For each segment disclosed, entities are required to provide a measure of profit or loss in the format viewed by the CODM, as well as a measure of assets and liabilities if such amounts are regularly provided to the CODM. Other segment disclosures include revenue from customers for each group of similar products and services, revenue by geography and dependence on major customers. Additional detailed disclosures of performance and resources are required if the CODM reviews these amounts. A reconciliation of the total amount disclosed for all segments to the primary financial statements is required for revenue, profit and loss, and other material items reviewed by the CODM.

Related-party disclosures: Ind AS 24

Under Ind AS 24, disclosures are required in respect of an entity's transactions with related parties. Related parties include the following:

- Parents
- Subsidiaries
- Fellow subsidiaries
- Associates of the entity and other members of the group
- Joint ventures of the entity and other members of the group
- Members of key management personnel of the entity or of a parent of the entity (and close members of their families)
- Persons with control, joint control or significant influence over the entity (and close members of their families)
- Post-employment benefit plans
- Entities (or any of their group members) providing key management personnel services to the entity or its parent

Finance providers are not related parties simply because of their normal dealings with the entity.

Management discloses the name of the entity's parent and, if different, the ultimate controlling party. Relationships between a parent and its subsidiaries are disclosed irrespective of whether there have been transactions with them.

Where there have been related party transactions during the period, management discloses the nature of the relationship, as well as information about the transactions and outstanding balances, including commitments, necessary for users to understand the potential impact of the relationship on the financial statements. Disclosure is made by category of related party and by major type of transaction. Items of a similar nature may be disclosed in aggregate, except when separate disclosure is necessary for an understanding of the effects of related party transactions on the entity's financial statements.

Management only discloses that related party transactions were made on terms equivalent to those that prevail in arm's length transactions if such terms can be substantiated.

An entity is exempt from the disclosure of transactions (and outstanding balances) with a related party that is either a government that has control, joint control or significant influence over the entity or is another entity that is under the control, joint control or significant influence of the same government as the entity. Where the entity applies the exemption, it discloses the name of the government and the nature of its relationship with the entity. It also discloses the nature and amount of each individually significant transaction and the qualitative or quantitative extent of any collectively significant transactions.

Separate financial statements: Ind AS 27

This standard shall be applied in accounting for investments in subsidiaries, joint ventures and associates when an entity elects, or is required by law, to present separate financial statements.

Separate financial statements are those presented by a parent (that is, an investor with control of a subsidiary) or an investor with joint control of, or significant influence over, an investee, in which the investments are accounted for at cost or in accordance with Ind AS 109, 'Financial instruments'.

Financial statements in which the equity method is applied are not separate financial statements. These may be termed as 'consolidated financial statements'. Similarly, the financial statements of an entity that does not have a subsidiary, associate or joint venturer's interest in a joint venture are not separate financial statements.

Separate financial statements shall be prepared in accordance with all applicable Ind AS, except as follows:

When an entity prepares separate financial statements, it shall account for investments in subsidiaries, joint ventures and associates either at cost, or 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.

An entity shall recognise a dividend from a subsidiary, a joint venture or an associate in profit or loss in its separate financial statements when its right to receive the dividend is established.

Earnings per share: Ind AS 33

Earnings per share (EPS) is a ratio widely used by financial analysts, investors and others to gauge an entity's profitability and to value its shares. EPS is normally calculated in the context of ordinary shares of the entity. Earnings attributable to ordinary shareholders are therefore determined by deducting from net income the earnings attributable to holders of more senior equity instruments.

Basic EPS is calculated by dividing the profit or loss for the period attributable to the equity holders of the parent by the weighted average number of ordinary shares outstanding (including adjustments for bonus and rights issues).

Diluted EPS is calculated by adjusting the profit or loss and the weighted average number of ordinary shares by taking into account the conversion of any dilutive potential ordinary shares. Potential ordinary shares are those financial instruments and contracts that may result in issuing ordinary shares such as convertible bonds and options (including employee share options).

Basic and diluted EPS for both continuing and total operations are presented with equal prominence in the statement of profit and loss for each class of ordinary shares. Separate EPS figures for discontinued operations are disclosed in the same statement or in the notes.

Interim financial reporting: Ind AS 34

No Ind AS require an entity to publish interim financial statements. However, the publication of interim financial statements is required for listed entities under requirements of the listing agreement. For interim financial information, the entity needs to follow measurement and recognition principles laid down in this standard or the relevant Ind AS as applicable. For the purpose of disclosure, listed entities use the format as per the listing agreement.

In case of entities not preparing interim financial statements pursuant to the listing agreement but required to report interim financial information for any other purposes, they may either prepare full Ind AS financial statements (conforming to the requirements of Ind AS 1, 'Presentation of financial statements') or condensed financial statements. Condensed reporting is the more common approach. Condensed financial statements include a condensed balance sheet, a condensed statement of profit and loss, a condensed statement of cash flows, a condensed statement of changes in equity and selected explanatory notes.

An entity generally uses the same accounting policies for recognising and measuring assets, liabilities, revenues, expenses and gains and losses at interim dates as those to be used in the current year annual financial statements.

There are special measurement requirements for certain costs that can only be determined on an annual basis (for example, items such as tax that is calculated based on an estimated full-year effective rate) and the use of estimates in the interim financial statements. An impairment loss recognised in a previous interim period in respect of goodwill is not reversed.

As a minimum requirement, current period and comparative figures (condensed or complete) are disclosed as follows:

- Balance sheet as of the current interim period end with comparatives for the immediately preceding year end
- Statement of profit or loss-current interim period, financial year to date and comparatives for the same preceding periods (interim and year to date)
- Cash flow statement and statement of changes in equity–financial year to date with comparatives for the same year to date period of the preceding year
- Explanatory notes

Ind AS 34 sets out criteria to determine what information should be disclosed in the interim financial statements. These include the following:

- Materiality on the overall interim financial statements
- Unusual or irregular items
- Changes since previous reporting periods that have had a significant effect on the interim financial statements (of the current or previous reporting financial year)
- Relevance to the understanding of estimates used in the interim financial statements

The overriding objective is to ensure that an interim financial report includes all information relevant to understanding an entity's financial position and performance during the interim period.

Investment property: Ind AS 40

Certain properties are classified as investment properties for financial reporting purposes in accordance with Ind AS 40, ‘Investment property’, as the characteristics of these properties differ significantly from owner-occupied properties. It is the current value of such properties and changes to those values that are relevant to users of financial statements.

Investment property is property (land or a building, or part of a building or both) held by an entity to earn rentals and/or for capital appreciation. This category includes such property in the course of construction or development. Any other properties are accounted for as property, plant and equipment (PPE) or inventory in accordance with the following:

- Ind AS 16, ‘Property, plant and equipment’, if they are held for use in the production or supply of goods or services
- Ind AS 2, ‘Inventories’, as inventory, if they are held for sale in the ordinary course of business.

Initial measurement of an investment property will be at cost. Subsequent measurement of investment properties to be carried at cost less accumulated depreciation and any accumulated impairment losses. However, the fair value of the investment property is disclosed in the notes.

Standards providing guidance on financial statement line items

Revenue

The MCA notified Ind AS 115, ‘Revenue from contracts with customers’, which is aligned with IFRS 15, ‘Revenue from contracts with customers’. Subsequently, IASB confirmed the deferral of the effective date of IFRS 15 to 1 January 2018. Accordingly, the National Advisory Committee on Accounting Standards (NACAS) has made recommendations to the MCA to defer the implementation of the standard. Consequently, the ICAI has issued two Exposure Drafts (EDs), i.e. ED on Ind AS 11, ‘Construction contracts’, and ED on Ind AS 18, ‘Revenue’. These EDs are converged with IAS 11, ‘Construction contracts’, and IAS 18, ‘Revenue’, respectively.

Revenue: Ind AS 18 (Exposure Draft)

Revenue arising from the sale of goods is recognised when an entity transfers the significant risks and rewards of ownership and gives up managerial involvement, usually associated with ownership or control, if economic benefits are likely to flow to the entity and the amount of revenue and costs can be measured reliably.

Revenue from the rendering of services is recognised when the outcome of the transaction can be estimated reliably. This is done by reference to the stage of completion of the transaction at the balance sheet date, using requirements similar to those for construction contracts. The outcome of a transaction can be estimated reliably when: the amount of revenue can be measured reliably; it is probable that economic benefits will flow to the entity; the stage of completion can be measured reliably;

and the costs incurred and costs to complete can be reliably measured.

Examples of transactions where the entity retains significant risks and rewards of ownership and revenue is not recognised are when:

- the entity retains an obligation for unsatisfactory performance not covered by normal warranty provisions;
- the buyer has the power to rescind the purchase for a reason specified in the sales contract, and the entity is uncertain about the probability of return; and
- the goods are shipped subject to installation and that installation is a significant part of the contract.

Interest income is recognised using the effective interest rate method. Royalties are recognised on an accruals basis in accordance with the substance of the relevant agreement. Dividends are recognised when the shareholder's right to receive payment is established.

Revenue is measured at the fair value of the consideration received or receivable. Where consideration is deferred, it should be discounted to the present value. When the substance of a single transaction indicates that it includes separately identifiable components, revenue is allocated to these components generally by reference to their fair values. It is recognised for each component separately by applying the recognition criteria given below. For example, when a product is sold with a subsequent service, revenue is allocated initially to the product component and the service component; it is recognised separately thereafter when the criteria for revenue recognition are met for each component.

Appendix A, 'Barter transactions involving advertising services', clarifies the accounting for entities who enter into a barter transaction to provide advertising services in exchange for receiving advertising services from its customer. Revenue from a barter transaction involving advertising cannot be measured reliably at the fair value of advertising services received. However, a seller can reliably measure revenue at the fair value of the advertising services it provides in a barter transaction by reference only to non-barter transactions. This appendix only applies to an exchange of dissimilar advertising services. An exchange of similar advertising services is not a transaction that generates revenue under Ind AS 18 (Exposure Draft).

Appendix B, 'Customer loyalty programmes', clarifies the accounting for award credits granted to customers when they purchase goods or services, for example, under frequent flyer or supermarket loyalty schemes. The fair value of the consideration received or receivable in respect of the initial sale is allocated between the award credits and other components of the sale.

Appendix C, 'Transfers of assets from customers', clarifies the accounting for arrangements where an item of property, plant and equipment is transferred by a customer in return for connection to a network and/or ongoing access to goods or services. This will be most relevant to the utility industry, but it may also apply to other transactions, such as when a customer transfers ownership of property, plant and equipment as part of an outsourcing agreement.

Construction contracts: Ind AS 11 (Exposure Draft)

A construction contract is a contract specifically negotiated for the construction of an asset, or combination of assets, including contracts for the rendering of services directly related to the construction of the asset (such as project managers and architect services). Such contracts are typically fixed-price or cost-plus contracts. Revenue and expenses on construction contracts are recognised using the percentage-of-completion method. This means that revenue, expenses and, therefore, profit are recognised gradually as the contract activity occurs. When the outcome of the contract cannot be estimated reliably, revenue is recognised only to the extent of the costs incurred that are likely to be recovered; contract costs are recognised as an expense that is incurred. When the total contract costs are likely to exceed the total contract revenue, the expected loss is immediately recognised as an expense.

Accounting for construction contracts in respect of real estate developers will also be dealt with under Ind AS 11, since it has been kept out of the scope of Ind AS 18, 'Revenue'.

Revenue from contracts with customers: Ind AS 115

In May 2014, the Financial Accounting Standards Board (FASB) and IASB issued the converged standard on revenue recognition ASC 606 and IFRS 15, 'Revenue from contracts with customers'. Though the MCA notified Ind AS 115, which is converged with IFRS 15, the NACAS subsequently recommended the deferment of Ind AS 115.

The standard contains principles that an entity will apply to determine the measurement of revenue and timing of when it is recognised. The underlying principle is that an entity will recognise revenue to depict the transfer of goods or services to customers at an amount it expects to be entitled to in exchange for those goods or services. The standard can significantly change how entities recognise revenue, especially those that currently apply industry-specific guidance. The standard will also result in a significant increase in the volume of disclosures related to revenue.

While applying the new standard, entities will have to follow the following five-step process:

Identify the contract with a customer

Contracts can be oral or written. Following are the important criteria to consider before accounting for each contract:

- The parties have approved the contract and intend to

perform their respective obligations.
- Each party's rights regarding the goods or services to be transferred can be identified.
- The payment terms can be identified.
- The risk, timing or amount of the entity's future cash flows are expected to change (that is, the contract has commercial substance).
- It is probable that the entity will collect the consideration to which it will be entitled in exchange for goods or services transferred.

Identify the separate performance obligations in the contract

A performance obligation is a promise to transfer a distinct good or service (or a series of distinct goods or services that are substantially the same and have the same pattern of transfer) to a customer. The promise can be explicit, implicit or implied by an entity's customary business practice. The objective of identifying distinct performance obligations is to depict the transfer of goods or services to the customer. Identifying performance obligations is more challenging when there are multiple explicit or implicit promises in a contract.

Determine the transaction price

The transaction price is the amount of consideration that an entity expects to be entitled to in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of a third party (for example, some sales taxes). Determining the transaction price is more complex if the arrangement involves variable consideration, a significant financing component, non-cash consideration or consideration payable to a customer.

Allocate the transaction price to the separate performance obligations

The transaction price is allocated to the separate performance obligations in a contract based on the relative stand-alone selling prices of the goods or services promised. This allocation is made at contract inception and not adjusted to reflect subsequent changes in the standalone selling prices of those goods or services.

The best evidence of standalone selling price is the observable price of a good or service when the entity sells that good or service separately. Management will need to estimate the selling price of goods or services that do not have an observable standalone selling price, and maximise the use of observable inputs while making that estimate. Possible estimation methods include, but are not limited to the following:

- Expected cost plus and appropriate margin
- Assessment of market prices for similar goods or services adjusted for entity-specific costs and margins
- Residual approach, in limited circumstances

Discounts and variable consideration will typically be allocated proportionately to all of the performance obligations in the contract. A discount or variable consideration can be allocated to one or more separate performance obligations, rather than to all performance obligations in the arrangement if the following conditions are met:

- The entity regularly sells each distinct good or service (or each bundle of distinct goods or services) on a standalone basis.
- The entity regularly sells, on a standalone basis, a bundle of some of the goods or services at a discount to the standalone selling prices of the goods or services in that bundle.
- The discount attributable to the bundle of goods or services is substantially the same as the discount in the contract.

For example, when a product is sold with a subsequent service, basis above, revenue is allocated initially to the product component and the service component; it is recognised separately thereafter when the criteria for revenue recognition are met for each component.

Recognise revenue when (or as) each performance obligation is satisfied

The final step in the model is recognising revenue. An entity will recognise revenue when (or as) a good or service is transferred to the customer and the customer obtains control of that good or service. Control of an asset refers to an entity's ability to direct the use of and obtain substantially all of the remaining benefits (that is, the potential cash inflows or savings in outflows) from the asset. Directing the use of an asset refers to a customer's right to deploy that asset, to allow another entity to deploy that asset in its activities or to restrict another entity from deploying that asset.

The standard requires management to determine when the control of a good or service has been transferred to the customer. The timing of revenue recognition can change for some transactions when compared to current guidance, which is more focussed on the transfer of risks and rewards. Though the transfer of risks and rewards is an indicator of whether control has been transferred, additional indicators also need to be considered. For example, an entity that transfers control of a good to a customer but retains some economic risks might need to record revenue when the control over good transfers, while under existing guidance revenue recognition might be delayed until all of the economic risks have also transferred.

An entity needs to determine during contract inception whether the control of a good or service will be transferred over time or at a point in time. This determination needs to depict the transfer of benefits to the customer and should be evaluated from the customer's perspective. An entity should first assess whether the performance obligation is satisfied over time. If not, the good or service transfers at a point in time.

Recognition of revenue over time

An entity will recognise revenue over time if any of the following criteria are met:

- The customer concurrently receives and consumes the benefits provided by the entity's performance as the entity performs.
- The entity's performance creates or enhances a customer-controlled asset.
- The entity's performance does not create an asset with an alternative use and the entity has a right to payment for performance completed to date.

Recognition of revenue at a point in time

An entity will recognise revenue at a point in time (when control transfers) for performance obligations that do not meet the criteria for recognition of revenue over time.

To determine when a customer obtains control and an entity satisfies a performance obligation, the entity should consider the concept of control and the following indicators:

- The entity has a present right to payment for the asset.
- The entity transferred legal title to the asset.
- The entity transferred physical possession of the asset.
- The entity transferred significant risk and rewards of ownership to the customer.
- The customer accepted the asset.

Additional considerations

Certain additional concepts in Ind AS 115, dealt with in greater detail than in today's GAAP guidance, have been summarised below:

Multiple element arrangements

Understanding what a customer expects to receive as a final product is necessary to assess whether goods or services need to be combined and accounted as a single performance obligation or multiple elements. Some contracts contain a promise to deliver multiple goods or services, but the customer is not purchasing the individual items. The customer, instead, is purchasing the final good or service which is the aggregate of those individual items. Judgement, based on proper application of the principles envisaged in Ind AS 115, will determine whether a contract involves a single or multiple separate performance obligations. The guidance provided in Ind AS 115 is more detailed and explicit for such situations compared to the current accounting practices.

Variable consideration

Entities may agree to provide goods or services for consideration that varies upon certain future events which may or may not occur. Examples include refund rights, performance bonuses and penalties. This can sometimes be driven by the past practice of an entity or industry, for example, if there is a history of providing discounts or concessions after the goods are sold.

Under current practice (pre Ind AS 115), it is not uncommon to defer revenue until the contingency is resolved. However, upon adoption of Ind AS 115, an estimate of variable consideration needs to be made at contract inception and a reassessment may be required at each reporting date. Even if the entire amount of variable consideration fails to meet this threshold, management will need to consider whether a portion does meet the criterion. This amount is recognised as revenue when goods or services are transferred to the customer and can affect entities in industries where variable consideration is currently not recorded until all contingencies are resolved. Management will need to reassess estimates at each reporting period, and adjust revenue accordingly. This can result in early revenue recognition in comparison with current practice.

Time value of money

Some contracts provide the customer or the entity with a significant financing benefit (explicitly or implicitly). This is because performance by an entity and payment by its customer might occur at significantly different times. Under the new standard, an entity needs to adjust the transaction price for the time value of money if the contract includes a significant financing component. The standard provides certain exceptions to applying this guidance and a practical expedient which allows entities to ignore time value of money if the time between transfer of goods or services and payment is less than one year. Presently, such financing benefit is not identified and separated under the current Indian GAAP. This aspect will impact entities which have significant advance or deferred payment arrangements.

Contract costs

Entities sometimes incur costs (such as sales commissions or mobilisation activities) to obtain or fulfil a contract. Contract costs that meet certain criteria will be capitalised as assets and amortised as revenue under the new standard. Such capitalised costs will require a periodic review for recoverability and impairment, if applicable.

Disclosures

Further, the disclosures required in Ind AS 115 are far more elaborate than the prevalent practice. For instance, quantitative and qualitative information will have to be provided about significant judgements and changes in those judgements that management makes to determine revenue.

Service concession arrangements: Appendix A to Ind AS 11 (Exposure Draft)

Appendix A to Ind AS 11 (Exposure Draft) 'Service concession arrangements' sets out the accounting requirements for service concession arrangements, while Appendix B to Ind AS 11 (Exposure Draft) 'Services concession arrangements: Disclosures' contains disclosure requirements.

Appendix A and B of Ind AS 11 (Exposure Draft) apply to public-to-private service concession arrangements in which the public sector body (the grantor) controls and/or regulates the services provided with the infrastructure by the private sector entity (the operator).

The concession arrangement also addresses to whom the operator needs to provide the services and at what price. The grantor controls any significant residual interest in the infrastructure. As the infrastructure is controlled by the grantor, the operator does not recognise the infrastructure as its property, plant and equipment; nor does the operator recognise a finance lease receivable for leasing the public service infrastructure to the grantor, regardless of the extent to which the operator bears the risk and rewards incidental to ownership of the assets.

The operator recognises a financial asset to the extent that it has an unconditional contractual right to receive cash irrespective of the usage of the infrastructure or an intangible asset to the extent that it receives a right (a license) to charge users of the public service.

Under both the financial asset and the intangible asset models, the operator accounts for revenue and costs relating to construction or upgrade services in accordance with Ind AS 11 (Exposure Draft), 'Revenue from contracts with customers'. The operator recognises revenue and costs relating to operation services in accordance with Ind AS 11 (Exposure Draft). Any contractual obligation to maintain or restore infrastructure, except for upgrade services, is recognised in accordance with Ind AS 37, 'Provisions, contingent liabilities and contingent assets'.

Inventories: Ind AS 2

Inventories are initially recognised at the lower of cost and net realisable value (NRV). Cost of inventories includes import duties, non-refundable taxes, transport and handling costs and any other directly attributable costs, less trade discounts, rebates and similar items. Costs such as abnormal amount of wasted materials, storage costs, administrative costs and selling costs are excluded from the cost of inventories. NRV is the estimated selling price in the ordinary course of business, less the estimated costs of completion and estimated selling expenses.

Techniques for the measurement of the cost of inventories, such as the standard cost method or the retail method, may be used for convenience if the results approximate cost.

Ind AS 2, 'Inventories', requires the cost for items that are not interchangeable or that have been segregated for specific contracts to be determined on an individual-item basis. The cost of other inventory items used is assigned by using either the first-in, first-out (FIFO) or weighted average cost formula. Last-in, first-out (LIFO) is not permitted. An entity uses the same cost formula for all inventories of similar nature and use to the entity. A different cost formula may be justified where inventories have a different nature or use. The cost formula used is applied on a consistent basis from period to period.

An entity may purchase inventories on deferred payment 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.

Income taxes: Ind AS 12

Ind AS 12 deals only with taxes on income, comprising current tax and deferred tax.

Current tax expense for a period is based on the taxable and deductible amounts to be used for the computation of the taxable income for the current year. An entity recognises a liability in the balance sheet in respect of current tax expense for the current and prior periods to the extent unpaid. It recognises an asset if current tax has been overpaid.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be paid to (recovered from) the taxation authorities, using the tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date.

Tax payable based on taxable profit seldom matches the tax expense that might be expected based on pre-tax accounting profit. The mismatch can occur because Ind AS recognition criteria for items of income and expense are different from the treatment of items under tax law.

Deferred tax accounting seeks to deal with this mismatch. It is based on the temporary differences between the tax base of an asset or liability and its carrying amount in the financial statements. For example, if an asset is revalued upwards but not sold, the revaluation creates a temporary difference (if the carrying amount of the asset in the financial statements is greater than the tax base of the asset), and the tax consequence is a deferred tax liability.

Deferred tax is provided in full for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements, except when the temporary difference arises from the following:

- Initial recognition of goodwill (for deferred tax liabilities only)
- Initial recognition of an asset or liability in a transaction which is not a business combination and which affects neither accounting profit nor taxable profit
- Investments in subsidiaries, branches, associates and joint ventures, but only when certain criteria apply

Deferred tax assets and liabilities are 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 balance sheet date. The discounting of deferred tax assets and liabilities is not permitted.

Generally, the measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that would follow based on what the entity expects, at the balance sheet date, to recover or settle the carrying amount of its assets and liabilities. The expected manner of recovery of land with an unlimited life is always through sale. For other assets, the manner in which management expects to recover the asset (that is, through use or through sale or through a combination of both) is considered at each balance sheet date.

Management only recognises a deferred tax asset for 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. This also applies to deferred tax assets for unused tax losses carried forward.

Current and deferred tax is recognised in profit or loss for the period, unless the tax arises from a business combination or a transaction or event that is recognised outside profit or loss, either in other comprehensive income or directly in equity in the same or different period. The accompanying tax consequences, for example, a change in tax rates or tax laws, a reassessment of the recoverability of deferred tax assets or a change in the expected manner of recovery of an asset are recognised in profit or loss, except to the extent that they relate to the items previously charged or credited outside of profit or loss.

Property, plant and equipment: Ind AS 16

Property, plant and equipment (PPE) is recognised when the cost of an asset can be reliably measured and it is probable that the entity will obtain future economic benefits from the asset.

PPE is measured initially at cost. Cost includes the fair value of the consideration given to acquire the asset (net of discounts and rebates) and any directly attributable cost of bringing the asset to working condition for its intended use (inclusive of import duties and non-refundable purchase taxes).

Directly attributable costs include the cost of site preparation, delivery, installation costs, relevant professional fees and the estimated cost of dismantling and removing the asset and restoring the site (to the extent that such a cost is recognised as a provision).

Classes of PPE are carried at historical cost less accumulated depreciation and any accumulated impairment losses (the cost model), or at a revalued amount less any accumulated depreciation and subsequent accumulated impairment losses (the revaluation model). The depreciable amount of PPE (being the gross carrying value less the estimated residual value) is depreciated on a systematic basis over its useful life.

Subsequent expenditure relating to an item of PPE is capitalised if it meets the recognition criteria.

PPE may comprise parts with different useful lives. Depreciation is calculated based on each individual part's life. In case of replacement of one part, the new part is capitalised to the extent that it meets the recognition criteria of an asset, and the carrying amount of the parts replaced is derecognised.

The cost of a major inspection or overhaul of an item occurring at regular intervals over the useful life of the item is capitalised to the extent that it meets the recognition criteria of an asset. The carrying amounts of the parts replaced are derecognised.

Leases: Ind AS 17

A lease gives one party (the lessee) the right to use an asset over an agreed period of time in return for payment to the lessor. Leasing is an important source of medium and long-term financing; and accounting for leases can have a significant impact on lessees' and lessors' financial statements.

Leases are classified as finance or operating leases at inception, depending on whether substantially all the risks and rewards of ownership transfers to the lessee. Under a finance lease, the lessee has substantially all of the risks and rewards of ownership. All other leases are operating leases. Leases of land and buildings are considered separately under Ind AS.

Under a finance lease, the lessee recognises an asset held under a finance lease and a corresponding obligation to pay rentals. The lessee depreciates the asset.

The lessor recognises the leased asset as a receivable. The receivable is measured at the 'net investment' in the lease–the minimum lease payments receivable, discounted at the internal rate of return of the lease, plus the unguaranteed residual that accrues to the lessor.

Under an operating lease, the lessee does not recognise an asset and lease obligation. The lessor continues to recognise the leased asset and depreciates it. The rentals paid are normally charged to the income statement of the lessee and credited to that of the lessor on a straight-line basis unless another systematic basis is more representative of the time pattern of the user's benefit or if the payments to the lessor are agreed to increase in line with expected general inflation to compensate for the lessor's expected inflationary cost increases.

Linked transactions with the legal form of a lease are accounted for on the basis of their substance–for example, a sale and leaseback where the seller is committed to repurchase the asset may not be a lease in substance if the 'seller' retains the risks and rewards of ownership and substantially the same rights of use as before the transaction.

Equally, some transactions that do not have the legal form of a lease are in substance leases if they are dependent on a particular asset that the purchaser can control physically or economically.

Employee benefits: Ind AS 19

The accounting for employee benefits, for pensions in particular, is complex. The liabilities in defined benefit pension plans are frequently material. They are long-term and difficult to measure, and this gives rise to difficulty in measuring the cost attributable to each year.

Employee benefits are all forms of consideration given or promised by an entity in exchange for services rendered by its employees. These benefits include salary-related benefits (such as wages, profit-sharing, bonuses and compensated absences, such as paid holiday and long-service leave), termination benefits (such as severance and redundancy pay) and post-employment benefits (such as retirement benefit plans). Ind AS 19 is relevant for all employee benefits except for those to which Ind AS 102, share-based payments, applies.

Post-employment benefits include pensions, post-employment life insurance and medical care. Pensions are provided to employees either through defined contribution plans or defined benefit plans.

Recognition and measurement for short-term benefits are relatively straightforward, because actuarial assumptions are not required and the obligations are not discounted. However, long-term benefits, particularly post-employment benefits, give rise to more complicated measurement issues.

Defined contribution plans

Accounting for defined contribution plans is straightforward. The cost of defined contribution plans is the contribution payable by the employer for that accounting period.

Defined benefit plans

Accounting for defined benefit plans is complex because actuarial assumptions and valuation methods are required to measure the balance sheet obligation and the expense. The expense recognised generally differs from the contributions made in the period.

Subject to certain conditions, the net amount recognised on the balance sheet is the difference between the defined benefit obligation and the plan assets.

To calculate the defined benefit obligation, estimates (actuarial assumptions) regarding demographic variables (such as employee turnover and mortality) and financial variables (such as future increases in salaries and medical costs) are made and included in a valuation model. The resulting benefit obligation is then discounted to a present value. This normally requires the expertise of an actuary.

Where defined benefit plans are funded, the plan assets are measured at fair value. Where no market price is available, the fair value of plan assets is estimated, for example, by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity of those assets. Plan assets are tightly defined, and only assets that meet a strict definition may be offset against the plan's defined benefit obligations, resulting in a net surplus or net deficit that is shown on the balance sheet.

At each balance sheet date, the plan assets and the defined benefit obligations are remeasured. The income statement reflects the change in the surplus or deficit, except for contributions made to the plan and benefits paid by the plan, along with business combinations and remeasurement gains and losses.

Remeasurement gains and losses comprise actuarial gains and losses, return on plan assets (comprise amounts included in net interest on the net defined benefit liability or asset) and any change in the effect of the asset ceiling (excluding amounts included in net interest on the net defined benefit liability or asset). Remeasurements are recognised in other comprehensive income.

The amount of pension expense (income) to be recognised in profit or loss is comprised of the following individual components, unless they are required or permitted to be included in the costs of an asset:

- Service costs (present value of the benefits earned by active

employees)
- Net interest costs (unwinding of the discount on the defined benefit obligations and a theoretical return on plan assets)

Service costs comprise the 'current service costs', which are the increase in the present value of the defined benefit are resulting from employee services in the current period, 'past-service costs' (as defined below and including any gain or loss on curtailment) and any gain or loss on settlement.

Net interest on the net defined benefit liability (asset) is defined as, 'the change during the period in the net defined benefit liability (asset) that arises from the passage of time' (Ind AS 19 para 8). The net interest cost can be viewed as comprising theoretical interest income on plan assets, interest cost on the defined benefit obligation (that is, representing the unwinding of the discount on the plan obligation) and interest on the effect of the asset ceiling (Ind AS 19 para 124).

Net interest on the net defined benefit liability (asset) is calculated by multiplying the net defined benefit liability (asset) by the discount rate, both as determined at the start of the annual reporting period, taking account of any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments (Ind AS 19 para 123). The discount rate applicable to any financial year is an appropriate government bond rate. However, subsidiaries, associates, joint ventures and branches domiciled outside India shall discount post-employment benefit obligations arising on account of post-employment benefit plans using the rate determined by reference to market yields at the end of the reporting period on high quality corporate bonds. In case such subsidiaries, associates, joint ventures and branches are domiciled in countries where there is no deep market in such bonds, the market yield (at the end of the reporting period) on government bonds of that country shall be used. Net interest on the net defined benefit liability (asset) can be viewed as effectively including theoretical interest income on plan assets.

Past-service costs are defined as a change in the present value of the defined benefit obligation for employee services in prior periods, resulting from a plan amendment (the introduction or withdrawal of, or changes to, a defined benefit plan) or a curtailment (a significant reduction by the entity in the number of employees covered by a plan). Past-service costs need to be recognised as an expense generally when a plan amendment or curtailment occurs. Settlement gains or losses are recognised in the income statement when the settlement occurs.

Appendix B, 'Ind AS 19–The limit on a defined benefit asset, minimum funding requirements and their interaction', provides guidance on assessing the amount that can be recognised as an asset when plan assets exceed the defined benefit obligation, creating a net surplus. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement.

Share-based payment: Ind AS 102

Ind AS 102 applies to all share-based payment arrangements. A share-based payment arrangement is defined as:

An agreement between the entity (or another group entity or any shareholder of any group entity) and another party (including an employee) that entitles the other party to receive:

- cash or other assets of the entity for amounts that are based on the price (or value) of equity instruments (including shares or share options) of the entity or another group entity, or
- equity instruments (including shares or share options) of the

entity or another group entity.

The most common application is employee share schemes such as share option schemes. However, entities sometimes also pay for other expenses such as professional fees, and for the purchase of assets by means of share-based payment.

The accounting treatment under Ind AS 102 is based on the fair value of the instruments. Both the valuation of and the accounting for awards sometimes can be difficult due to the complex models that may need to be used to calculate the fair value of options, and also due to the variety and complexity of schemes. In addition, the standard requires extensive disclosures.

The result generally is reduced reported profits, especially in entities that use share-based payment extensively as part of their remuneration strategy.

All transactions involving share-based payment are recognised as expenses or assets over underlying vesting period.

Equity-settled share-based payment transactions are measured at the grant date fair value for employee services; and, for non-employee transactions, at the fair value of the goods or services received at the date on which the entity recognises the goods or services. If the fair value of the goods or services cannot be estimated reliably—such as employee services and circumstances in which the goods or services cannot be specifically identified—the entity uses the fair value of the equity instruments granted.

Equity-settled share-based payment transactions are not remeasured once the grant date fair value has been determined.

The treatment is different for cash-settled share-based payment transactions—cash-settled awards are measured at the fair value of the liability. The liability is remeasured at each balance sheet date through the date of settlement, with changes in fair value recognised in the income statement.

Accounting for government grants and disclosure of government assistance: Ind AS 20

Government grants are recognised when there is reasonable assurance that the entity will comply with the conditions related to them and that the grants will be received.

Grants related to income are recognised in profit or loss on a systematic basis over the periods necessary to match them with the related costs that they are intended to compensate. They are either offset against the related expense or presented as separate income. The timing of such recognition in profit or loss will depend on the fulfilment of any conditions or obligations attached to the grant.

Grants related to assets are presented as deferred income in the balance sheet. Profit or loss will be affected by deferred income being recognised as income systematically over the useful life of the related asset.

Cash movements related to purchase of assets and receipt of related grants are disclosed as separate items in the statement of cash flows.

Non-monetary grants are required to be accounted at fair value.

Effects of changes in foreign exchange rates and financial reporting in hyperinflationary economies: Ind AS 21 and Ind AS 29

Many entities do business with overseas suppliers or customers, or have overseas operations. This gives rise to two main accounting issues:

- Some transactions (for example, those with overseas suppliers or customers) may be denominated in foreign currencies. These transactions are expressed in the entity's own currency (functional currency) for financial reporting purposes.
- A parent entity may have foreign operations such as overseas

subsidiaries, branches or associates. The functional currency of these foreign operations may be different to the parent entity's functional currency and therefore the accounting records may be maintained in different currencies. Because it is not possible to combine transactions measured in different currencies, the foreign operation's results and financial position are translated into a single currency, namely that in which the group's consolidated financial statements are reported (presentation currency).

The methods required for each of the above circumstances have been summarised below.

Expressing foreign currency transactions in the entity's functional currency

A foreign currency transaction is expressed in an entity's functional currency using the exchange rate at the transaction date. Foreign currency balances representing cash or amounts to be received or paid in cash (monetary items) are retranslated at the end of the reporting period using the exchange rate on that date. Exchange differences on such monetary items are recognised as income or expense for the period, except where an entity has opted for the exemption given in Ind AS 101, allowing it to 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 beginning of the first Ind AS financial reporting period as per the previous GAAP. Such an entity may continue to apply the accounting policy so opted for such long-term foreign currency monetary items under previous GAAP. Non-monetary balances that are not remeasured at fair value and are denominated in a foreign currency are expressed in the functional currency using the exchange rate at the transaction date. Where a non-monetary item is remeasured at fair value in the financial statements, the exchange rate at the date when fair value was determined is used.

Translating functional currency financial statements into a presentation currency

Assets and liabilities are translated from the functional currency to the presentation currency at the closing rate at the end of the reporting period. The income statement is translated at exchange rates at the dates of the transactions or at the average rate if that approximates the actual rates. All resulting exchange differences are recognised in other comprehensive income.

Change in functional currency

When there is a change in functional currency of either the reporting entity or a significant foreign operation, Ind AS 21 requires disclosure of that fact and the reason for the change in functional currency along with disclosure of the date of change in functional currency. The effect of a change in functional currency is accounted for prospectively.

The financial statements of a foreign operation that has the currency of a hyperinflationary economy as its functional currency are first restated in accordance with Ind AS 29, 'Financial reporting in hyperinflationary economies'. All components are then translated to the presentation currency at the closing rate at the end of the reporting period. Disclosure regarding the duration of the hyperinflationary situation existing in the economy needs to be provided.

Financial reporting in hyperinflationary economies

In a hyperinflationary economy, reporting of operating results and financial position in the local currency without restatement is not useful. Money loses purchasing power at such a rate that comparison of amounts from transactions and other events that have occurred at different times, even within the same accounting period, is misleading.

Ind AS 29 applies to the financial statements of entities reporting in the currency of a hyperinflationary economy. Presentation of the information required by this standard as a supplement to unrestated financial statements is not permitted. Furthermore, separate presentation of the financial statements before restatement is discouraged.

The financial statements of an entity whose functional currency is the currency of a hyperinflationary economy, whether they are based on a historical cost approach or a current cost approach, shall be stated in terms of the measuring unit current at the end of the reporting period.

The corresponding figures for the previous period required by Ind AS 1, 'Presentation of financial statements', and any information in respect of earlier periods shall also be stated in terms of the measuring unit current at the end of the reporting period. For the purpose of presenting comparative amounts in a different presentation currency, paragraphs 42(b) and 43 of Ind AS 21, 'The effects of changes in foreign exchange rates', apply.

The gain or loss on the net monetary position shall be included in profit or loss and separately disclosed.

The restatement of financial statements in accordance with this standard requires the application of certain procedures as well as judgement. The consistent application of these procedures and judgements from period to period is more important than the precise accuracy of the resulting amounts included in the restated financial statements.

The restatement of financial statements in accordance with this standard requires the use of a general price index that reflects changes in general purchasing power. It is preferable that all entities that report in the currency of the same economy use the same index.

When an economy ceases to be hyperinflationary and an entity discontinues the preparation and presentation of financial statements prepared in accordance with this standard, it shall treat the amounts expressed in the measuring unit current at the end of the previous reporting period as the basis for the carrying amounts in its subsequent financial statements.

Borrowing costs: Ind AS 23

Under Ind AS 23, 'Borrowing costs', borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are to be capitalised. An entity shall recognise other borrowing costs as an expense in the period in which it incurs them.

Borrowing costs are interest and other costs that an entity incurs in connection with the borrowing of funds.

A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale.

An entity shall begin capitalising borrowing costs as part of the cost of a qualifying asset on the commencement date. The commencement date for capitalisation is the date when the entity first meets all of the following conditions:

- Incurs expenditures for the asset
- Incurs borrowing costs
- Undertakes activities that are necessary to prepare the asset for its intended use or sale

An entity shall suspend capitalisation of borrowing costs during extended periods in which it suspends active development of a qualifying asset.

An entity shall cease capitalising borrowing costs when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

Impairment of assets: Ind AS 36

Nearly all assets—current and non-current—are subject to an impairment test to ensure that they are not overstated on the balance sheet.

The basic principle of impairment is that an asset may not be carried on the balance sheet above its recoverable amount. Recoverable amount is defined as the higher of the asset's fair value less costs of disposal and its value in use. Fair value less costs of disposal is the price that would be received to sell upon disposal of an asset in an orderly transaction between market participants at the measurement date, less costs of disposal. Guidance on fair valuing is given in Ind AS 113, 'Fair value measurement'. Value in use requires management to estimate the future pre-tax cash flows to be derived from the asset and discount them using a pre-tax market rate that reflects current assessments of the time value of money and the risks specific to the asset.

All assets, subject to the impairment guidance, are tested for impairment where there is an indication that the asset may be impaired. Certain assets (goodwill, indefinite lived intangible assets and intangible assets that are not yet available for use) are also tested for impairment annually even if there is no impairment indicator. This impairment test may be performed any time during the annual period, provided it is performed at the same time every year.

When considering whether an asset is impaired, both external indicators (for example, significant adverse changes in the technological, market, economic or legal environment or increases in market interest rates) and internal indicators (for example, evidence of obsolescence or physical damage of an asset or evidence from internal reporting that the economic performance of an asset is, or will be, worse than expected) are considered.

Recoverable amount is calculated at the individual asset level. However, an asset seldom generates cash flows independently of other assets, and most assets are tested for impairment in groups of assets described as cash-generating units (CGUs). A CGU is the smallest identifiable group of assets that generates inflows that are largely independent from the cash flows from other CGUs.

The carrying value of an asset is compared to the recoverable amount (being the higher of value in use or fair value less costs of disposal). It is not always necessary to determine both an asset's fair value less cost of disposal and its value in use. If either of these amounts exceeds the carrying amount, the asset is not impaired and it is not necessary to estimate the other amount.

An asset or CGU is impaired when its carrying amount exceeds its recoverable amount. Any impairment is allocated to the asset or assets of the CGU, with the impairment loss recognised in profit or loss.

Goodwill acquired in a business combination is allocated to the acquirer's CGUs or groups of CGUs that are expected to benefit from the synergies of the business combination. However, the largest group of CGUs permitted for goodwill impairment testing is an operating segment before aggregation.

An impairment loss recognised in prior periods for an asset other than goodwill shall be reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Provisions, contingent liabilities and contingent assets: Ind AS 37

A liability is a 'present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits'. A provision falls within the category of liabilities and is defined as 'a liability of uncertain timing or amount'.

Recognition and initial measurement

A provision is recognised when: the entity has a present obligation to transfer economic benefits as a result of past events; it is probable (more likely than not) that such a transfer will be required to settle the obligation; and a reliable estimate of the amount of the obligation can be made.

The amount recognised as a provision is the best estimate of the expenditure required to settle the obligation at the balance sheet date, measured at the expected cash flows discounted for the time value of money. Provisions are not recognised for future operating losses.

A present obligation arises from an obligating event and may take the form of either a legal obligation or a constructive obligation. An obligating event leaves the entity with no realistic alternative to settle the obligation. If the entity can avoid future expenditure by its future actions, it has no present obligation, and no provision is required. For example, an entity cannot recognise a provision based solely on the intent to incur expenditure at some future date or the expectation of future operating losses.

An obligation does not generally have to take the form of a 'legal' obligation before a provision is recognised. An entity may have an established pattern of past practice that indicates to other parties that it will accept certain responsibilities and as a result has created a valid expectation on the part of those other parties that it will discharge those responsibilities (that is, the entity is under a constructive obligation).

If an entity has an onerous contract (the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it), the present obligation under the contract is recognised as a provision.

Impairments of any assets dedicated to the contract are recognised before making a provision.

Restructuring provisions

There are specific requirements for restructuring provisions. A provision is recognised when the following points are met: (a) a detailed formal plan identifying the main features of the restructuring; and (b) a valid expectation in those affected that the entity will carry out the restructuring by starting to implement the plan or by announcing its main features to those affected.

A restructuring plan does not create a present obligation at the balance sheet date if it is announced after that date, even if it is announced before the financial statements are approved. A sale or termination of a business might fall under the definition of restructuring. No obligation arises in respect of restructuring costs associated with the sale of an operation until the entity is committed to the sale (that is, there is a binding sale agreement).

The provision includes only incremental costs necessarily resulting from the restructuring and not those associated with the entity's ongoing activities. Any expected gains on the sale of assets are not considered in measuring a restructuring provision.

Reimbursements

An obligation and any anticipated recovery are presented separately as a liability and an asset respectively; however, an asset can only be recognised if it is virtually certain that settlement of the obligation will result in a reimbursement, and the amount recognised for the reimbursement should not exceed the amount of the provision. The amount of any expected reimbursement is disclosed. Net presentation is permitted only in the income statement.

Subsequent measurement

Management performs an exercise at each balance sheet date to identify the best estimate of the expenditure required to settle the present obligation at the balance sheet date, discounted at an appropriate rate. The increase in provision due to the passage of time (that is a consequence of the discount rate) is recognised as borrowing cost.

Contingent liabilities

Contingent liabilities are possible obligations whose existence will be confirmed only on the occurrence or non-occurrence of uncertain future events outside the entity's control, or present obligations that are not recognised because of the following: (a) It is not probable that an outflow of economic benefits will be required to settle the obligation; or (b) the amount cannot be measured reliably.

Contingent liabilities are not recognised but are disclosed and described in the notes to the financial statements, including an estimate of their potential financial effect and uncertainties relating to the amount or timing of any outflow, unless the possibility of settlement is remote.

Contingent assets

Contingent assets are possible assets whose existence will be confirmed only on the occurrence or non-occurrence of uncertain future events outside the entity's control. Contingent assets are not recognised. When the realisation of income is virtually certain, the related asset is not a contingent asset; it is recognised as an asset.

Contingent assets are disclosed and described in the notes to the financial statements, including an estimate of their potential financial effect if the inflow of economic benefits is probable.

Levies

Appendix C, 'Levies', is an interpretation of Ind AS 37, 'Provisions, contingent liabilities and contingent assets'. Ind AS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (known as an obligating event). The interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy.

Intangible assets: Ind AS 38

An intangible asset is an identifiable non-monetary asset without physical substance. The identifiable criterion is met when the intangible asset is separable (that is, when it can be sold, transferred or licensed), or where it arises from contractual or other legal rights.

Separately acquired intangible assets

Separately acquired intangible assets are recognised initially at cost. Cost comprises the purchase price, including import duties and non-refundable purchase taxes and any directly attributable costs of preparing the asset for its intended use. The purchase price of a separately acquired intangible asset incorporates assumptions about the probable economic future benefits that may be generated by the asset.

Internally generated intangible assets

The process of generating an intangible asset is divided into a research phase and a development phase. No intangible assets arising from the research phase may be recognised. Intangible assets arising from the development phase are recognised when the entity can demonstrate the following:

- Its technical feasibility
- Its intention to complete the developments
- Its ability to use or sell the intangible asset
- How the intangible asset will generate probable future economic benefits (for example, the existence of a market for the output of the intangible asset or for the intangible asset itself)
- The availability of resources to complete the development
- Its ability to measure the attributable expenditure reliably

Any expenditure written off during the research or development phase cannot subsequently be capitalised, if the project meets the criteria for recognition at a later date.

The costs relating to many internally generated intangible items cannot be capitalised and are expensed as incurred. This includes research, start-up and advertising costs. Expenditure on internally generated brands, mastheads, customer lists, publishing titles and goodwill are not recognised as intangible assets.

Intangible assets acquired in a business combination

If an intangible asset is acquired in a business combination, both the probability and measurement criterion are always considered to be met. An intangible asset will therefore always be recognised, regardless of whether it has been previously recognised in the acquiree's financial statements.

Subsequent measurement

Intangible assets are amortised unless they have an indefinite useful life. Amortisation is carried out on a systematic basis over the useful life of the intangible asset.

An intangible asset has an indefinite useful life when, based on an analysis of all the relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the entity. Intangible assets with finite useful lives are considered for impairment when there is an indication that the asset has been impaired. Intangible assets with indefinite useful lives and intangible assets not yet in use are tested annually for impairment and whenever there is an indication of impairment.

Business acquisition and Consolidation

Business combinations: Ind AS 103

A business combination is a transaction or event in which an entity–('acquirer') obtains control of one or more businesses ('acquiree(s)'). Under Ind AS 110, an investor controls an investee when the investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. A number of factors such as equity shareholding, control of the board and contractual agreements may influence which entity has control. There is a presumption of control if an entity owns more than 50% of the equity shareholding in another entity, though this may not always be the case.

Business combinations occur in a variety of structures. Ind AS 103, 'Business combinations', focusses on the substance of the transaction, rather than the legal form. The overall result of a series of transactions is considered if there are a number of transactions among the parties involved. For example, any transaction contingent on the completion of another transaction may be considered linked. Judgement is required to determine when transactions should be linked.

All business combinations within Ind AS 103's scope are accounted for using the acquisition method. The acquisition method views a business combination from the perspective of the acquirer and can be summarised in the following steps:

- Identify the acquirer
- Determine the acquisition date
- Recognise and measure the identifiable assets acquired, liabilities assumed and any non-controlling interest in the acquiree

- Recognise and measure the consideration transferred for the acquiree
- Recognise and measure goodwill or a gain from a bargain purchase (as capital reserve)

The acquiree's identifiable assets (including intangible assets not previously recognised), liabilities and contingent liabilities are generally recognised at their fair value. Fair value is measured in accordance with Ind AS 113. If the acquisition is for less than 100% of the acquiree, there is a non-controlling interest. The non-controlling interest represents the equity in a subsidiary that is not attributable directly or indirectly to the parent. The acquirer can elect to measure the non-controlling interest at its fair value or at its proportionate share of the identifiable net assets.

The consideration for the combination includes cash and cash equivalents and the fair value of any non-cash consideration given. Any equity instruments issued as part of the consideration are fair valued. If any of the consideration is deferred, it is discounted to reflect its present value at the acquisition date, if the effect of discounting is material.

Consideration includes only those amounts paid to the seller in exchange for control of the entity. Consideration excludes amounts paid to settle pre-existing relationships, payments that are contingent on future employee services and acquisition-related costs.

A portion of the consideration may be contingent on the outcome of future events or the acquired entity's performance ('contingent consideration'). Contingent consideration is also recognised at its fair value at the date of acquisition. The accounting for contingent consideration after the date of acquisition depends on whether it is classified as a liability (remeasured to fair value each reporting period through profit and loss) or as equity (no subsequent re-measurement). The classification as either a liability or equity is determined with reference to the guidance in Ind AS 32, 'Financial instruments: Presentation'.

Goodwill is recognised for the future economic benefits arising from assets acquired that are not individually identified and separately recognised. Goodwill is the difference between the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired. If the non-controlling interest is measured at its fair value, goodwill includes amounts attributable to the non-controlling interest. If the non-controlling interest is measured at its proportionate share of identifiable net assets, goodwill includes only amounts attributable to the controlling interest–that is, the parent.

Goodwill is recognised as an asset and tested annually for impairment or more frequently if there is an indication of impairment.

In rare situations, for example, a bargain purchase as a result of a distressed sale, it is possible that no goodwill will result from the transaction. Rather, a bargain gain arises. Ind AS 103 requires the same 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.

For business combinations between entities that are under common control, there is specific guidance included in Ind AS 103. Such business combinations are accounted for using the pooling of interests method. Under the pooling of interests method:

- All assets and liabilities of the acquiree are reflected at their previous carrying values in the books of the acquirer.
- No adjustments are made to reflect any fair values, nor are any new assets recognised.

- The only adjustment permitted is the adjustment towards uniform accounting policies.

Consolidated financial statements: Ind AS 110

The principles concerning consolidated financial statements under Ind AS 110 are set out in Ind AS 110, 'Consolidated financial statements'. Ind AS 110 has a single definition of control.

Ind AS 110's objective is to establish principles for presenting and preparing consolidated financial statements when an entity controls one or more entities. Ind AS 110 sets out the requirements for when an entity needs to prepare consolidated financial statements, defines the principles of control, explains how to apply the principles of control and explains the accounting requirements for preparing consolidated financial statements (Ind AS 110 para 2).

The key principle in the standard is that control exists, and consolidation is required, only if the investor possesses power over the investee, has exposure to variable returns from its involvement with the investee and has the ability to use its power over the investee to affect its returns.

The core principle is that a consolidated entity presents a parent and its subsidiaries as if they are a single economic entity.

Ind AS 110 provides guidance on the following issues when determining who has control:

- Assessment of the purpose and design of an investee
- Relevant activities and power to direct those
- Nature of rights—whether substantive or merely protective in nature
- Assessment of voting rights and potential voting rights
- Whether an investor is a principal or an agent while exercising its controlling power
- Relationships between investors and how they affect control
- Existence of power over specified assets only

Ind AS 110 will affect some entities more than others. The consolidation conclusion is not expected to change for most straightforward entities. However, changes can result where there are complex group structures or where structured entities are involved in a transaction. Those most likely to be affected potentially include investors in the following entities:

- Entities with a dominant investor that does not possess a majority voting interest, where the remaining votes are held by widely-dispersed shareholders (de facto control)
- Structured entities, also known as special purpose entities
- Entities that issue or hold significant potential voting rights
- Asset management entities

In difficult situations, the precise facts and circumstances will affect the analysis under Ind AS 110. Ind AS 110 does not provide 'bright lines' and requires consideration of many factors, such as the existence of contractual arrangements and rights held by other parties, in order to assess control.

Ind AS 110 does not contain any disclosure requirements; these are included within Ind AS 112 which has greatly increased the amount of required disclosures. Reporting entities should plan for, and implement, the processes and controls that will be required to gather the additional information.

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. This is a significant change from the current Indian GAAP practice of how increase or decrease in a subsidiary's equity interest is accounted.

When a parent loses control of a subsidiary, it shall:

- **Derecognise:**
  - the assets (including any goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control is lost; and
  - the carrying amount of any non-controlling interests in the former subsidiary at the date when control is lost (including any components of other comprehensive income attributable to them).
- **Recognise:**
  - the fair value of the consideration received, if any, from the transaction, event or circumstances that resulted in the loss of control;
  - if the transaction, event or circumstances that resulted in the loss of control involves a distribution of shares of the subsidiary to owners in their capacity as owners, that distribution; and
  - any investment retained in the former subsidiary at its fair value at the date when control is lost.
- Reclassify to profit or loss, or transfer directly to retained earnings if required by other Ind AS, the amounts recognised in other comprehensive income in relation to the subsidiary
- Recognise any resulting difference as a gain or loss in profit or loss attributable to the parent

Again, this is a significant change from the current Indian GAAP practice of how decrease of equity interest in a subsidiary is accounted, especially the concept of fair valuing the remaining interest in the investment.

Entities that meet the definition of an investment entity are exempt from consolidating underlying investees that they control. Instead, they are required to account for these subsidiaries at fair value through profit or loss under Ind AS 109.

Joint arrangements: Ind AS 111

A joint arrangement is a contractual arrangement where at least two parties agree to share control over the activities of the arrangement. Unanimous consent towards decisions about relevant activities between the parties sharing control is a requirement in order to meet the definition of joint control.

Joint arrangements can be joint operations or joint ventures. The classification is principle based and depends on the parties' exposure in relation to the arrangement.

When the parties' exposure to the arrangement only extends to the net assets of the arrangement, the arrangement is a joint venture.

Joint operators have rights to assets and obligations for liabilities. Joint operations are often not structured through separate vehicles. When a joint arrangement is separated from the parties and included in a separate vehicle, it can be either a joint operation or a joint venture. In such cases, further analysis is required on the legal form of the separate vehicle, the terms and conditions included in the contractual agreement and sometimes, other facts and circumstances. This is because in practice, the latter two can override the principles derived from the legal form of the separate vehicle.

Joint operators account for their rights to assets and obligations for liabilities. Joint ventures account for their interest by using the equity method of accounting.

Disclosure of interest in other entities: Ind AS 112

Ind AS 112 provides for extensive disclosures on consolidated financial statements.

The key disclosures required are outlined below:

- Significant judgements and assumptions in determining control, joint control or significant influence, the type of joint arrangement when the arrangement is through separate vehicles to be disclosed
- Disclosure by the investment entity about significant judgements and assumptions it made in determining that it is an investment entity
- To understand the composition of the group, interest that non-controlling interests have in the group's activities and cash flows in the interest in subsidiaries
- For each unconsolidated subsidiary, an investment entity shall disclose the subsidiary's name, the principal place of business (and country of incorporation if different from the principal place of business) of the subsidiary, and the proportion of ownership interest held by the investment entity and, if different, the proportion of voting rights held
- An entity having interest in joint arrangement and associates shall disclose information that enables users of its financial statements to evaluate the following:
    - The nature, extent and financial effects of its interests in joint arrangements and associates, including the nature and effects of its contractual relationship with the other investors with joint control of, or significant influence over, joint arrangements and associates
    - The nature of, and changes in, the risks associated with its interests in joint ventures and associates
- An entity having interest in unconsolidated structured entities shall disclose information that enables users of its financial statements:

- To understand the nature and extent of its interests in unconsolidated structured entities
- To evaluate the nature of, and changes in, the risks associated with its interests in unconsolidated structured entities

Investment in associates and joint ventures: Ind AS 28

Ind AS 28, 'Investments in associates and joint ventures', requires that interests in such entities are accounted for using the equity method of accounting. An associate is an entity in which the investor has significant influence, but which is neither a subsidiary nor a joint venture of the investor. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but not to control those policies. It is presumed to exist when the investor holds at least 20% of the investee's voting power. It is presumed not to exist when less than 20% is held. These presumptions may be rebutted. A joint venture is a joint arrangement where the parties have joint control and have rights to the arrangement's net assets.

Associates and joint ventures are accounted for using the equity method unless they meet the criteria to be classified as 'held for sale' under Ind AS 105, 'Non-current assets held for sale and discontinued operations'. Under the equity method, the investment in the associate or joint venture is initially carried at cost. It is increased or decreased to recognise the investor's share of the profit or loss of the associate or joint venture after the date of acquisition.

Investments in associates or joint ventures are classified as non-current assets and presented as a one-line item in the balance sheet (inclusive of goodwill arising on acquisition). Investments in associates or joint ventures are tested for impairment in accordance with Ind AS 36, 'Impairment of assets', as single assets if there are impairment indicators.

If an investor's share of its associate's or joint venture's losses exceeds the carrying amount of the investment, the carrying amount of the investment is reduced to nil. Recognition of further losses is discontinued, unless the investor has an obligation to fund the associate or joint venture or the investor has guaranteed to support the associate or joint venture.

In the separate (non-consolidated) financial statements of the investor, the investments in associates or joint ventures are carried at cost or as financial assets in accordance with Ind AS 109.

Financial instruments

Financial instruments: Ind AS 109

Classification, recognition and measurement principles and certain disclosure requirements for financial instruments are addressed in three standards:

- Ind AS 107, 'Financial Instruments: Disclosure', which deals with disclosures
- Ind AS 32, 'Financial Instruments: Presentation', which deals with distinguishing debt from equity and with guidance on netting of financial instruments
- Ind AS 109, 'Financial Instruments', which contains requirements for recognition and measurement

The objective of the three standards is to establish requirements for all aspects of accounting for financial instruments, including distinguishing debt from equity, netting, recognition, derecognition, measurement, hedge accounting and disclosures.

The standards' scope is broad. The standards cover all types of financial instruments, including receivables, payables, investments in bonds and shares, borrowings and derivatives. They also apply to certain contracts to buy or sell non-financial assets (such as commodities) that can be net-settled in cash or another financial instrument.

For guidance on fair value measurement and related disclosures, refer to Ind AS 113, 'Fair value measurement'.

The key concepts of classification, measurement and recognition for financial instruments are discussed in this section.

Nature and characteristics of financial instruments

Financial instruments include a wide range of assets and liabilities, such as trade debtors, trade creditors, loans, finance lease receivables and derivatives. They are recognised and measured according to Ind AS 109's requirements and are disclosed in accordance with Ind AS 107, and for fair value disclosures under Ind AS 113.

Financial instruments represent contractual rights or obligations to receive or pay cash or other financial assets. Non-financial items have a more indirect, non-contractual relationship to future cash flows.

A financial asset is cash; a contractual right to receive cash or another financial asset; a contractual right to exchange financial assets or liabilities with another entity under potentially favourable conditions; or an equity instrument of another entity.

A financial liability is a contractual obligation to deliver cash or another financial asset; or to exchange financial instruments with another entity under potentially unfavourable conditions.

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

A derivative is a financial instrument that derives its value from an underlying price or index; requires little or no initial net investment; and is settled at a future date.

Embedded derivatives in host contracts

Some financial instruments and other contracts combine a derivative and a non-derivative in a single contract. The derivative part of the contract is referred to as an 'embedded derivative'. Its effect is that some of the contract's cash flows vary in a way similar to a standalone derivative. For example, the principal amount of a bond may vary with changes in a stock market index. In this case, the embedded derivative is an equity derivative on the relevant stock market index.

Ind AS 109 specifically prohibits bifurcation of embedded derivatives for financial assets. Embedded derivatives in relation to financial liabilities, that are not 'closely related' to the rest of the contract, are separated and accounted for as stand-alone derivatives (that is, measured at fair value). An embedded derivative is not 'closely related' if its economic characteristics and risks are different from those of the rest of the contract. Ind AS 109 sets out many examples to help determine when this test is (and is not) met.

Analysing contracts for potential embedded derivatives is one of the more challenging aspects of Ind AS 109.

Classification and measurement of financial instruments

All financial assets and liabilities are measured initially at fair value under Ind AS 109. The fair value of a financial instrument is normally the transaction price, that is, the fair value of the consideration given or received. However, in some circumstances, the transaction price may not be indicative of fair value. Ind AS permits departure from the transaction price only if fair value is evidenced by a quoted price in an active market for an identical asset or liability (that is, a Level 1 input) or based on a valuation technique that uses only data from observable markets.

The way financial instruments are classified under Ind AS 109 drives how they are subsequently measured and where measurement changes are accounted for.

Financial assets: Debt instruments

Business model assessment

Ind AS 109 requires that all financial assets are subsequently measured at amortised cost, fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVPL) based on the business model for managing financial assets and their contractual cash flow characteristics. The business model is determined by the entity's key management personnel in the way that assets are managed and their performance is reported. The business model is determined at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. It is not an instrument-by-instrument analysis. Rather it can be performed at a higher level of aggregation.

- An entity's business model for managing financial assets is a matter of fact and not merely an assertion. It is typically observable through the activities that the entity undertakes to achieve the objective of the business model. The business model for managing financial assets is not determined by a single factor or activity. Instead, management has to consider all relevant evidence available at the date of the assessment. Such relevant evidence includes, but is not limited to the following:
  - How the performance of the business model (and the financial assets held within) is evaluated and reported to the entity's key management personnel
  - The risks that affect the performance of the business model (and the financial assets held within) and, in particular, the way those risks are managed
  - How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or the contractual cash flows collected)

Contractual cash flow analysis

Once the business model assessment has been performed, management needs to assess whether the asset's contractual cash flows solely represent payments of principal and interest (the SPPI condition). This condition is necessary for the financial asset or the group of financial assets to be classified at the amortised cost or FVOCI.

Ind AS 109 provides definitions of principal and interest, which will help management to make a preliminary assessment of whether contractual cash flows solely represent payments of principal and interest:

Principal is the fair value of the financial asset at initial recognition. However, that principal amount might change over the life of the financial asset (for example, if there are repayments of principal).

Interest is typically the compensation for the time value of money and credit risk. However, interest can also include consideration for other basic lending risks (for example, liquidity risk) and costs (for example, servicing or administrative costs) associated with holding the financial asset for a period of time, as well as a profit margin.

Ind AS 109 establishes that instruments with contractual cash flows that are SPPI on the principal amount outstanding are consistent with a basic lending arrangement. Management has to assess whether contractual cash flows are SPPI in the currency in which the financial asset is denominated.

Contractual features that introduce exposure to risks or volatility in the contractual cash flows unrelated to a basic lending arrangement, such as exposure to changes in equity or commodity prices, do not give rise to contractual cash flows that are SPPI. For example, convertible bonds and profit participating loans will not meet the SPPI condition.

A financial asset is measured at the amortised cost if both of the following criteria are met:

- The asset is held to collect its contractual cash flows
- The asset's contractual cash flows represent SPPI

Financial assets included within this category are initially recognised at fair value and subsequently measured at the amortised cost.

A financial asset is measured at FVOCI, if both of the following criteria are met:

- The objective of the business model is achieved both by collecting contractual cash flows and selling financial assets
- The asset's contractual cash flows represent SPPI

Financial assets included within the FVOCI category are initially recognised and subsequently measured at fair value. Movements in the carrying amount are recorded through OCI, except for the recognition of impairment gains or losses, interest revenue as well as foreign exchange gains and losses which are recognised in profit and loss. Where the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss.

FVPL is the residual category. Financial assets need to be classified as FVPL if they do not meet the criteria of FVOCI or amortised cost. Financial assets included within the FVPL category need to be measured at fair value with all changes recorded through profit or loss.

Regardless of the business model assessment, an entity can elect to classify a financial asset at FVPL, if doing so reduces or eliminates a measurement or recognition inconsistency (accounting mismatch). Reclassifications between the categories are permitted, although they are expected to be rare.

Financial assets: Equity instruments

Investments in equity instruments are always measured at fair value. Equity instruments are those that meet the definition of equity from the perspective of the issuer as defined in Ind AS 32. Equity instruments that are held for trading are required to be classified as FVPL. For all other equities, management has the ability to make an irrevocable election on initial recognition, on an instrument-by-instrument basis, to present changes in fair value in OCI rather than profit or loss. If this election is made, all fair value changes, excluding dividends that are a return on investment, will be included in OCI. There is no recycling of amounts from OCI to profit and loss (for example, on sale of an equity investment), nor are there any impairment requirements.

However, the entity might transfer the cumulative gain or loss within equity.

Financial liabilities

Financial liabilities are measured at the amortised cost using effective interest rate method unless they are classified as FVPL. Financial liabilities are classified as FVPL if they are designated at initial recognition as such (subject to various conditions), if they are held for trading or are derivatives (except for a derivative, that is, a financial guarantee contract or a designated and effective hedging instrument). For liabilities designated at FVPL, changes in fair value related to changes in own credit risk are presented separately in OCI. Amounts in OCI relating to own credit are not recycled to profit or loss even when the liability is derecognised and the amounts are realised. However, the standard does allow transfers within equity.

Derivatives

Derivatives (including separated embedded derivatives) are measured at fair value. All fair value gains and losses are recognised in profit or loss except where the derivatives qualify as hedging instruments in cash flow hedges or net investment hedges.

Financial liabilities and equity

The classification of a financial instrument by the issuer as either a liability (debt) or equity can have a significant impact on an entity's gearing (debt-to-equity ratio) and reported earnings. It can also affect the entity's debt covenants.

The critical feature of a liability is that under the terms of the instrument, the issuer is or can be required to deliver either cash or another financial asset to the holder; it cannot avoid this obligation. For example, a debenture under which the issuer is required to make interest payments and redeem the debenture for cash is a financial liability.

An instrument is classified as equity when it represents a residual interest in the issuer's assets after deducting all its liabilities; or, put another way, when the issuer has no obligation under the terms of the instrument to deliver cash or other financial assets to another entity. Ordinary shares or common stock where all the payments are at the discretion of the issuer are examples of equity of the issuer.

In addition, the following types of financial instrument are accounted for as equity, provided they have particular features and meet specific conditions:

- Puttable financial instruments (for example, some shares issued by co-operative entities and some partnership interests)
- Instruments or components of instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation (for example, some shares issued by limited life entities)

The classification of the financial instrument as either debt or equity is based on the substance of the contractual arrangement of the instrument rather than its legal form. This means, for example, that a redeemable preference share, which is economically the same as a bond, is accounted for in the same way as a bond. The redeemable preference share is therefore treated as a liability rather than equity, even though legally it is a share of the issuer.

Other instruments may not be as straightforward. An analysis of the terms of each instrument in light of the detailed classification requirements is necessary, particularly as some financial instruments contain both liability and equity features. Such instruments, for example, bonds that are convertible into a fixed number of equity shares, are accounted for as separate liability and equity (being the option to convert if all the criteria for equity are met) components.

The treatment of interest, dividends, losses and gains in the income statement follows the classification of the related instrument. If a preference share is classified as a liability, its coupon (preference dividend) is shown as interest cost. However, the discretionary coupon on an instrument that is treated as equity is shown as a distribution within equity.

Recognition and derecognition

Recognition for financial assets and financial liabilities tends to be straightforward. An entity recognises a financial asset or a financial liability at the time it becomes a party to a contract.

Derecognition

Derecognition is the term used for ceasing to recognise a financial asset or financial liability on an entity's balance sheet. These rules are more complex.

Assets

An entity that holds a financial asset may raise finance using the asset as security for the finance or as the primary source of cash flow to repay the finance. Derecognition requirements of Ind AS 109 determine whether the transaction is a sale of the financial assets (and therefore the entity ceases to recognise the assets) or whether finance has been secured on the assets (and the entity recognises a liability for any proceeds received). This evaluation can be straightforward. For example, it is clear with little or no analysis that a financial asset is derecognised in an unconditional transfer of it to an unconsolidated third party, with no risks and rewards of the asset being retained.

Conversely, derecognition is not allowed where an asset has been transferred, but substantially all the risks and rewards of the asset have been retained through the terms of the agreement. However, the analysis may be more complex in other cases. Securitisation and debt factoring are examples of more complex transactions where derecognition will need careful consideration.

Liabilities

An entity may only cease to recognise (derecognise) a financial liability when it is extinguished–that is, when the obligation is discharged, cancelled or expires, or when the debtor is legally released from the liability by law or by the creditor agreeing to such a release.

Impairment

Ind AS 109 outlines a three-stage model (general model) for impairment based on changes in credit quality since initial recognition.

Stage 1 includes financial instruments that have not had a significant increase in credit risk since the initial recognition or have low credit risk at the reporting date. For these assets, 12-month expected credit losses (ECL) are recognised and interest revenue is calculated on the gross carrying amount of the asset (that is, without deduction for credit allowance). 12-month ECL result from default events that are possible within 12 months after the reporting date. It is not the expected cash shortfalls over the 12-month period but the entire credit loss on an asset weighted by the probability that the loss will occur in the next 12 months.

Stage 2 includes financial instruments that have had a significant increase in credit risk since the initial recognition (unless they have low credit risk at the reporting date) but that do not have objective evidence of impairment. For these assets, lifetime ECL are recognised, but interest revenue is still calculated on the gross carrying amount of the asset. Lifetime ECL are the expected credit losses that result from all possible default events over the expected life of the financial instrument. EPL are the weighted average credit losses with the probability of default (PD) as the weight.

Stage 3 includes financial assets that have objective evidence of impairment at the reporting date. For these assets, lifetime ECL are recognised and interest revenue is calculated on the net carrying amount (that is, net of credit allowance).

ECL are a probability-weighted estimate of credit losses. A credit loss is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive discounted at the original effective interest rate. Since ECL consider the amount and timing of payments, a credit loss arises even if the entity expects to be paid in full, but later than when contractually due.

The model includes some operational simplifications for trade receivables, contract assets and lease receivables as they are often held by entities that do not have sophisticated credit risk management systems. These simplifications eliminate the need to calculate 12-month ECL and to assess when a significant increase in credit risk has occurred.

For trade receivables or contract assets that do not contain a significant financing component, the loss allowance needs to be measured at the initial recognition as well as throughout the life of the receivable at an amount equal to lifetime ECL. As a practical expedient, a provision matrix may be used to estimate ECL for these financial instruments.

For trade receivables or contract assets which contain a significant financing component in accordance with Ind AS 115 and lease receivables, an entity has an accounting policy choice. It can either apply the simplified approach (measuring the loss allowance at an amount equal to lifetime ECL at initial recognition and throughout its life), or apply the general model.

As an exception to the general model, if the credit risk of a financial instrument is low at the reporting date, management can measure impairment using 12-month ECL, and so it does not have to assess whether a significant increase in credit risk has occurred.

Hedge accounting

Hedging is the process of using a financial instrument (usually a derivative) to mitigate all or some of the risk of a hedged item. Hedge accounting changes the timing of recognition of gains and losses on either the hedged item or the hedging instrument so that both are recognised in profit or loss within the same accounting period, in order to record the economic substance of the combination of the hedged item and instrument.

To qualify for hedge accounting, an entity must (a) formally designate and document a hedge relationship between a qualifying hedging instrument and a qualifying hedged item at the inception of the hedge, and (b) both at inception and on an ongoing basis, demonstrate that the hedge is effective.

There are three types of hedge relationships:

- Fair value hedge: A hedge of the exposure to changes in the fair value of a recognised asset or liability, or a firm commitment
- Cash flow hedge: A hedge of the exposure to variability in cash flows of a recognised asset or liability, a firm commitment or a highly probable forecast transaction
- Net investment hedge: A hedge of the foreign currency risk on a net investment in a foreign operation

For a fair value hedge, the hedged item is adjusted for the gain or loss attributable to the hedged risk. That element is included in the income statement where it will offset the gain or loss on the hedging instrument.

For an effective cash flow hedge, gains and losses on the hedging instrument are initially included in other comprehensive income.

The amount included in other comprehensive income is the lesser of the fair value of the hedging instrument and hedge item. Where the hedging instrument has a fair value greater than the hedged item, the excess is recorded within the profit or loss as ineffectiveness. Gains or losses deferred in other comprehensive income are reclassified to profit or loss when the hedged item affects the income statement. If the hedged item is the forecast acquisition of a non-financial asset or liability, the entity may choose an accounting policy of adjusting the carrying amount of the non-financial asset or liability for the hedging gain or loss at acquisition, or leaving the hedging gains or losses deferred in equity and reclassifying them to profit and loss when the hedged item affects profit or loss.

Hedges of a net investment in a foreign operation are accounted for similarly to cash flow hedges.

A retrospective effectiveness testing is not required under Ind AS 109. Ind AS 109 requires ensuring that the hedge ratio is appropriate. Companies need to verify that the hedge ratio is aligned with the requirement of their economic hedging strategy (risk management strategy). Deliberate imbalances must be avoided. A mismatch of weightings between the hedged item and the hedging instrument should not be used to achieve an accounting outcome that is inconsistent with the purpose of hedge accounting. This doesn't imply that the hedge relationship must be perfect, but the weightings of the hedging instruments and hedged item actually used cannot be selected in order to introduce ineffectiveness. Companies need to carefully document their hedging strategy and financial instrument classification at inception. Ind AS 109 prohibits voluntary de-designation of hedges if risk management strategy of the company has not changed.

Financial instruments (presentation and disclosures): Ind AS 32, Ind AS 107, Ind AS 113 and Ind AS 109

There have been significant developments in risk management concepts and practices in recent years. New techniques have evolved for measuring and managing exposures to risks arising from financial instruments. This, coupled with the significant volatility experienced in the financial markets, has increased the need for more relevant information and greater transparency about an entity's exposures arising from financial instruments and how those risks are managed. Financial statement users and other investors need such information to make more informed judgements about risks that entities run from the use of financial instruments and their associated returns.

Ind AS 107 sets out disclosure requirements that are intended to enable users to evaluate the significance of financial instruments for an entity's financial position and performance, and to understand the nature and extent of risks arising from those financial instruments to which the entity is exposed. All entities that have financial instruments are affected–even simple instruments such as borrowings, accounts payable and receivable, cash and investments.

Disclosures are required to be made for the risks including credit risk, liquidity risk and market risk. Further, Ind AS 107 and Ind AS 113 require disclosure of a three-level hierarchy for fair value measurement as well as some specific quantitative disclosures for financial instruments at the lowest level in the hierarchy. The disclosure requirements apply to all entities and not just to banks and financial institutions.

Ind AS 109 requires detailed qualitative and quantitative disclosures in relation to impairment.

Ind AS 32 includes presentation requirements and rules for liability, equity, compound financial instruments and offsetting financial asset and financial liability.

Industry specific standards

Insurance contracts: Ind AS 104

Insurance contracts are contracts where an entity accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if the insured event adversely affects the policyholder. The risk transferred in the contract must be insurance risk, which is any risk except for financial risk.

Ind AS 104, 'Insurance contracts', applies to all issuers of insurance contracts whether or not the entity is legally an insurance company. It does not apply to accounting for insurance contracts by policyholders.

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

Disclosure is particularly important for information relating to insurance contracts. Ind AS 104 has two main principles for disclosure. Entities need to disclose the following:

- Information that identifies and explains the amounts in its financial statements arising from insurance contracts
- Information that enables users of its financial statements to evaluate the nature and extent of risks arising from insurance contracts

Exploration for and evaluation of mineral resources: Ind AS 106

Ind AS 106, 'Exploration for and evaluation of mineral resources', addresses the financial reporting for the exploration for and evaluation of mineral resources. It does not address other aspects of accounting by entities engaged in the exploration for and evaluation of mineral reserves (such as activities before an entity has acquired the legal right to explore or after the technical feasibility and commercial viability to extract resources have been demonstrated).

Activities outside the scope of Ind AS 106 are accounted for as per the applicable standards (such as Ind AS 16, 'Property, plant and equipment', Ind AS 37, 'Provisions, contingent liabilities and contingent assets', and Ind AS 38, 'Intangible assets').

The accounting policy adopted for the recognition of exploration and evaluation assets should result in relevant and reliable information. Ind AS 106 permits companies in this sector to continue applying policies for the recognition of exploration and evaluation assets that were followed under the previous GAAP. The accounting policy may be changed only if the change makes the financial statements more relevant and no less reliable, or more reliable and no less relevant.

Exploration and evaluation assets are initially measured at cost. They are classified as tangible or intangible assets, according to the nature of the assets acquired. Management applies that classification consistently. After recognition, management applies either the cost model or the revaluation model to the exploration and evaluation assets, based on Ind AS 16, 'Property, plant and equipment', or Ind AS 38, 'Intangible assets', according to the nature of the assets. As soon as technical feasibility and commercial viability are determined, the assets are no longer classified as exploration and evaluation assets.

The exploration and evaluation assets are tested for impairment when facts and circumstances suggest that the carrying amounts may not be recovered. The assets are also tested for impairment before reclassification out of exploration and evaluation. The impairment is measured, presented and disclosed according to Ind AS 36, 'Impairment of assets', except that exploration and evaluation assets are allocated to cash-generating units or groups of cash-generating units no larger than a segment. Management discloses the accounting policy adopted, as well as the amount of assets, liabilities, income and expense and investing cash flows arising from the exploration and evaluation of mineral resources.

Appendix B, 'Stripping costs in the production phase of a surface mine', contained in Ind AS 16, 'Property, plant and equipment', applies to waste removal costs incurred in surface mining activity during the production phase.

Regulatory deferral accounts: Ind AS 114

Regulatory deferral account balances arise when an entity provides goods or services to customers at a price or rate that is subject to rate regulation.

The standard permits the rate regulated entity to account for 'regulatory deferral account balances' in accordance with the previous GAAP in its initial adoption and the subsequent financial periods.

An entity subject to rate regulation coming into existence after the Ind AS comes into force or an entity whose activities become subject to rate regulation subsequent to preparation and presentation of its first Ind AS financial statements shall be entitled to apply the requirements of the previous GAAP in respect of such rate regulated activities.

This standard, therefore, provides an exemption from para 11 of Ind AS 8, 'Accounting policies, changes in accounting estimates and errors', which requires an entity to consider the requirement of Ind AS dealing with similar matters and the requirement of conceptual framework when setting its accounting policies.

The entities are permitted to continue to apply the previous GAAP accounting policies for the recognition, measurement, impairment and derecognition of regulatory deferral account balances except if the change makes the financial statements more relevant to the economic decision-making needs of users and no less reliable, or more reliable and no less relevant to those needs.

However, the presentation of such amounts shall comply with the presentation requirements of this standard, which may require changes in the entity's previous GAAP presentation policies.

Agriculture: Ind AS 41

Agricultural activity is defined as the managed biological transformation and harvest of biological assets (living animals and plants) for sale or for conversion into agricultural produce (harvested product of biological assets) or into additional biological assets.

The biological assets are categorised into consumable biological assets and bearer biological assets. Consumable biological assets are those that are to be harvested as agriculture produce or sold as biological assets. Bearer biological assets are those other than consumable biological assets. Bearer biological assets are not agricultural produce but, rather, are held to bear produce.

All biological assets other than bearer plants are usually measured at fair value less costs to sell, with the change in the carrying amount reported as part of profit or loss from operating activities. Bearer plants are measured in accordance with Ind AS 16, 'Property, plant and equipment'.

Ind AS and IFRS: A comparison

India has chosen the path of IFRS convergence and not adoption. Though Ind AS has come a long way and is now quite close to IFRS, certain differences between the IFRS and Ind AS still remain. We call them carve-outs or carve-ins.

The carve outs/ins in some key areas are summarised below:

Presentation

- Under Ind AS, the breach of a material provision of a long-term loan will be classified as current except where before the approval of the financial statements for issue, the lender had agreed not to demand payment as a consequence of the breach. A similar exemption is unavailable in IFRS. Consequently, adjusting events under Ind AS 10 has been modified to include events where the lender had agreed to not demand payment as a consequence of the breach of material provision of a long-term loan, before the approval of the financial statement for issue.
- The option to present other comprehensive income in a separate statement is not available under Ind AS. Accordingly, only one statement comprising both profit or loss and other comprehensive income will be presented. The single statement approach requires all items of income and expense to be recognised in the statement of comprehensive income, while the two-statement approach requires two statements to be prepared, one displaying components of profit or loss (separate income statement) and the other beginning with profit or loss and displaying components of other comprehensive income. IFRS provides an option either

to follow the single-statement approach or to follow the two-statement approach.

- Ind AS also does not allow the presentation of expenses by function; only the classification of expense by 'nature' is permitted. Under IFRS, this is a policy election.
- IFRS allows the option to present inflows and outflows of interest and dividends in the operating activities section of the cash flow statement. Ind AS does not have this option for non-financial entities. Interest and divided inflows and outflows are required to be reported in the investing and financing sections of the cash flow statement respectively.
- Under IFRS, EPS is not required in separate financial statements if both consolidated and separate financial statements are presented. Under Ind AS, the disclosure of EPS is required in both consolidated as well as separate financial statements.
- Under Ind AS, where any item of income and expense, which is otherwise required to be recognised in profit or loss in accordance with Ind AS, is debited or credited to the securities premium account or other reserves, the amount in respect thereof shall be deducted from profit or loss from continuing operations for the purpose of calculating EPS. There is no such provision in IFRS.

Acquisitions

- Under IFRS, the bargain purchase gain or negative goodwill arising on business combinations is recognised in profit or loss. Under Ind AS, the bargain purchase gain can be recognised either in other comprehensive income or capital reserve but not in profit or loss. Similar to business combination, bargain purchase gain on the acquisition of an associate is also not recognised in profit or loss.
- Under Ind AS, common control transactions are to be accounted based only on the book values of assets and liabilities. IFRS also allows a fair value option.

Leases

- Under Ind AS, where the escalation of operating lease rentals is in line with the expected general inflation so as to compensate the lessor for expected inflationary cost, rentals are not required to be recognised as an expense on a straight-line basis. Under IFRS, this is considered contingent rent if linked to the index.

Derivatives

- Ind AS introduces an exception to the IFRS definition of a 'financial liability'. Ind AS classifies a conversion option embedded in a convertible bond denominated in a foreign currency as an equity instrument if it entitles the holder to acquire a fixed number of the entity's own equity instruments for a fixed amount of cash, and the exercise price is fixed in any currency. This is not provided in IFRS. Therefore, it will not be required to be fair valued at each balance sheet date under Ind AS. Under IFRS, this conversion option is treated as a derivative liability. This is one of the most significant differences between Ind AS and IFRS.

Property, plant and equipment

- Under Ind AS, investment property is to be accounted using only the cost model, with the disclosure of fair value. Under IFRS, both cost and fair value options of accounting are available.
- IFRS permits the treatment of property interest held in an operating lease to be classified as investment property, if the definition of investment property is otherwise met and a fair value model is applied. In such cases, the operating lease will be accounted as if it were a finance lease. However, there is no such option under Ind AS.

- ***Government grants***

- IFRS gives an option to measure non-monetary government grants related to assets (tangible and intangible) either at their fair value or at nominal value. Ind AS requires the measurement of such grants only at their fair value.
- IFRS gives an option to present the grants related to assets either by setting up the grant as deferred income or by deducting the grant in arriving at the carrying amount of the asset. Ind AS requires the presentation of such grants in the balance sheet as deferred income.

Related parties

- Under IFRS, certain relationships are specifically mentioned and considered to meet the definition of close members of the family of a person. These relationships are expanded in Ind AS to include brother, sister, father and mother of a person.
- Under Ind AS, the related-party disclosures do not apply where providing such disclosures will conflict with the entity's duties of confidentiality provided under a statute or by a regulator or similar competent authority. IFRS does not provide such an exemption.

Associates

- When it is impracticable, Ind AS 28 allows the exemption from use of uniform accounting policies to perform equity method accounting of associates. IFRS does not allow this option.

Others

- Under IFRS, standards on segment information and EPS are applicable to only those companies which are listed or are in the process of being listed. Ind AS does not provide any such exemption for the applicability of standards. In the absence of any exemption under the Companies Act, 2013, and the rules made thereunder, all companies applying Ind AS will have to apply standards on segment information and EPS.

Companies will need to carefully evaluate the Ind AS transition provisions and accounting policy elections, in case they wish to bring their Ind AS financial information closer to IFRS. This may be more important for those entities planning international fund raising or listing, as they may require IFRS compliant financial statements for that purpose.

List of standards: IAS/IFRS vs Ind AS

Sr. no.	IAS/IFRS reference	IAS/IFRS name	Ind AS reference	Ind AS name
1	IAS 1	Presentation of financial statements	Ind AS 1	Presentation of financial statements
2	IAS 2	Inventories	Ind AS 2	Inventories
3	IAS 7	Statement of cash flows	Ind AS 7	Statement of cash flows
4	IAS 8	Accounting policies, changes in accounting estimate and errors	Ind AS 8	Accounting policies, changes in accounting estimate and errors
5	IAS 10	Events after the reporting period	Ind AS 10	Events after the reporting period
6	IAS 11	Construction contracts	Ind AS 11 (ED)	Construction contracts
7	IAS 12	Income taxes	Ind AS 12	Income taxes
8	IAS 16	Property, plant and equipment	Ind AS 16	Property, plant and equipment
9	IAS 17	Leases	Ind AS 17	Leases
10	IAS 18	Revenue	Ind AS 18 (ED)	Revenue
11	IAS 19	Employee benefits	Ind AS 19	Employee benefits

Sr. no.	IAS/IFRS reference	IAS/IFRS name	Ind AS reference	Ind AS name
12	IAS 20	Accounting for government grants and disclosure of government assistance	Ind AS 20	Accounting for government grants and disclosure of government assistance
13	IAS 21	The effects of changes in foreign exchange rates	Ind AS 21	The effects of changes in foreign exchange rates
14	IAS 23	Borrowing costs	Ind AS 23	Borrowing costs
15	IAS 24	Related-party disclosures	Ind AS 24	Related-party disclosures
16	IAS 26	Accounting and reporting by retirement benefit plans		
17	IAS 27	Separate financial statements	Ind AS 27	Separate financial statements
18	IAS 28	Investment in associates and joint ventures	Ind AS 28	Investment in associates and joint ventures
19	IAS 29	Financial reporting in hyperinflationary economies	Ind AS 29	Financial reporting in hyperinflationary economies
20	IAS 31	Interest In joint ventures		

Sr. no.	IAS/IFRS reference	IAS/IFRS name	Ind AS reference	Ind AS name
21	IAS 32	Financial Instruments: Presentation	Ind AS 32	Financial instruments: Presentation
22	IAS 33	Earnings per share	Ind AS 33	Earnings per share
23	IAS 34	Interim financial reporting	Ind AS 34	Interim financial reporting
24	IAS 36	Impairment of assets	Ind AS 36	Impairment of assets
25	IAS 37	Provisions, contingent liabilities and contingent assets	Ind AS 37	Provisions, contingent liabilities and contingent assets
26	IAS 38	Intangible assets	Ind AS 38	Intangible assets
27	IAS 39	Financial instruments: Recognition and measurement		
28	IAS 40	Investment property	Ind AS 40	Investment property
29	IAS 41	Agriculture	Ind AS 41	Agriculture

Sr. no.	IAS/IFRS reference	IAS/IFRS name	Ind AS reference	Ind AS name
30	IFRS 1	First time adoption of International Financial Reporting Standards	Ind AS 101	First time adoption of Indian Accounting Standards
31	IFRS 2	Share based payment	Ind AS 102	Share based payment
32	IFRS 3	Business combinations	Ind AS 103	Business combinations
33	IFRS 4	Insurance contracts	Ind AS 104	Insurance contracts
34	IFRS 5	Non-current assets held for sale and discontinued operations	Ind AS 105	Non-current assets held for sale and discontinued operations
35	IFRS 6	Exploration for and evaluation of mineral resources	Ind AS 106	Exploration for and evaluation of mineral resources
36	IFRS 7	Financial instruments: Disclosures	Ind AS 107	Financial instruments: Disclosures
37	IFRS 8	Operating segments	Ind AS 108	Operating segments
38	IFRS 9	Financial instruments	Ind AS 109	Financial instruments
39	IFRS 10	Consolidated financial statements	Ind AS 110	Consolidated financial statements

Sr. no.	IAS/IFRS reference	IAS/IFRS name	Ind AS reference	Ind AS name
40	IFRS 11	Joint arrangements	Ind AS 111	Joint arrangements
41	IFRS 12	Disclosure of interest in other entities	Ind AS 112	Disclosure of interest in other entities
42	IFRS 13	Fair value measurement	Ind AS 113	Fair value measurement
43	IFRS 14	Regulatory deferral accounts	Ind AS 114	Regulatory deferral accounts
44	IFRS 15	Revenue from contracts with customer	Ind AS 115	Revenue from contracts with customers

List of standards: IAS/IFRS vs Ind AS

Sr. no.	IAS/ IFRS reference	IAS/ IFRS name	Ind AS reference	Ind AS name
1	IFRIC 1	Changes in existing decommissioning, restoration and similar liabilities	Appendix A to Ind AS 16	Changes in existing decommissioning, restoration and similar liabilities
2	IFRIC 2	Members' shares in co-operative entities and similar instruments		
3	IFRIC 4	Determining whether an arrangement contains a lease	Appendix C to Ind AS 17	Determining whether an arrangement contains a lease
4	IFRIC 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds	Appendix A to Ind AS 37	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds
5	IFRIC 6	Liabilities arising from participating in a specific market—waste electrical and electronic equipment	Appendix B to Ind AS 37	Liabilities arising from participating in a specific market—waste electrical and electronic equipment
6	IFRIC 7	Applying the restatement approach under IAS 29—Financial reporting in hyperinflationary economies	Appendix A to Ind AS 29	Applying the restatement approach under Ind AS 29—Financial reporting in hyperinflationary economies

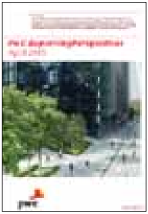
Sr. no.	IAS/ IFRS reference	IAS/ IFRS name	Ind AS reference	Ind AS name
7	IFRIC 10	Interim financial reporting and impairment	Appendix A to Ind AS 34	Interim financial reporting and impairment
8	IFRIC 12	Service concession arrangements	Appendix A to Ind AS 11 (ED)	Service concession arrangements
9	IFRIC 13	Customer loyalty programmes	Appendix B to Ind AS 18 (ED)	Customer loyalty programmes
10	IFRIC 14	The limit on a defined benefit asset, minimum funding requirements and their interaction	Appendix B to Ind AS 19	The limit on a defined benefit asset, minimum funding requirements and their interaction
11	IFRIC 15	Agreements for the construction of real estate	Not applicable	IFRIC 15 has not been included in Ind AS 18 (ED) to scope out such arrangements from Ind AS 18 (ED) and to include the same in Ind AS 11 (ED)
12	IFRIC 16	Hedges of a net investment in a foreign operation	Appendix C to Ind AS 109	Hedges of a net investment in a foreign operation
13	IFRIC 17	Distributions of non-cash assets to owners	Appendix A to Ind AS 10	Distributions of non-cash assets to owners
14	IFRIC 18	Transfers of assets from customers	Appendix C to Ind AS 18 (ED)	Transfer of assets from customers

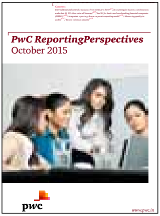
Sr. no.	IAS/ IFRS reference	IAS/ IFRS name	Ind AS reference	Ind AS name
15	IFRIC 19	Extinguishing financial liabilities with equity Instruments	Appendix D to Ind AS 109	Extinguishing financial liabilities with equity instruments
16	IFRIC 20	Stripping costs in the production phase of a surface mine	Appendix B to Ind AS 16	Stripping costs in the production phase of a surface mine
17	IFRIC 21	Levies	Appendix C to Ind AS 37	Levies
18	SIC 7	Introduction of the Euro		
19	SIC 10	Government assistance–No specific relation to operating activities	Appendix A to Ind AS 20	Government assistance–No specific relation to operating activities
20	SIC 12	Consolidation–Special Purpose Entities	Not applicable	Not applicable. Superseded by Ind AS 110
21	SIC 13	Jointly controlled entities–Non-monetary contributions by venturers	Not applicable	Not applicable. Superseded by Ind AS 111
22	SIC 15	Operating leases–Incentives	Appendix A to Ind AS 17	Operating leases–Incentives
23	SIC 25	Income taxes–Changes in the tax status of an enterprise or its shareholders	Appendix A to Ind AS 12	Income taxes–Changes in the tax status of an enterprise or its shareholders

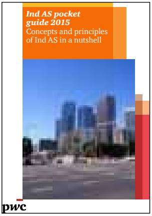
Sr. no.	IAS/ IFRS reference	IAS/ IFRS name	Ind AS reference	Ind AS name
24	SIC 27	Evaluating the substance of transactions in the legal form of a lease	Appendix B to Ind AS 17	Evaluating the substance of transactions in the legal form of a lease
25	SIC 29	Service concession arrangements disclosures	Appendix B to Ind AS 11 (ED)	Service concession arrangements disclosures
26	SIC 31	Revenue-barter transactions involving advertising services	Appendix A to Ind AS 18	Revenue-barter transactions involving advertising services
27	SIC 32	Intangible assets– website costs	Appendix A to Ind AS 38	Intangible assets– Website costs

Publications

Previous publications







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