IND AS 1 *Presentation of Financial Statements*

OVERALL CONSIDERATIONS

True and fair presentation and compliance with IND ASs, Financial statements are required to be presented fairly as set out in the framework and in accordance with IND AS and are required to comply with all requirements of IND ASs.

Going concern
Financial statements are required to be prepared on a going concern basis (unless entity is in liquidation or has ceased trading or there is an indication that the entity is not a going concern).

Accrual basis of accounting
Entities are required to use accrual basis of accounting except for cash flow information.

Presentation consistency
An entity is required to retain presentation and classification from one period to the next.

Materiality and aggregation
An entity shall present separately:
- each material class of similar items
- items of a dissimilar nature or function

unless they are immaterial except when required by law separately .

Offsetting
Offsetting of assets and liabilities or income and expenses is not permitted unless required by other IND ASs

Comparative information
At least 1 year of comparative information .

COMPONENTS OF FINANCIAL STATEMENTS

A complete set of financial statements comprises:
- A 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 information in respect of the preceding period as specified in paragraphs 38 and 38A
- A 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 in accordance with paragraphs 40A-40D

All statements are required to be presented with equal prominence.

STRUCTURE AND CONTENT

IDENTIFICATION OF THE FINANCIAL STATEMENTS

Financial statements must be clearly identified and distinguished from other information in the same published document, and must identify:
- Name of the reporting entity
- Whether the financial statements cover the individual entity or a group of entities
- The date of financial statements (or the period covered)
- The presentation currency
- The level of rounding used

NOTES TO THE FINANCIAL STATEMENTS

- Statement of compliance with IND ASs.
- Significant accounting policies, estimates, assumptions, and judgements must be disclosed
- Additional information useful to users understanding / decision making to be presented
- Information that enables users to evaluate the entity's objectives, policies and processes for managing capital

BALANCE SHEET

- Present current and non-current items separately; or
- Present items in order of liquidity- if reliable and more relevant

Current assets
- Expected to be realised in, or is intended for sale or consumption in the entity's normal operating cycle
- Held primarily for trading
- Expected to be realised within 12 months
- Cash or cash equivalents.

All other assets are required to be classified as non-current.

Current liabilities
- Expected to be settled in the entity's normal operating cycle
- Held primarily for trading
- Due to be settled within 12 months
- The entity does not have an unconditional right to defer settlement of the liability for at least 12 months.

All other liabilities are required to be classified as non-current.

- Information required to be presented on the face of the balance sheet is detailed in IND AS 1.54
- Further information required to be presented on the face or in the notes is detailed in IND AS 1.79 – 80.

REPORTING PERIOD

- Accounts presented at least annually
- If longer or shorter, entity must disclose that fact.

STATEMENT OF CASH FLOWS

- Provides users of financial statements with cash flow information – refer IND AS 7 *Statement of Cash Flows.*

STATEMENT OF PROFIT & LOSS

- An entity shall present a single statement of profit and loss, with profit or loss and other comprehensive income presented in two sections. The sections shall be presented together, with the profit or loss section presented first followed directly by the other comprehensive income section
- Entities shall present an analysis of expense recognised in profit or loss using a classification based on the nature of expense method

Information required to be presented in the:
- Statement of profit and loss is defined in IND AS 1.82A - 87
- Profit or loss as defined in IND AS 1.88 and 89
- Other comprehensive income in INDAS 1.82A and 90-96.
- Further information required to be presented on the face or in the notes to the Statement of Profit and loss is detailed in IND AS 1.97

- Line items within other comprehensive income are required to be categorised into two categories:
  - Those that could subsequently be reclassified to profit or loss
  - Those that cannot be re-classified to profit or loss.

THIRD BALANCE SHEET

An entity shall present a third balance sheet as at the beginning of the preceding period in addition to the minimum comparative financial statements required in paragraph 38A if:
- it applies an accounting policy retrospectively, makes a retrospective restatement of items in its financial statements or reclassifies items in its financial statements; and
- the retrospective application, retrospective restatement or the reclassification has a material effect on the information in the balance sheet at the beginning of the preceding period.

STATEMENT OF CHANGES IN EQUITY

Information required to be presented:
- Total comprehensive income for the period, showing separately attributable to owners or the parent and non-controlling interest
- For each component of equity, the effects of retrospective application / restatement recognised in accordance with IND AS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*
- For each component in equity a reconciliation between the carrying amount at the beginning and end of the period, separately disclosing each change.
- Amount of dividends recognised as distributions to owners during the period (can alternatively be disclosed in the notes.
- Analysis of each item of OCI (alternatively to be disclosed in the notes).

IND AS 2 *Inventories*

DEFINITION

Inventories are assets

- Held for sale in ordinary course of business
- In the process of production for such sale
- In the form of materials or supplies to be consumed in the production process or in the rendering of services.

SCOPE

Excludes

- Construction contracts (IND AS 115 *Revenue from contract with customers)*
- Financial instruments (IND AS 32 *Financial Instruments: Presentation* & IND AS 109 *Financial Instruments: Recognition and measurement*)
- Biological assets (IND AS 41 *Agriculture*).

Does not apply to measurement of inventories held by

- Producers of agricultural and forest products measured at NRV
- Minerals and mineral products measured at NRV
- Commodity brokers who measure inventory at fair value less costs to sell.

INVENTORIES ARE MEASURED AT THE LOWER OF COST AND NET REALISABLE VALUE (NRV)

(This is an implicit impairment test, thus inventories are excluded from the scope of IND AS 36 *Impairment of Assets*)

COST

Includes

- Costs of purchase, including non-recoverable taxes, transport and handling
- Net of trade volume rebates
- Costs of conversion considering Fixed and Variable Overheads
- Other costs to bring inventory into its present condition and location.

Excludes

- Abnormal waste
- Storage costs (unless necessary for the production process)
- Admin overheads not related to production
- Selling costs
- Interest cost (where settlement is deferred)
  - IND AS 23 *Borrowing Costs* identifies rare circumstances where borrowing costs can be included.

NET REALISABLE VALUE

NRV is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs to make the sale.

Cost Formulas

- For non-interchangeable items:
  - Specific identification.
- For interchangeable items, either:
  - FIFO
  - Weighted average cost.
- Use of LIFO is prohibited.

Measurement Techniques: The Standard requires an entity to use the same cost formula for all the inventories having a similar nature and use to the organisation. For inventories with a different nature of use, different cost formulas may be used

Standard cost method

- Takes into account normal levels of materials and supplies, labour, efficiency and capacity utilisation. They are regularly reviewed and, if necessary, revised in the light of current conditions.

Retail method

- Often used in the retail industry for measuring inventories of large numbers of rapidly changing items with similar margins for which it is impracticable to use other costing methods. The cost of the inventory is determined by reducing the sales value of the inventory by the appropriate percentage gross margin.

IND AS 7 *Statement of Cash Flows*

COMPONENTS OF CASH FLOW

Operating activities
Principal revenue-producing activities of the entity and other activities that are not investing or financing activities

Investing activities
Activities that relate to the acquisition and disposal of long-term assets and other investments that are not included in cash equivalents. Only expenditure that results in recognition of an asset in the balance sheet are eligible for classification as Investing activities.

Financing activities
Activities that results in changes to contributed equity and borrowings of an entity.

REPORTING CASH FLOWS FROM OPERATING ACTIVITIES

Cash flows from operating activities can be reported using the direct or indirect method.

DIRECT METHOD

Major classes of gross cash receipts and gross payments are disclosed.

Preferred method of presentation
Eg.

- Cash received from sale of goods
- Cash paid to suppliers for goods / services
- Cash paid to employees

INDIRECT METHOD

The net cash flow from operating activities is determined by adjusting profit or loss for the effects of:

- Changes during the period in inventories and operating receivables and payables.
- Non-cash items (e.g. depreciation, provisions, deferred taxes, unrealised foreign currency gains and losses etc.)
- Other items of income / expense associated with investing or financing cash flows. (e.g. Interest / Dividend paid)

CLASSIFICATIONS

- Bank Overdrafts which are integral part of an entities cash management are included in as a component of cash & cash equivalent and not as a part of financing activity.
- A single transaction may include cash flows that are classified differently. For eg. in case if a Fixed Asset is acquired on deferral payment basis, then the instalment payment in respect of such fixed asset should be split and interest element on such fixed asset should be classified as financing activity and repayment of loan amount to be classified as investing activity.
- In case an asset is acquired / manufactured for the purpose of being held for rentals to others, then in such a case, payments to acquire / manufacture such asset, receipts from such rents and subsequent sales proceeds from disposal of such assets are disclosed as cash flows from operating activities.
- **Interest & Dividend:**
  <u>**For Financial institutions**</u>: Interest Paid & Interest & Dividend received are to be classified as Operating Activities. Dividend paid is to be classified as financing activity.
  <u>**For other entities**</u>: Interest & dividend received are to be classified as investing activity, interest and dividend paid are required to be classified as Financing activity.
- Total interest paid during a period is to be disclosed in the statement of cash flows whether it has been recognised as an expense in profit or loss or capitalised in accordance with IND AS 23 Borrowing Costs.
- Cash flows from Taxes on Income shall be classified as cash flows from operating activities unless they can specifically be identified with Financing / Investment activities.
- Cash flows arising from obtaining or losing control of subsidiaries or other businesses shall be classified as investing activities.
- Cash flows arising from changes in ownership interests in a subsidiary without loss of control should be classified as cash flows from financing activities in consolidated cash flow statement as they are accounted for as Equity transactions.

DEFINITIONS

Cash : comprises of cash on hand and demand deposits (not necessarily include demand deposits with banks)

Cash & Cash Equivalents:

- Short term (where the original maturity is 3 months or less)
- Highly liquid investments
- Readily convertible to known amounts of cash
- Subject to insignificant risk of changes in value.

Held for meeting short term cash commitments and not for Investment or other purposes.

OTHER CONSIDERATIONS

- Cash flows must be reported on "gross" basis. Presentation on Net basis is permitted only in very limited cases like cash receipts / payments made on behalf of customers (eg. Rent collected on behalf of and paid over to owners of property), or where cash receipts / payments are for items in which turnover is quick, amounts are large and maturities are short (eg. Purchase or sale of investments).
- Cash flows from transactions in foreign currency shall be recorded in entities Functional currency by applying to the foreign currency, exchange rate between the functional currency and foreign currency at the date of cash flow.
- Presentation of items as Extraordinary is not permitted under IND-AS.
- Where the equity method is used for accounting of Investments in Joint Ventures and Associates or cost method for investments in subsidiaries, the statement of cash flows should only reflect cash flows between the entity and the investee.
- Where a jointly controlled entity is proportionately consolidated, the entity should, in consolidated statement of cash flows, include only its proportionate share of the cash flows in the jointly controlled entity.
- Non-cash investing and financing transactions are not to be disclosed in the statement of cash flows though information relevant may be provided elsewhere in the Financial Statements.

IND AS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*

ACCOUNTING POLICIES

Definition
Accounting policies are the specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements

Selection and application of accounting policies:
- If a standard deals with a transaction, use that standard
- If no standard or interpretation deals with a transaction, judgment should be applied. The following sources should be referred to, to make the judgement:
  - Requirements and guidance in other standards dealing with similar issues
  - Definitions, recognition criteria and measurement concepts in the framework
  - May use other GAAP that use a similar conceptual framework and/or may consult other industry practice / accounting literature that is not in conflict with standards

Consistency of accounting policies
Policies should be consistent for similar transactions, events or conditions

Only change a policy if:
- Standard requires it, or
- Change will provide more relevant and reliable information

Principle
If change is due to new standard, apply **transitional provisions**.
If no transitional provisions, apply **retrospectively**

If impractical to determine period-specific effects or cumulative effects of the error, then retrospectively apply to the earliest period that is practicable

Disclosure
- The title of the standard that caused the change
- Nature of the change in policy
- Description of the transitional provisions
- For the current period and each prior period presented, the amount of the adjustment to:
  - Each line item affected
  - Earnings per share.
- Amount of the adjustment relating to prior periods not presented
- If retrospective application is impracticable, explain and describe how the change in policy was applied
- Subsequent periods need not repeat these disclosures

CHANGES IN ACCOUNTING ESTIMATES

Definition
A change in an accounting estimate is an adjustment of the carrying amount of an asset or liability, or related expense, resulting from reassessing the expected future benefits and obligations associated with the asset or liability

Principle
Recognise the change **prospectively** in profit or loss in:
- Period of change, if it only affects that period; or
- Period of change and future periods (if applicable)

Disclosure
- Nature and amount of change that has an effect in the current period (or expected to have in future)
- Fact that the effect of future periods is not disclosed because of impracticality
- Subsequent periods need not repeat these disclosures

ERRORS

Definition
Prior period errors are omissions from and misstatements in, an entity's financial statements for one or more prior periods arising from failure to use/misuse of reliable information that:
- Was available when the financial statements for that period were issued
- Could have been reasonably expected to be taken into account in those financial statements.

Errors include:
- Mathematical mistakes
- Mistakes in applying accounting policies
- Oversights and misinterpretation of facts
- Fraud

Principle
- Correct all errors **retrospectively**
- Restate the comparative amounts for prior periods in which error occurred or if the error occurred before that date - restate opening balance of assets, liabilities and equity for earliest period presented

If impractical to determine period-specific effects of the error (or cumulative effects of the error), restate opening balances (restate comparative information) for earliest period practicable

Disclosure
- Nature of the prior period error
- For each prior period presented, if practicable, disclose the correction to:
  - Each line item affected
  - Earnings per share (EPS)
- Amount of the correction at the beginning of earliest period presented
- If retrospective application is impracticable, explain and describe how the error was corrected
- Subsequent periods need not to repeat these disclosures

IND AS 10 *Events after the Reporting Period*

DEFINITION

Favourable or unfavourable event, that occurs between the reporting date and the date that the financial statements are approved for issue

ADJUSTING EVENTS

An event after the reporting date that provides further evidence of conditions that existed at the reporting date

Examples:
- Events that indicate that the going concern assumption in relation to the whole or part of the entity is not appropriate
- Settlement after reporting date of court cases that confirm the entity had a present obligation at reporting date
- Bankruptcy of a customer that occurs after reporting date that confirms a loss existed at reporting date on trade receivables
- Sales of inventories after reporting date that give evidence about their net realisable value at reporting date
- Determination after reporting date of cost of assets purchased or proceeds from assets sold, before reporting date
- Discovery of fraud or errors that show the financial statements are incorrect
- Breach of long term loan covenant that becomes payable on demand, rectified post balance sheet date

Financial statements are **adjusted** for conditions that existed at reporting date

GOING CONCERN

An entity shall **not** prepare its financial statements on a going concern basis if management determines after the reporting date either that it intends to liquidate the entity or to cease trading, or that it has no realistic alternative but to do so

NON-ADJUSTING EVENTS

An event after the reporting date that is indicative of a condition that **arose after** the reporting date

Examples:
- Major business combinations or disposal of a subsidiary
- Major purchase or disposal of assets, classification of assets as held for sale or expropriation of major assets by government
- Destruction of a major production plant by fire after reporting date
- Announcing a plan to discontinue operations
- Announcing a major restructuring after reporting date
- Major ordinary share transactions
- Abnormal large changes after the reporting period in assets prices or foreign exchange rates
- Changes in tax rates or tax law
- Entering into major commitments such as guarantees
- Commencing major litigation arising solely out of events that occurred after the reporting period

Financial statements are **not adjusted** for condition that arose after the reporting date

DIVIDENDS

Dividends that are declared after reporting date are **non-adjusting** events

DISCLOSURE

Disclose for each material category of non-adjusting events:
- The nature of the event
- An estimate of its financial effect or the statement that such estimate cannot be made

DISCLOSURES FOR ADJUSTING AND NON-ADJUSTING EVENTS

- Date of approval for issue of financial statements and by whom
- If the entity's owners or others have the power to amend the financial statements after issue, the entity is required to disclose that fact
- For any information received about conditions that existed at reporting date, disclosure that relate to those conditions should be updated with the new information

IND AS 12 *Income Taxes*

CURRENT TAX

- Recognise liability for unsettled portion of tax expense
- Recognise an asset to the extent amounts paid exceed amounts due
- Tax loss which can be used against future taxable income can be recognised as an asset (deferred tax asset).

CURRENT TAX MEASUREMENT

Measure the asset / liability using the tax rates that are enacted or substantially enacted at the reporting date.

TEMPORARY DIFFERENCES

Taxable temporary differences will result in taxable amounts in future when the carrying amount of an asset is recovered or liability is settled.

Deductible temporary differences will result in deductible amounts in future when the carrying amount of an asset is recovered or a liability is settled.

ASSETS AT FAIR VALUE

In some jurisdictions, the revaluation or other restatement of an asset to fair value affects taxable profit (or loss) for the current period. As a result the tax base of the asset is adjusted and no temporary differences arise. In other jurisdictions, the revaluation or restatement of an asset does not affect taxable profit in the period of the revaluation or restatement and, consequently, the tax base of the asset is not adjusted. The difference between the carrying amount of a revalued asset and its tax base is a temporary difference and gives rise to a deferred tax liability or asset.

DEFINITIONS - TEMPORARY DIFFERENCE AND TAX BASE

Temporary difference: Difference between the carrying amount of an asset / liability and its tax base.

Tax base of an asset
- Is the amount that will be deductible for tax purposes against any taxable economic benefits that will flow to the entity when it recovers the carrying amount of the asset
- If those economic benefits will not be taxable, the tax base of the asset is equal to its carrying amount.

Tax base of a liability
- Is its carrying amount
- Less any amount that will be deductible for tax purposes in respect of the liability in future periods.

Tax base of income received in advance
- Is its carrying amount
- Less any revenue that will not be taxable in the future.

DEFERRED TAX

Deferred tax liabilities

Recognise liabilities for all taxable temporary differences, except to the extent it arises from:
- Initial recognition of goodwill
- Initial recognition of an asset / liability that does not affect accounting or tax profit and the transaction is not a business combination
- Liabilities from undistributed profits from investments in subsidiaries, branches and associates, and interests in joint ventures where company can control the timing of the reversal.

Deferred tax assets

Recognise for deductible temporary differences, unused tax losses, unused tax credits to the extent that taxable profit will be available against which the asset can be used, except to the extent it arises from:
- The initial recognition of an asset / liability, other than in a business combination, which does not affect accounting / tax profit.

Recognise for deductable temporary differences arising from investments in subsidiaries and associates to the extent it is probable the temporary difference will reverse in the foreseeable future and there will be available tax profit to be utilised.

A deferred tax asset is recognised for the carry forward of unused tax losses and unused tax credits to the extent that it is probable that future taxable profits will be available (i.e. the entity has sufficient taxable temporary differences or there is convincing other evidence that sufficient taxable profits will be available against which the unused tax losses or unused tax credits can be utilised).

DEFERRED TAX - MEASUREMENT

- Measure the balance at tax rates that are expected to apply in the period in which the asset is realised or liability settled based on tax rates that have been enacted or substantively enacted by the end of the reporting period
- Deferred tax assets and liabilities are not discounted
- The applicable tax rate depends on how the carrying amount of an asset or liability is recovered or settled
- Current and deferred tax shall be recognised as income or an expense and included in profit or loss for the period, except to the extent that the tax arises from a transaction or event which is recognised, in the same or a different period, directly in equity or other comprehensive income, or a business combination
- Current tax and deferred tax are charged or credited directly to equity or other comprehensive income if the tax relates to items that are credited or charged, in the same or a different period, directly to equity or other comprehensive income.

IND AS 16 *Property, Plant and Equipment*

RECOGNITION AND MEASUREMENT

Recognise when it is probable that:
- The future economic benefits associated with the asset will flow to the entity; and
- The cost of the asset can be reliably measured

Measurement:
- Initially recorded at cost
- Subsequent costs are only recognised if costs can be reliably measured and these will lead to additional economic benefits flowing to the entity

Cost comprises:
- Purchase price plus import duties and non-refundable taxes
- Any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in a manner intended by management
- The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located

SUBSEQUENT MEASUREMENT

THE COST MODEL

The asset is carried at cost less accumulated depreciation and impairment losses

Depreciation
- The depreciable amount is allocated on a systematic basis over the asset's useful life
- The residual value, the useful life and the depreciation method of an asset are reviewed annually at reporting date
- Changes in residual value, depreciation method and useful life are changes in estimates and therefore are accounted for prospectively in accordance with IND AS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*
- Depreciation is charged to profit or loss, unless it is included in the carrying amount of another asset
- Depreciation commences when the asset is available for use

Amendments to IND AS 16 (Effective 1 January 2016)
- Revenue based depreciation is prohibited

THE REVALUATION MODEL

The asset is carried at a revalued amount, being its fair value at the date of the revaluation, less subsequent depreciation, provided that fair value can be measured reliably

- Revaluations should be carried out regularly (the carrying amount of an asset should not differ materially from its fair value at the reporting date – either higher or lower)
- Revaluation frequency depends upon the changes in fair value of the items measured (annual revaluation for volatile items or intervals between 3 - 5 years for items with less significant changes)
- If an item is revalued, the entire class of assets to which that asset belongs is required to be revalued
- Revalued assets are depreciated the same way as under the cost model
- The net carrying amount of the asset is adjusted to the revalued amount and either
  - The gross carrying amount is adjusted in a manner consistent with the net carrying amount Accumulated depreciation is adjusted to equal the difference between the gross and net carrying amount; or
  - Accumulated depreciation is eliminated against the gross carrying amount
- Transfer between reserves – depreciation on revaluation amount
- An increase in value is credited to other comprehensive income under the heading revaluation surplus unless it represents the reversal of a revaluation decrease of the same asset previously recognised as an expense, in this case the increase in value is recognised in profit or loss

OTHER

Component accounting
- Significant parts/components are required to be depreciated over their estimated useful life
- Costs of replacing components are required to be capitalised
- Continued operation of an item of property, plant and equipment (PPE) may require regular major inspections for faults regardless of whether parts of the item are replaced. When each major inspection is performed, its cost is recognised in the carrying amount of the item of PPE as a replacement if the recognition criteria are satisfied.

Spare parts, stand-by or servicing equipment
- Are classified as PPE when they meet the definition of PPE, and are classified as inventory when definition is not met

Disposals
- Remove the asset from the Balance sheet on disposal or when withdrawn from use and no future economic benefits are expected from its disposal
- The gain or loss on disposal is the difference between the proceeds and the carrying amount and is recognised in profit or loss
- When a revalued asset is disposed of, any revaluation surplus may be transferred directly to retained earnings. The transfer to retained earnings is not made through profit or loss

DISCLOSURE

Disclosures include but are not limited to (refer to paragraphs 73 - 79)
- Measurement bases used for determining the gross carrying amount
- Depreciation methods used
- Useful lives or the depreciation rates used
- Gross carrying amount and the accumulated depreciation at the beginning and end of the period
- A reconciliation of the carrying amount at the beginning and end of the period showing: additions / assets classified as held for sale or included in a disposal group classified as held for sale / other disposals / acquisitions through business combinations / changes resulting from revaluations and from impairment losses recognised or reversed in other comprehensive / impairment losses recognised in profit or loss / impairment losses reversed in profit or loss / depreciation / exchange differences / other changes
- Existence and amounts of restrictions on title, and PPE pledged as security for liabilities
- Contractual commitments for the acquisition of PPE

IND AS 17 *Leases*

DEFINITIONS

Lease – agreement whereby the lessor, conveys to the lessee, in return for a payment or series of payments, the right to use an asset for an agreed period of time.

Operating lease – lease other than a finance lease.

Finance lease – a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Title may or may not eventually be transferred.

ACCOUNTING TREATMENT (Operating lease)

Lessor
- Treats contract as an executory contract
- Retains leased asset on the Balance sheet.
- Recognises lease income on a straight line basis over the lease term.

Lessee
- Treats contract as an executory contract
- Does not recognise leased asset on the balance sheet.
- Recognises lease expense on a straight line basis over the lease term.

CONSIDERATIONS TO NOTE

- Paragraphs 33 and 50 have been modified to provide that where the escalation of lease rentals is in line with the expected general inflation so as to compensate the lessor for expected inflationary cost, the increases in the rentals shall not be straight lined.
- Lessors and lessees recognise incentives granted to a lessee under an operating lease as a reduction in lease rental income or expense over the lease term
- A lease of land and building should be treated as two separate leases, a lease of the land and a lease of the building, and the two leases may be classified differently
- A series of linked transactions in the legal form of a lease is accounted for based on the substance of the arrangement; the substance may be that the series of transactions is not a lease
- Special requirements apply to manufacturer or dealer lessors granting finance leases.

CLASSIFICATION

Finance lease
(Meeting only one criterion leads to financial lease classification)
1. The lease transfers ownership of the asset to the lessee by the end of the lease term
2. The lessee has a bargain purchase option and it is certain at the date of inception that the option will be exercised
3. The lease term is for the major part of the economic life of the asset even if title is not transferred
4. At the inception of the lease the present value of the minimum lease payments amounts to substantially all of the fair value of the leased asset
5. The leased assets are of such a specialised nature that only the lessee can use them without major modifications
6. Gains or losses from the fluctuation in the fair value of the residual accrue to the lessee
7. The lessee has the ability to continue the lease for a secondary period at a rent that is substantially lower than market rent
8. If the lessee can cancel the lease, the lessor's associated losses are borne by the lessee.

ACCOUNTING TREATMENT (Finance lease)

Lessor
- Derecognises the tangible asset (and recognises resultant gain / loss)
- Lessor recognises a receivable equal to the net investment of the lease
- Leased asset not recognised on the Balance Sheet
- Recognises finance income based on a pattern reflecting a constant periodic rate of return on the lease.

Lessee
- The lessee shall recognise finance leases as assets and liabilities in balance sheet at commencement.
- Recognises a leased asset on the Balance Sheet at the lower of the fair value of the leased asset and present value of lease payments
- Discount rate is the implicit rate in the lease
- Lease payments made are apportioned between finance charges and reduction of liability
- The finance charge allocation is allocated to a period to produce a constant rate of interest over the period.

SALE AND LEASEBACK TRANSACTIONS

Finance lease
Any excess of sale proceeds over carrying amount is recognised by the lessor over the lease term and not immediately.

Operating lease
- If the sale price is at fair value, any excess of sale proceeds over carrying amount is recognised by the lessor immediately
- If the sale is below fair value, any profit or loss should be recognised immediately unless the loss is in respect of future lease payments below market value in which case it is deferred
- If the sale price is above market value, the excess of fair value is amortised over the lease period.

IND AS 19 *Employee Benefits*

SCOPE

All employee benefits except IND AS 102 *Share-based Payment*.

DEFINITION

Employee benefits are all forms of consideration given by an entity in exchange for services rendered or for the termination of employment.
Employee benefits include short term benefits, post employment benefits, other long term employee benefits and termination benefits.

EMPLOYEE BENEFITS

SHORT TERM EMPLOYEE BENEFITS

- Employee benefits (other than termination benefits) that are due to be settled wholly within the 12 months after end of the period in which the employees render the related services.

Egs. Salaries, wages, sick leaves etc

- No actuary assumptions involved to measure obligation / costs
- Measured on undiscounted basis

Compensated absences

- *Accumulating* – recognise expense when service that increases entitlement is rendered. e.g. leave pay
- *Non-accumulating* – recognise expense when absence occurs.

All short term benefits
Recognise as an expense / liability when the employee renders the service.

OTHER LONG TERM EMPLOYEE BENEFITS

- Are employee benefits other than post-employment benefits and termination benefits.

Eg. long term service leave, bonuses / deferred compensation not payable with 12 months after end of the period

Balance Sheet
Carrying amount of liability = present value of defined benefit obligation minus the fair value of any plan assets at the end of the reporting period

Expense / (Income)
Recognise the **net** total of: Current service cost + Interest cost + expected return on any plan assets + past service cost + effect of any curtailment / settlement

PROFIT SHARING AND BONUS SCHEMES

If wholly due with 12 months from end of the period in which employee provides related service, recognise the expected costs when entity has a present legal or constructive obligation to make payments; and a reliable estimate of the obligation can be made.

POST EMPLOYMENT BENEFITS

Employee benefits payable after the completion of employment (excluding termination) Egs.

- Retirement benefits like pension
- Other benefits like post employment life insurance, medical care

May be defined contribution plan or defined benefit plan

DEFINED BENEFIT PLAN (DBP)

These are post employment plans other than defined contribution plans. IND AS 19 prohibits delayed recognition of actuarial gains and losses and past-service-cost, with the actual net defined benefit liability / (asset) presented in the balance sheet.
The entity shall determine the present value of defined benefit obligation and fair value of plan assets with sufficient regularity that the amounts recognised in financials do not materially differ from amounts that would be determined at the end of the reporting period.
An entity shall use the Projected Unit Credit Method to determine the present value of its defined benefit obligations, related current and past service costs.

Balance Sheet
(a) Entities recognise the net defined benefit liability (asset) in the balance sheet being equal to present value of defined benefit obligation less past service cost not yet recognised minus fair value of plan assets at the end of the reporting period.
(b) When an entity has a surplus in a DBP(asset), it measures the net defined benefit asset at the lower of:

- Amount determined in para (a) above
- The present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan), determined using the discount rate in reference to market yields at the end of the reporting period on government bonds.

Statement of profit and loss
Actuarial gains and losses are recognised in other comprehensive income in the period in which they occur.
Past-service-costs are recognised as an expense at the earlier of the following dates:

- when the plan amendment or curtailment occurs; and
- when the entity recognises related restructuring costs (see Ind AS 37) or termination benefits.

The net interest on the net defined benefit liability / (asset) is recognised in profit or loss:

- Being equal to the change of the defined benefit liability / (asset) during the period that arises from passage of time. Determined by multiplying the net defined benefit liability / (asset) by the discount rate, taking into account actual contributions and benefits paid during the period.

Presentation of the three components of 'defined benefit cost'

- Service cost (current, past, curtailment loss / (gain), and settlement loss / (gain) in profit or loss
- Net Interest (refer above) in profit or loss
- Remeasurements (actuarial gains, the return on plan assets (excl. net interest), change in the effect of the asset ceiling) in other comprehensive income (OCI).

TERMINATION BENEFITS

Employee benefits payable as a result of either:

a) An entity's decision to terminate an employee's employment before the normal retirement date, or
b) An employee's decision to accept voluntary redundancy in exchange for those benefits.

Recognise liability and expense at the earlier of: -

- The date the entity can no longer withdraw the benefit or offer -
- The date the entity recognises restructuring costs under IND AS 37

If termination benefits settled wholly before 12 months from reporting date – apply requirements for short-term employee benefits. If termination benefits are not settled wholly before 12 months from reporting date – apply requirements for other long term employee benefits.

DEFINED CONTRIBUTION PLAN

- Entities legal or constructive obligation is limited to the amount that it agrees to contribute to the fund.
- The entity does not have an obligation to pay further contributions if the fund does not hold sufficient assets to pay employee benefits.
- In consequence, actuarial risk and investment risk fall on the employee
- No actuary assumptions involved
- Measured on undiscounted basis
- Recognise the contribution expense / liability when the employee has rendered the service.

MULTI EMPLOYER PLANS

- These are post-employment plans that pool the assets of various entities that are not under common control and use those assets to provide benefits to employees of more than one entity (other than state plans)
- May be a defined contribution or defined benefit plan
- Where it is a defined benefit plan, the entity shall account for its proportionate share of defined benefit obligation, plan assets and costs associated with the plan in the same way as for any other defined benefit plan.
- However, if sufficient information is not available to use defined benefit accounting, the entity shall account for the plan as if it were a defined contribution plan and make the necessary disclosures.

DISCLOSURE

IND AS 19 requires extensive disclosures in respect of Defined Benefit Plan, including narrative descriptions of: the regulatory framework; funding arrangements; potential (non-) financial risks; and / or asset ceiling tests.

IND AS 20 *Accounting of government grants and disclosure of government assistance*

DEFINITION

Government grants

- Assistance by government
- In the form of transfers of resources to an entity
- In return for past or future compliance with certain conditions relating to the operating activities of the entity
- Exclude forms of government assistance which cannot reasonably have a value placed on them and which cannot be distinguished from the normal trading transactions of the entity

SCOPE

The standard does not deal with:

- Government assistance that is provided for an entity in the form of benefits that are available in determining taxable income or are determined or limited to the basis of income tax liability
- Government participation in the ownership of an entity
- Government grants covered by IND AS 41 *Agriculture*

TYPES OF GOVERNMENT GRANTS

GRANTS RELATED TO INCOME

A grant receivable as compensation for costs, either:

- Already incurred
- For immediate financial support, with no future related costs.

Recognise as income in the period in which it is receivable

A grant relating to income may be presented in one of two ways:

- Separately as 'other income'
- Deducted from the related expense

GRANTS RELATED TO ASSETS

A grant relating to assets is presented as 'deferred income' (and released to profit or loss when related expenditure impacts profit or loss)

RECOGNITION OF GRANTS

Grants are recognised when both:

- There is reasonable assurance the entity will comply with the conditions attached to the grant
- The grant will be received

The grant is recognised as income over the period necessary to match it with the related costs, for which it is intended to compensate on a systematic basis and should not be credited directly to equity

NON-MONETARY GRANTS

Non-monetary grants, such as land or other resources, are accounted for at fair value, no option to present at a nominal amount

DISCLOSURE

- Accounting policy adopted for grants
- Nature and extent of grants recognised in the financial statements
- An indication of other forms of government assistance from which the entity has directly benefited
- Unfulfilled conditions and contingencies attaching to recognised grants

IND AS 21 *The Effects of Changes in Foreign Exchange Rates*

FUNCTIONAL CURRENCY

An entity's functional currency is the currency of the primary economic environment in which it operates.
Determine functional currency of each entity within a group - currency of primary economic environment in which entity operates.
The functional currency once determined is not changed unless there is a change in those underlying transactions, events and conditions. In case of change in functional currency, the date of such change is required to be disclosed
In case of change in functional currency, the date of such change is required to be disclosed

START

Primary factors
When determining the appropriate functional currency, management should give priority to the following factors:

- Currency influencing sales prices for goods and services
- Currency of country whose competitive forces and regulations determine sale prices
- Currency mainly influencing input costs.

Secondary factors
The primary indicators may be determinative. However, the following two indicators serve as supporting evidence.
Currency in which funds / receipts:

- from financing activities are generated
- from operating activities are retained.

Is the entity a foreign operation?

If yes, is the foreign operation 'integral' to its 'parent'? That is, does it carry on business as if it is an extension of the parent's own operations?

If it is 'integral' to its 'parent', the foreign operation has the same functional currency as the parent.

(Parent: the entity that has the foreign operation as its subsidiary, branch associate or joint arrangement).

KEY PRINCIPLES

- No need to present financial statements in functional currency. A presentation currency can be selected
- Accounting records must be kept in functional currency
- A group does not have a functional currency. Functional currency is assessed separately for each entity in the group.

FOREIGN CURRENCY TRANSACTIONS

Initial recognition
Spot rate at transaction date

Subsequent measurement

Monetary items
Units of currency held and assets / liabilities to be received / paid in a fixed or determinable amount of money.

- Translated at closing rate at reporting date
- Gain or loss is recognised in profit or loss **(except for optional exemption under IND AS 101)**.

Non-monetary items

- Rate at transaction date (if item at historical cost)
- Rate at revaluation date (if item carried at revalued amount).

Impairment test
Measure non-monetary assets at the lower of either:

- Carrying amount **x** historical rate
- Net realisable value / recoverable amount **x** closing rate at the end of the period.

Translation gains or losses on asset / liability recognised in profit or loss.

FUNCTIONAL CURRENCY ESTABLISHED

CONSOLIDATION OF FOREIGN ENTITIES AND TRANSLATION OF FINANCIAL STATEMENTS TO A PRESENTATION CURRENCY

Translation method

- Assets & liabilities - closing rate
- Income and expenses - rate at transaction date (for practical purposes a monthly or quarterly rate might approximate the transaction date rates)
- The resulting exchange differences are recognised in other comprehensive income (foreign currency translation reserve).

Loan forming part of net investment in subsidiary
Exchange gains and losses to equity on consolidation only. Recorded in profit or loss in the separate (entity only) financial statements.

Disposal of a subsidiary
The cumulative amount of exchange differences that was recognised in equity is reclassified to profit and loss (recycled).

General principle
Foreign exchange gain or loss to profit or loss

Exception
Where a gain or loss on a non-monetary item is recognised in equity, the foreign exchange gain or loss is also recognised in equity.

IND AS 23 *Borrowing Costs*

DEFINITIONS

BORROWING COSTS

- Borrowing costs are interest and other costs incurred by an entity in connection with the borrowing of funds
- Borrowing costs may include:
  - interest expense calculated using the effective interest method as described in IND AS 109 *Financial Instruments*
  - Finance charges in respect of finance leases
  - Exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs

QUALIFYING ASSET

- A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale
- Examples include:
  - Inventories (that are not produced over a short period of time)
  - Manufacturing plants
  - Power generation facilities
  - Intangible assets
  - Investment properties

RECOGNITION

- Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are required to be capitalised as part of the cost of that asset
- Other borrowing costs are recognised as an expense when incurred
- If funds are borrowed specifically, the amount of borrowing costs eligible for capitalisation are the actual borrowing costs incurred on that borrowing less any investment income on the temporary investment of any excess borrowings not yet used
- If funds are borrowed generally, the amount of borrowing costs eligible for capitalisation are determined by applying a capitalisation rate (weighted average of borrowing costs applicable to the general borrowings) to the expenditures on that asset
- The amount of the borrowing costs capitalised during the period cannot exceed the amount of borrowing costs incurred during the period

Capitalisation commences when:

- Expenditures for the asset are being incurred
- Borrowing costs are being incurred
- Activities that are necessary to prepare the asset for its intended use or sale are in progress

Capitalisation is suspended during extended periods in which active development is interrupted

Capitalisation ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete

When the construction of a qualifying asset is completed in parts and each part is capable of being used while construction continues on other parts, capitalisation of borrowing costs ceases when substantially all the activities necessary to prepare that part for its intended use or sale are completed

DISCLOSURE

- Amount of borrowing cost capitalised during the period
- Capitalisation rate used

IND AS 24 *Related Party Disclosures*

SCOPE

IND AS 24 shall be applied in:
- Identifying related party relationships and transactions;
- Identifying outstanding balances, including commitments, between an entity and its related parties;
- identifying the circumstances in which disclosure of the items above is required; and
- Determining the disclosures to be made about those items.

IND AS 24 requires disclosure of:
- Related party relationships
- Related party transactions
- Outstanding balances with related parties
- Commitments to related parties.

The disclosures have to be made in the related consolidated and separate financial statements of:
- A parent
- Investors with joint control of an investee
- Investor with significant influence over an investee.

GOVERNMENT-RELATED ENTITIES

Government-related entities are exempt from the disclosure requirements of paragraph 18 in relation to related party transactions and outstanding balances, including commitments.

Refer to paragraphs 25 -27 of IND AS 24 for specific details of the exemptions.

DEFINITIONS

Key management personnel
Those persons having authority and responsibility for:
- Planning, directing, and controlling the activities of the entity, directly or indirectly, including all directors (executive and non-executive).

Related party
- Refer to diagram on next page

Related party transaction
Transfer of the following between related parties:
- Resources
- Services
- Obligations between related parties, whether a price is charged or not.
- Management contracts including for deputation of employees.

Close family member
Includes, but is not limited to:
- Children and Dependents
- Spouse/Partner
- Children and Dependents of Spouse/Partner.
- Brother Sister, father and mother

Need to assess the level of influence on a case-by-case basis.

Government-related entity
Entity that is controlled, jointly controlled or significantly influenced by a 'government'.

Government
Refers to government, government agencies and similar bodies whether local, national or international.

DISCLOSURE

Relationships between parents and subsidiaries
- Regardless of whether there have been transactions, disclosure of the name of the parent or ultimate controlling party (if different) is required.

If parent or ultimate controlling party did not prepare consolidated financial statements for public use, the name of the next senior parent that does so needs to be disclosed as well.

Key management personnel compensation
Disclose in total for the following categories:
- Short-term employee benefits
- Post-employment benefits
- Other long-term benefits
- Termination benefits
- Share-based payments.

Management entities
- If an entity obtains key management personnel services from a management entity the requirements of IND AS 24, to analyse compensation into short term, post-employment, other long term and termination benefits, and share-based payments, do not have to be applied to the compensation paid by the management entity to the management entity's employees or directors.
- Instead, the entity has to disclose the amount incurred for the service fee paid to the management entity.

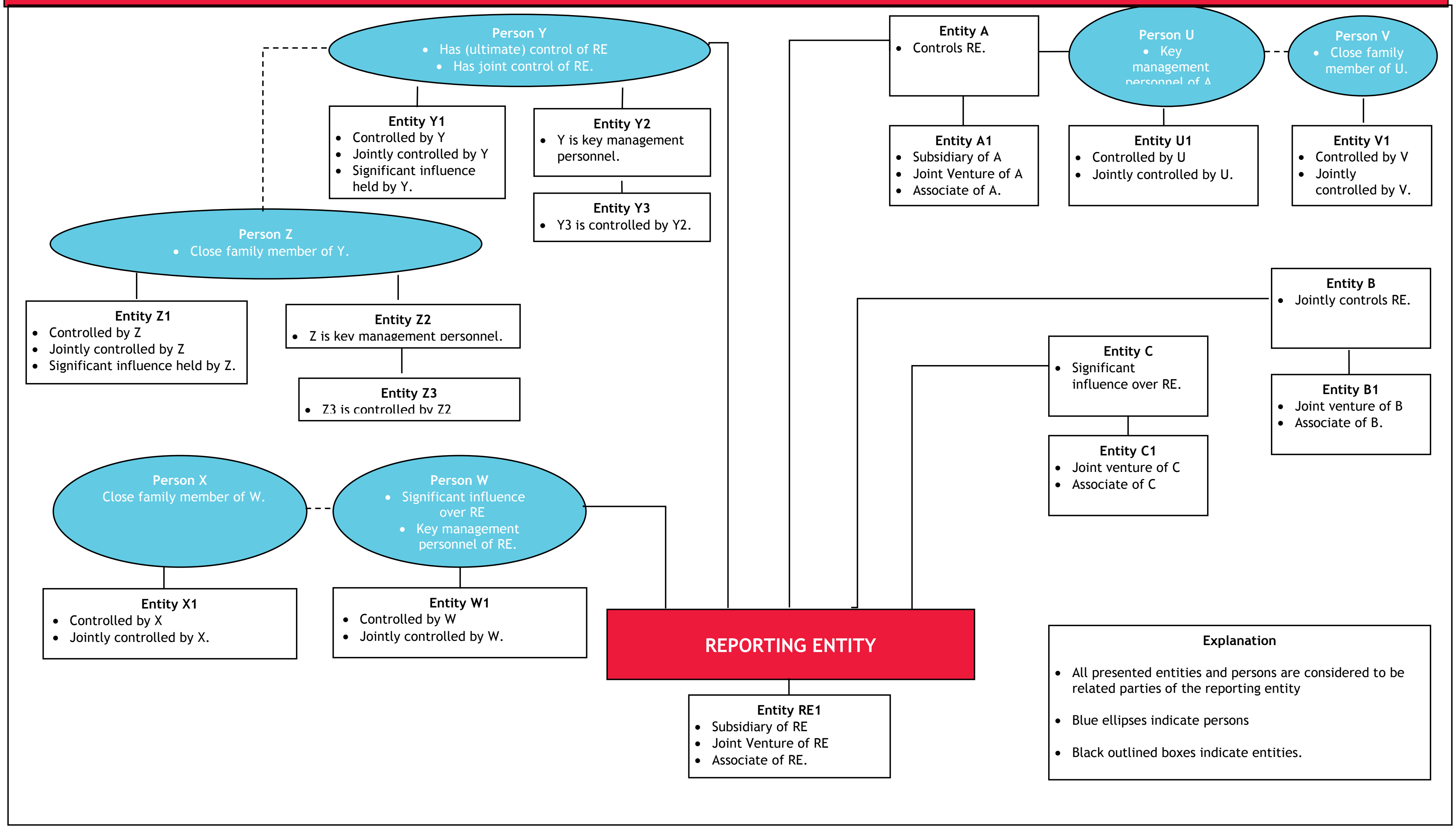
Related party transactions
Only if there have been transactions, disclose:
- The nature of related party relationship
- Information about transactions
- Information about outstanding balances to understand the potential effect on the Annual Financial Statements
- Information about provision for doubtful debts as well as bad and doubtful debt expenses with related parties.

Disclose related party transactions for each category of related parties.

The above disclosures shall be presented separately for each of the following categories:
- The parent
- Entities with joint control of, or significant influence over, the entity
- Subsidiaries
- Associates
- Joint ventures in which the entity is a joint venturer
- Key management personnel of the entity or its parent
- Other related parties.

Disclosures which conflict with confidentiality requirements of statute/ regulations are not required to be made since Accounting Standards cannot override legal/regulatory requirements.

IND AS 24 *Related Party Disclosures*



IND AS 27 *Separate Financial Statements*

SCOPE

When an entity elects (or is required by law) to present separate financial statements, IND AS 27 applies in accounting for investments in:

- Subsidiaries
- Joint ventures
- Associates.

IND AS 27 does not mandate which entities produce separate financial statements.

DEFINITIONS

Separate financial statements

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

Consolidated financial statements

Consolidated financial statements are the financial statements of a group in which the assets, liabilities, equity, income, expenses and cash flows of the parent and its subsidiaries are presented as those of a single economic entity.

For definitions of: associate; control of an investee; group; joint control; joint venture; joint venturer; parent; significant influence; and subsidiary – please refer to the below standards:

- IND AS 110 *Consolidated Financial Statements*
- IND AS 111 *Joint Arrangements*
- IND AS 28 *Investments in Associates and Joint Ventures.*

SEPARATE FINANCIAL STATEMENTS

- Separate financial statements are those presented in addition to consolidated financial statements or in addition to financial statements in which investments in associates or joint ventures are accounted for using the equity method, other than in the circumstances set out in paragraphs 8-8A. Separate financial statements need not be appended to, or accompany, those statements
- An entity that is exempted in accordance with paragraph 4(a) of IND AS 110 from consolidation or paragraph 17 of IND AS 28 from applying the equity method may present separate financial statements as its only financial statements. (Paragraphs 8-8A)

PREPARATION OF SEPARATE FINANCIAL STATEMENTS

Investment in subsidiaries, joint ventures, and associates

Accounted for either:

- At cost,
- At fair value in accordance with IND AS 109,

Investments in subsidiaries, joint ventures, and associates classified as held for sale

When investments are classified as held for sale or for distribution to owners (or included in a disposal group that is classified as held for sale or for distribution to owners), they are accounted for:

- In accordance with IND AS 105 *Non-current Assets Held for Sale and Discontinued Operations*, if previously accounted for at cost
- In accordance with IND AS 109, if previously accounted for in accordance with IND AS 109.

Investments in associates or joint ventures at fair value

Investments in associates or joint ventures that are measured at fair value in accordance with IND AS 109 are required to be measured in the same way in the separate and consolidated financial statements (i.e. at fair value).

Dividends received

Dividends received from subsidiaries, joint ventures, and associates are recognised when the right to receive the dividend is established and accounted for as follows:

- in profit or loss, if the investment is accounted for at cost or at fair value;

DISCLOSURE

An entity is required to apply all applicable IND ASs when providing disclosures in its separate financial statements.

When a parent qualifies and elects not to prepare consolidated financial statements (IND AS 110 paragraph 4(a)) and instead prepares separate financial statements, it is required to disclose:

- That the financial statements are separate financial statements
- That the exemption from consolidation has been used
- The name, principal place of business, address, and country of incorporation, of the entity whose IND AS compliant consolidated financial statements are publicly available
- A list of significant investments in subsidiaries, joint ventures and associates, including:
  - The name of those investees
  - The investees principal place of business and country of incorporation
  - The proportion of the ownership interest and its proportion of the voting rights held in those investees.
- A description of the method used to account for the investments listed under the previous bullet point.

When a parent (other than a parent using the consolidation exemption) or an investor with joint control of, or significant influence over, an investee prepares separate financial statements, it is required to disclose:

- That the financial statements are separate financial statements
- A list of significant investments in subsidiaries, joint ventures and associates, including:
  - The name of those investees
  - The investees principal place of business and country of incorporation
  - The proportion of the ownership interest and the proportion of voting rights held in those investees.
- A description of the method used to account for the investments listed above

IND AS 28 *Investments in Associates and Joint Ventures*

SCOPE

Applies to all entities that are investors with joint control of, or significant influence over, an investee.

DEFINITIONS

Associate
An entity over which the investor has significant influence.

Significant influence
Power to participate in financial and operating policy decisions of the investee.
But not control or joint control over those policies.

Joint arrangement
Arrangement of which two or more parties have joint control.

Joint control
The contractually agreed sharing of control of an arrangement - decisions require the unanimous consent of the parties sharing control.

Joint venture
A joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

The **equity method** is a method of accounting:
- That initially recognises an investment in an investee at cost
- Thereafter adjusts the investment for the post-acquisition change in the investor's share of net assets of the investee (IND AS 28.2)
- The profit or loss of the investor includes the investor's share of the profit or loss of the investee and
- The Investor's other comprehensive income includes its share of the investee's other comprehensive income

Refer to IND AS 110 appendix A, for definitions of:
- Control of an investee
- Group
- Parent
- Separate financial statements
- Subsidiary.

APPLICATION

SIGNIFICANT INFLUENCE

- Rebuttable presumption: 20% - 50% shareholding gives rise to significant influence
- Evidenced in one or more of the following ways:
  - Representation on the board of directors or equivalent governing body of the investee
  - Participation in policy-making processes, including participation in decisions about dividends or other distributions
  - Material transactions between the investor and the investee
  - Interchange of managerial personnel
  - Provision of essential technical information

EXEMPTION FROM EQUITY METHOD

If the entity is a parent that is exempt from preparing consolidated financial statements, as set out in IND AS 110 *Consolidated Financial Statements* paragraph 4(a), or if:
- The investor is a wholly or partially owned subsidiary and its other owners have been informed about the decision
- The investor's debt or equity instruments are not publicly traded
- The investor did not file its financial statements with a securities commission or other regulator for the purposes of issuing any class of instruments to the public
- The ultimate or intermediate parent of the investor produces consolidated financial statements that comply with IND ASs

DISCLOSURES

The disclosure requirements for Investments in Associates and Joint Ventures are provided in IND AS 112 *Disclosure of Interests in Other Entities.*

EQUITY METHOD

- The investment is initially recognised at cost
- Subsequently, the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition (IND AS 28):
  - The investor's share of the profit or loss of the investee is recognised in the investor's profit or loss
  - Distributions received from an investee reduce the carrying amount of the investment
  - Adjustments to the carrying amount may also arise from changes in the investee's other comprehensive income (OCI) i.e. revaluation of property, plant and equipment and foreign exchange translation differences. The investor's share of those changes is recognised in OCI of the investor
  - An investment in an investee that meets the definition of a 'non-current asset held for sale' should be recognised in accordance with IND AS 105 *Non-current Assets Held for Sale and Discontinued Operations.*
- The equity method is used from the date significant influence arises, to the date significant influence ceases.

IMPAIRMENT LOSSES

- The entity applies the impairment requirements in Ind AS 109 to its other interests in the associate or joint venture that are in the scope of IND AS 109 and that do not constitute a part of the net investment.
- Goodwill that forms part of the carrying amount of an investment in an investee is not separately recognised and therefore not tested separately for impairment – instead the entire investment is tested as 'one' in accordance with IND AS 36.

SEPARATE FINANCIAL STATEMENTS

An investment in an investee is required to be accounted for in the entity's separate financial statements either at cost or at fair value in accordance with IND AS 109.

ISSUES TO NOTE

- Potential voting rights are taken into account to determine whether significant influence exists, but equity accounting is based on actual interest only unless those potential voting rights currently give the entity access to the returns.
- Financial statements of the investor and investee used must not differ by more than 3 months in terms of the reporting date
- The investors' share in the investee's profits and losses resulting from transactions with the investee are eliminated in the equity accounted financial statements of the parent.
- Use uniform accounting policies for like transactions and other events in similar circumstances unless in case of an associate, it is impracticable.
- If an investor's share of losses of an investee exceeds its interest in the investee, discontinue recognising share of further losses. The interest in an investee is the carrying amount of the investment in the investee under the equity method, and any long-term interests that, in substance, form part of the investor's net investment in the investee. For example, an item for which settlement is neither planned nor likely to occur in the foreseeable future is, in substance, an extension of the entity's investment in that investee.
- After the entity's interest is reduced to zero, aadditional losses are provided and a liability is recognised if entity has incurred legal or constructive obligation or made payment on behalf of associate or joint venture.
- If ownership interest is reduced, but equity method remains, the entity reclassifies to profit or loss the gain or loss that had previously been recognised in OCI.

DISCONTINUING THE USE OF THE EQUITY METHOD

An entity is required to discontinue the use of the equity method from the date when its investment ceases to be an associate or a joint venture as follows:
- If an investment becomes a subsidiary, the entity follows the guidance in IND AS 103 *Business Combinations* and IND AS 110 *Consolidated Financial Statements*
- If any retained investment is held as a financial asset, the entity applies IND AS 109 *Financial Instruments,* and recognise in profit or loss the difference between:
  - The fair value of any retained interest and any proceeds from disposing of a part interest in the associate or joint venture and
  - The carrying amount of investment at date equity method discontinued.
- Account for all amounts recognised in OCI in relation to that investment on same basis as if investee had directly disposed of related assets and liabilities.

IND AS 29 *Financial Reporting in Hyperinflationary* ***Economies***

SCOPE

IND AS 29 is applied to the individual financial statements, and the consolidated financial statements, of any entity whose functional currency is the currency of a hyperinflationary economy

INDICATORS OF HYPERINFLATION

Hyperinflation is indicated by characteristics of the economic environment of a country which include, but are not limited to, the following:

- The general population prefers to keep its wealth in non-monetary assets or in a relatively stable foreign currency
- The general population regards monetary amounts not in terms of the local currency but in terms of a relatively stable foreign currency
- Sales and purchases on credit take place at prices that compensate for the expected loss of purchasing power during the credit period
- Interest rates, wages and prices are linked to a price index
- The cumulative inflation rate over three years is approaching, or exceeds, 100%

RESTATEMENT OF FINANCIAL STATEMENTS - HYPERINFLATIONARY ECONOMIES

The financial statements of an entity whose functional currency is the currency of a hyperinflationary economy are stated in terms of the measuring unit current at the end of the reporting period. Corresponding figures in relation to prior periods are also restated. The gain or loss on the net monetary position is included in profit or loss and separately disclosed.

HISTORICAL COST FINANCIAL STATEMENTS

STATEMENT OF PROFIT AND LOSS

All items in the statement of profit and loss are expressed in terms of the measuring unit current at the end of the reporting period. Therefore all amounts need to be restated by applying the change in the general price index from the dates when the items of income and expenses were initially recorded in the financial statements

BALANCE SHEET

Balance sheet amounts not already expressed in terms of the measuring unit current at the end of the reporting period are restated by applying a general price index

Assets and liabilities linked by agreement to changes in prices are adjusted in accordance with the agreement in order to ascertain the amount outstanding at the end of the reporting period

Monetary items are not restated because they are already expressed in terms of the monetary unit current at the end of the reporting period

All other assets and liabilities are non-monetary. Some non-monetary items are carried at amounts current at the end of the reporting period, such as net realisable value and market value, so they are not restated. All other non-monetary assets and liabilities are restated

CURRENT COST FINANCIAL STATEMENTS

BALANCE SHEET

Items at current cost are not restated because they are already expressed in the unit of measurement current at the end of the reporting period

STATEMENT OF PROFIT AND LOSS

All amounts are restated into the measuring unit current at the end of the reporting period by applying a general price index

COMPARATIVES AND STATEMENT OF CASH FLOWS

All items in the statement of cash flows are expressed in terms of the measuring unit current at the end of the reporting period. Corresponding figures for the previous reporting period, whether based on either a historical cost approach or a current cost approach, are restated by applying a general price index.

ECONOMIES CEASING TO BE HYPERINFLATIONARY

When an economy ceases to be hyperinflationary and an entity discontinues the preparation and presentation of financial statements prepared in accordance with IND AS 29, it treats 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. Also the duration of the hyperinflationary situation existing in the economy is required to be disclosed.

IND AS 32 *Financial Instruments: Presentation*

WHAT TYPE OF INSTRUMENT IS IT?

FAIR VALUE

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

OFFSETTING

A financial asset and a financial liability are offset only when there is a legally enforceable right to offset and an intention to settle net or to settle both amounts simultaneously. The right of set-off:

(a) Must not be contingent on a future event
(b) Must be legally enforceable in all of the following circumstances:
  - The normal course of business
  - The event of default
  - The event of insolvency or bankruptcy of the entity and all of the counterparties

TREASURY SHARES

The cost of an entity's own equity instruments that it has reacquired (treasury shares) is deducted from equity:

- Gain or loss is not recognised on the purchase, sale, issue, or cancellation of treasury shares
- Treasury shares may be acquired and held by the entity or by other members of the consolidated group (i.e. an entity and its subsidiaries)
- Consideration paid or received is recognised directly in equity

OWNER TRANSACTIONS

- Distributions to holders of equity instruments are debited directly in equity
- Transaction costs of equity transactions are accounted for as deductions from equity

FINANCIAL INSTRUMENT

A contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity

FINANCIAL ASSET

A financial asset is:

- Cash
- An equity instrument of another entity
- A contractual right to receive cash or another financial asset from another entity; or to exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity
- A contract that will or may be settled in the entity's own equity instruments and is: a non-derivative for which the entity is or may be obliged to receive a variable number of the entity's own equity instruments; or a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments. For this purpose the entity's own equity instruments do not include instruments that are themselves contracts for the future receipt or delivery of the entity's own equity instruments

COMPOUND FINANCIAL INSTRUMENTS

Compound instruments that have both liability and equity characteristics are split into these components. The split is made on initial recognition of the instruments and is not subsequently revised.

The equity component of the compound instrument is the residual amount after deducting the fair value of the liability component from the fair value of the instrument as a whole. No gain / loss arises from initial recognition.

EQUITY INSTRUMENT

- Any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities
- Some instruments that meet the definition of a liability, but represent the residual interest in the net assets of the entity may be classified as equity, in certain circumstances, such as puttable instruments that give the holder the right to put the instrument back to the issuer for cash or another financial asset, automatically on the occurrence of either (i) an uncertain future event (ii) death of the instrument holder (common in co-operative structures)
- Equity instruments issued to acquire a fixed number of the entities own non-derivative equity instruments (in any currency) are classified as equity instruments, provided they are issued pro-rata to all existing shareholders of the same class of the entities own non-derivative equity

FINANCIAL LIABILITY

A financial liability is:

- A contractual obligation to deliver cash or another financial asset to another entity; or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity; or
- A contract that will or may be settled in the entity's own equity instruments and is a non-derivative for which the entity is or may be obliged to deliver a variable number of the entity's own equity instruments; or a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments. However, where there is an equity conversion option embedded in a convertible bond denominated in foreign currency to acquire a fixed number of entity's own equity instruments, it is considered an equity instrument if the exercise price is fixed in any currency

For this purpose the entity's own equity instruments do not include instruments that are themselves contracts for the future receipt or delivery of the entity's own equity instruments

CLASSIFICATION AS LIABILITY OR EQUITY

- The entity must on initial recognition of an instrument classify it as a financial liability or equity. The classification may not subsequently be changed
- An instrument is a liability if the issuer could be obliged to settle in cash or another financial instrument

Some instruments may have to be classified as liabilities even if they are issued in the form of shares

IND AS 33 *Earnings per Share*

APPLICABLE TO

Entities that have issued ordinary shares to which Indian Accounting Standards (IND ASs) notified under the Companies Act apply.
IND AS 33 requires EPS related information to be disclosed both in consolidated financial statements and separate financial statements.

TYPES OF EARNINGS PER SHARE (EPS)

BASIC EPS
(To be disclosed on face of Statement of Profit and Loss)

DILUTED EPS (DEPS)
(To be disclosed on face of Statement of Profit and Loss)

EARNINGS / WEIGHTED AVERAGE NUMBER OF SHARES

Basic earnings
Profit or loss from continuing operations adjusted for:
- Non-controlling interest's share of profit
- Dividends on preference shares (after tax), differences arising in settlement of preference shares, and other similar effects where preference shares are classified as equity.
- **Any item of income or expense which is otherwise required to be recognised in profit or loss in accordance with Indian Accounting Standards is debited or credited to securities premium account / other reserves**

Basic - Weighted average number of shares
- Time weighted average number of shares issued from date consideration receivable
- For additional shares where no consideration received - time weighted average number of shares from beginning of year / date of issue of shares with consideration (e.g. bonus issue)
- Restate comparatives.

Diluted earnings
Basic earnings adjusted for after-tax effect of:
- Changes in Statement of Profit and Loss that will result from conversion of all dilutive potential ordinary shares (e.g. interest on loan no longer charged once converted to equity).

Diluted - Weighted average number of shares
- Starting point is the weighted average number of shares in Basic EPS
- If any consideration will be received on conversion the dilutive impact is based only on the number of shares issued for no consideration
- Adjust for number of shares that would be issued on conversion
- Adjust presuming conversion at beginning of year / date of issue of potential ordinary shares
- Diluted EPS presented for only those instruments which result in a reduction of EPS - i.e. instruments which prove to be anti-dilutive are excluded.

OTHER
(To be disclosed in Notes to the financial statements)

- Same number of shares, different numerator (earnings number)
- Disclose in notes to annual financial statements - not on face of statement of Profit and Loss
- Examples:
  - Headline earnings per share
  - Net assets value per share
  - Core earnings per share.

CONSIDERATIONS TO NOTE

- Where an entity presents discontinued operations, Basic EPS and diluted EPS are required to be presented for continuing and discontinuing operations. Continuing operations amount is presented on face of statement of profit and loss.
- Complex areas:
  - Contingently issuable shares
  - Share-based payment transactions
  - Contracts settled in shares / in cash
  - Written put options
  - Options, warrants and their equivalents
  - Potential ordinary shares of subsidiaries.

IND AS 34 *Interim Financial Reporting*

- The objective of this Standard is to prescribe the minimum content of an interim financial report and to prescribe the principles for recognition and measurement in complete or condensed financial statements for an interim period
- Standard does not mandate which entities should produce interim financial reports

DEFINITIONS

- Interim period – financial period shorter than full year
- Interim financial report – either a complete (as described in IND AS 1) or condensed set of financial statements

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- If complete set is published in the interim report, full compliance with IND AS is required
- If condensed set is published, the interim report is required to include at a minimum:
  - A condensed Balance sheet
  - A condensed statement of Profit & loss
  - A condensed statement of changes in equity
  - A condensed statement of cash flows
  - Selected explanatory notes
- The condensed statements are required to include at least:
  - Headings and subtotals included in most recent annual financial statements
  - Selected minimum explanatory notes - explaining events and transactions significant to an understanding of the changes in financial position / performance since last annual reporting date
  - Selected line items or notes if their omission would make the condensed financial statements misleading
  - Basic and diluted earnings per share (if applicable) on the face of statement of Profit & Loss

RECOGNITION AND MEASUREMENT

ACCOUNTING POLICIES

- Principles for recognising assets, liabilities, income and expenses are same as in the most recent annual financial statements, unless:
  - There is a change in an accounting policy that is to be reflected in the next annual financial statements
- Tax recognised based on weighted average annual income tax rate expected for the full year
- Tax rate changes during the year are adjusted in the subsequent interim period during the year

USE OF ESTIMATES

Interim reports require a greater use of estimates than annual reports

COSTS INCURRED UNEVENLY

Anticipated or deferred only if it would be possible to defer or anticipate at year end

SEASONAL, CYCLICAL OR OCCASIONAL REVENUE

- Revenue received during the year should not be anticipated or deferred where anticipation would not be appropriate at year end
- Recognised as it occurs

OTHER

- For highly seasonal entities, consider reporting additional information for 12 months
- Changes in accounting policies accounted as normal in terms of IND AS 8 Accounting Policies, Changes in Accounting Estimates and Errors

COMPLIANCE WITH IND AS 34

- Disclose the fact that the interim financial statements comply with IND AS 34

IMPAIRMENT

Guidance on impairment is given in Appendix A of this standard *Interim Financial Reporting and Impairment*

PERIODS TO BE PRESENTED

- Balance sheet as of the end of the current interim period and a comparative balance sheet as of the end of the immediately preceding financial year
- Statements of profit and loss for the current interim period and cumulatively for the current financial year to date, with comparative statements of profit and loss for the comparable interim periods (current and year-to-date) of the immediately preceding financial year
- Statement of changes in equity cumulatively for the current financial year to date, with a comparative statement for the comparable year-to-date period of the immediately preceding financial year
- Statement of cash flows cumulatively for the current financial year to date, with a comparative statement for the comparable year-to-date period of the immediately preceding financial year

IND AS 34 *Interim Financial Reporting*

SIGNIFICANT EVENTS AND TRANSACTIONS

- Entity shall disclose significant events and transactions that are material to understanding of changes in financial position and performance since last reporting period. Insignificant updates need not be given.
- Illustrative events and transactions
  - Write down of inventories and reversal Impairment loss and its reversal
  - Acquisition and disposal of PPE
  - Litigation settlement
  - Correction of prior period errors
  - Changes in business or economic circumstances
  - Default or breach of loan agreement

OTHER DISCLOSURES

- Statement that the same accounting policies and methods are followed and if changed, nature and effect of change
- Explanatory comments about the seasonality or cyclicality of interim operations
- The nature and amount of items those are unusual because of their nature size or incidence
- Select segment information
- Material events subsequent to the end of the interim period
- If an entity's interim financial report is in compliance with this standard, that fact shall be disclosed

IND AS 36 *Impairment of Assets*

ASSETS TO BE REVIEWED

- INDIVIDUAL ASSETS
- CASH-GENERATING UNITS (CGUs)

The smallest identifiable group of assets that generates cash flows that are independent of the cash inflows from other assets or group of assets

SCOPE

All assets, except: inventories, construction contracts, deferred tax assets, employee benefits, financial assets, biological assets, insurance contract assets, and assets held for sale

IMPAIRMENT = Carrying Amount > Recoverable Amount

RECOVERABLE AMOUNT = Higher of fair value less costs of disposal and value in use

Fair value less costs of disposal
Amount obtainable in an orderly transaction between market participants less costs of disposal

Fair value
Determined at measurement date under current market conditions (i.e. an exit price)

Costs of disposal
Incremental costs attributable to the disposal of an asset

Value-in-use
Represents the discounted future net pre-tax cash flows from the continuing use and ultimate disposal of the asset

Cash flows

- From continuing use and disposal
- Based on asset in its current form
- Exclude financing activities
- Pre-tax

Discount rate

- Pre-tax
- Risks relating to value in use are reflected either in future cash flows or in the discount rate. The assumptions are otherwise double-counted

WHEN TO TEST FOR IMPAIRMENT?

When there is an indicator of impairment.
Indicators are assessed at each reporting date.

INTERNAL INDICATORS

- Evidence of obsolescence or physical damage
- Discontinuance, disposal or restructuring plans
- Declining asset performance

EXTERNAL INDICATORS

- Significant decline in market value
- Changes in technological, market, economic or legal environment
- Changes in interest rates
- Low market capitalisation

ANNUAL IMPAIRMENT TESTS

Compulsory for

- Intangible assets with an indefinite useful life
- Intangible assets not yet available for use
- CGUs to which goodwill has been allocated

WHEN TO REVERSE IMPAIRMENT?

Individual asset - recognise in profit and loss unless asset carried at revalued amount

CGUs - allocated to assets of CGUs on a pro-rata basis

Goodwill - Impairment of goodwill is never reversed

INTERNAL INDICATORS

- Changes in way asset is used or expected to be used
- Evidence from internal reporting indicates that economic performance of the asset will be better than expected

EXTERNAL INDICATORS

- Significant increase in market value
- Changes in technological, market, economic or legal environment
- Changes in interest rates
- Market interest rates have decreased

IND AS 37 *Provisions, Contingent Liabilities and Contingent Assets*

SCOPE

Excludes provisions, contingent liabilities and contingent assets arising from:

- Non-onerous executory contracts
- Those covered by other IND ASs:
  - IND AS 12 *Income Taxes*
  - IND AS 17 *Leases*
  - IND AS 19 *Employee Benefits*
  - IND AS 104 *Insurance Contracts*.
  - IND AS 103 Contingent consideration
  - IND AS 115 Revenue from contracts with customers

DEFINITIONS

- **Provision** – a liability of uncertain timing or amount.
- **Contingent liability**
  - A possible obligation that arises from past events, whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly in the control of the entity; or
  - A present obligation that arises from past events that is not recognised because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation or the amount of the obligation cannot be measured reliably.
- **Contingent asset** – possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.

RECOGNITION

PROVISIONS

Provisions are recognised when:

- The entity has a present legal or constructive obligation as a result of a past event
- It is probable that an outflow or economic benefits will be required to settle the obligation; and
- A reliable estimate can be made of the amount of the obligation.

CONTINGENT LIABILITIES

Contingent liabilities are not recognised.

CONTINGENT ASSETS

Contingent assets are not recognised.

MEASUREMENT

- Provisions are measured at the best estimate of the expenditure required to settle the present obligation at reporting date
- In determining the best estimate, the related risks and uncertainties are taken into account
- Where the effect of the time value of money is material, the amount of the provision is the present value of the expenditures expected to be required to settle the obligation. The discount rate used is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability
  - The discount rate does not reflect risks for which future cash flow estimates have been adjusted.
- Future events that may affect the amount required to settle the obligation are reflected in the amount of the provision where there is sufficient objective evidence that they will occur
- Gains from the expected disposal of assets are not taken into account in measuring the provision
- Reimbursements from third parties for some or all expenditure required to settle a provision are recognised only when it is virtually certain that the reimbursement will be received. The reimbursement is treated as a separate asset, which cannot exceed the amount of the provision
- Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate
- If it is no longer probable that an outflow of economic benefits will be required to settle the obligation, the provision is released
- Provisions are not recognised for future operating losses

ONEROUS CONTRACTS

- Onerous contract – one where the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it
- For onerous contract, the provision is recognised and measured at the lower of:
  - The cost of fulfilling the contract
  - The costs / penalties incurred in cancelling the contract.
- Before a separate provision for an onerous contract is recognised, an entity recognises any impairment loss (IND AS 36 *Impairment of Assets*) that has occurred on assets dedicated to that contract.

RESTRUCTURING

Restructuring provisions are only permitted to be recognised when an entity has:

- A detailed formal plan for the restructuring identifying:
  - The business or part of business concerned; principal locations affected; location, function, approximate number of employees to be compensated for termination of services; expenditures that will be undertaken and when the plan will be implemented.
- Has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing (e.g. by a public announcement) its main features to those affected before the end of the reporting period
- Restructuring provisions only include the direct expenditures arising from the restructuring – i.e. those that are both necessarily entailed by the restructuring and not associated with the entity's on-going activities.

IND AS 38 *Intangible Assets*

RECOGNITION AND MEASUREMENT

SEPARATE ACQUISITION

1. Probable - expected future economic benefits will flow to the entity; and
2. Cost can be reliably measured

Recognition at cost

ACQUIRED IN BUSINESS COMBINATION

1. Probable - always met if fair value (FV) can be determined; FV reflects expectation of future economic benefits
2. Cost - FV at acquisition date
   - Acquirer recognises it separately from goodwill
   - Irrespective of whether the acquiree had recognised it before acquisition

INTERNALLY GENERATED

Research phase - expense costs as incurred

Development phase - Capitalise if all criteria are met:

- Technical feasibility of completion of intangible asset
- Intention to complete
- Ability to use or sell the intangible asset
- Adequate technical, financial and other resources to complete
- Probable future economic benefits
- Expenditure measured reliably

EXCHANGE OF ASSETS

- Measure acquired asset at its fair value
- If not possible, at book value of asset given up

INTERNALLY GENERATED GOODWILL

Internally generated goodwill is never recognised as it is not an identifiable resource that can be measured reliably

Examples include:

- Internally generated brands
- Customer lists

GOVERNMENT GRANT

Initially recognised at:

- Fair value
- Nominal amount plus directly attributable expenses for preparing the asset for its intended use

Examples include:

- License to operate national lottery
- Radio station

DEFINITION

Intangible assets - identifiable, non-monetary assets, without physical substance

Assets - resources, controlled from past events and with future economic benefits expected

Research - Original and planned investigation undertaken with the prospect of gaining new specific or technical knowledge and understanding

Development - The application of research findings or other knowledge to a plan or design for the production of new or substantially improved materials, devices, products, processes, systems or services before the start of commercial production or use

Identifiable if either:

- Capable of being separated and sold, licensed, rented, transferred, exchanged or rented separately or
- Arise from contractual or other legal rights

Scope exclusions: financial and intangible assets covered by other IND ASs (IND AS 2, IND AS 12, IND AS 17, IND AS 19, IND AS 32, IND AS 104, IND AS 105, and IND AS 106)

OTHER

Past expenses cannot be capitalised in a later period

SUBSEQUENT ACCOUNTING

Finite useful life - Choose either amortised cost or revaluation model:

Cost model

- Determine useful life
- Residual value - assumed zero unless active market exists or a commitment by third party to purchase the intangible asset exists
- Amortisation method
  - Review above annually
  - Amortisation begins when available for use
  - Rebuttable presumption that revenue based amortisation is inappropriate
  - Should reflect the pattern in which future economic benefits are expected to be consumed
  - Consistent from period to period

Revaluation model

- Fair value at revaluation date
- Fair value determined by referring to active market
- If no active market, use cost model
- Revaluation done regularly
- The net carrying amount of the asset is adjusted to the revalued amount and
  - The gross carrying amount is adjusted in a manner consistent with the net carrying amount. Accumulated amortisation is adjusted to equal the difference between the gross and net carrying amount; or
  - Accumulated amortisation is eliminated against the gross carrying amount.
- Credit to revaluation surplus net of Deferred Tax
- Transfer to or from retained earnings on realisation

Indefinite useful lives

- No foreseeable limit to future expected economic benefits
- Not amortised
- Test for impairment annually or when an indication exists
- Review annually if events and circumstances still support indefinite useful life
- If no longer indefinite change to finite useful life

DISCLOSURE

Entity shall disclose for each class of intangible assets; distinguishing between internally generated intangible assets and other intangible assets:

- Whether useful lives are indefinite or finite
- Useful life, amortisation rate and amortisation method for assets having finite useful lives
- The gross carrying amount of intangible asset and any accumulated amortisation
- Any amortisation of intangible asset included in statement of profit and loss
- Reconciliation of the carrying amount at the beginning and end of period showing additions, assets classified as sale, increase / decrease from revaluation, amortisation, any changes in carrying value

IND AS 40 *Investment Property*

CLASSIFICATION

Partial own use

- If the owner uses part of the property for its own use, and part to earn rentals or for capital appreciation, and the portions can be sold or leased out separately, they are accounted for separately. The part that is rented out is investment property.
- If the portions cannot be sold or leased out separately, the property is investment property only if the owner-occupied (property, plant and equipment) portion is insignificant.

Provision of ancillary services to occupants

- If those services (e.g. security or maintenance services) are a relatively insignificant component of the arrangement as a whole, then the entity may treat the property as investment property.
- Where the services provided are more significant (such as in the case of an owner-managed hotel), the property should be classified as owner-occupied property, plant and equipment.

Interrelationship between IND AS 103 and IND AS 40

Judgement is required to determine whether the acquisition of investment property is the acquisition of an asset, a group of assets or a business combination in the scope of IND AS 103 *Business Combinations*.

The judgement of whether the acquisition of investment property is a business combination is based on the guidance in IND AS 103. Judgements needed to distinguish investment property from owner-occupied property are based on the guidance in IND AS 40.

Inter-company rentals

Property rented to a parent, subsidiary, or fellow subsidiary is not investment property in consolidated financial statements that include both the lessor and the lessee, because the property is owner-occupied from the perspective of the group.

Such property will be investment property in the separate financial statements of the lessor, if the definition of investment property is otherwise met.

DEFINITION

Property (land or a building or part of a building or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both.

INCLUDES

- Land held for long-term capital appreciation
- Land held for indeterminate future use
- Building leased out under an operating lease
- Vacant building held to be leased out under an operating lease
- Property being constructed / developed for future use as investment property

EXCLUDES

- Property held for use in the production or supply of goods or services or for administrative purposes (IND AS 16 *Property, Plant and Equipment* applies)
- Property held for sale in the ordinary course of business or in the process of construction or development for such sale (IND AS 2 *Inventories* applies)
- Owner-occupied property (IND AS 16 applies)
- Property leased to another entity under a finance lease (IND AS 17 applies)

Transfers to or from investment property can be made only when there has been a change in the use of the property

RECOGNITION

Investment property is recognised as an asset when it is probable that the future economic benefits that are associated with the property will flow to the enterprise, and the cost of the property can be reliably measured

MEASUREMENT

Initial measurement

Investment property is initially measured at cost, including transaction costs.

Cost does not include start-up costs, abnormal waste, or initial operating losses incurred before the investment property achieves the planned level of occupancy.

Subsequent measurement

An entity shall adopt as its accounting Policy the cost model

- **Cost model**
  After initial recognition, an entity shall measure all of its investment properties in accordance with IND AS 16's requirements for cost model, other than those that meet the criteria to be classified as held for sale (or are included in a disposal group that is classified as held for sale) in accordance with IND AS 105, Non-current Assets Held for Sale and Discontinued Operations. Investment properties that meet the criteria to be classified as held for sale (or are included in a disposal group that is classified as held for sale) shall be measured in accordance with IND AS 105.

- **Fair Value**
  This Standard requires all entities to measure the fair value of investment property, for the purpose of disclosure even though they are required to follow the cost model for measurement of the investment property. An entity is encouraged, but not required, to measure the fair value of investment property on the basis of a valuation by an independent valuer who holds a recognised and relevant professional qualification and has recent experience in the location and category of the investment property being valued

IND AS 41 *Agriculture*

DEFINITIONS

Agricultural activity - The management by an entity of the biological transformation and harvest of biological assets for sale or for conversion into agricultural produce or into additional biological assets.

Biological asset - A living animal or plant.

Agricultural produce - The harvested produce of the entity's biological assets.

Biological transformation - The process of growth, degeneration, production, and procreation that cause qualitative or quantitative changes in a biological asset.

Harvest - The process of detaching produce from a biological asset or cessation of its life.

Effective for periods beginning on or after 1 January 2016

Bearer plant - is a living plant that:

- Is used in the production or supply of agricultural produce
- Is expected to bear produce for more than one period
- Has a remote likelihood of being sold (except scrap sales).

GOVERNMENT GRANTS

- An unconditional government grant related to a biological asset measured at fair value less costs to sell, is recognised as income when, and only when, the government grant becomes available
- A conditional government grant, including where a government grant requires an entity not to engage in specified agricultural activity, is recognised as income when and only when, the conditions of the grant are met.

SCOPE

Within scope:

- Biological assets
- Agricultural produce at the point of harvest including from bearer plant
- Government grants related to biological assets.

Excluded from scope:

- Land related to agricultural activity - covered by IND AS 16 *Property, Plant and Equipment* and IND AS 40 *Investment Property*
- Intangible assets related to agricultural activity - covered by IND AS 38 *Intangible Assets*.

Amendments to IND AS 41 (Effective 1 January 2016)

- Bearer plants related to agricultural activity (refer IND As 16)
- Government grants related to bearer plants.(refer IND AS 20)

RECOGNITION

- Biological assets or agricultural produce are recognised when:
  - Entity controls the asset as a result of a past event
  - Probable that future economic benefit will flow to the entity; and
  - Fair value or cost of the asset can be measurement reliably.

MEASUREMENT

Biological asset

- Initially:
  - At fair value less costs to sell (except where fair value cannot be estimated reliably biological assets are stated at cost)
- Subsequently:
  - At fair value less estimated costs to sell (except where fair value cannot be estimated reliably)
- If no reliable measurement of fair value, biological assets are stated at cost less accumulated depreciation and accumulated impairment losses. Additional disclosures mandatory.

Agricultural produce

- Produce harvested from biological assets is measured at fair value less costs to sell at the point of harvest
- Such measurement is the cost at the date when applying IND AS 2 Inventory or another applicable IND AS.

FAIR VALUE GAINS AND LOSSES

Biological asset

- The gain or loss on initial recognition is included in profit or loss in the period in which it arises
- Subsequent change in fair value is included in profit or loss in the period it arises.

Agricultural produce

- The gain or loss on initial recognition is included in included in profit or loss in the period in which it arises.

INABILITY TO MEASURE FAIR VALUE

- Once the fair value of the biological asset becomes reliably measureable, the fair value must be used to measure the biological asset
- Once a non-current biological asset meets the criteria to be defined as held for sale (or as part of a disposal group classified as held for sale) then it is presumed fair value can be measured reliably.

BDO

IND AS 101 *First-time Adoption of Indian Accounting Standards*

SCOPE

- IND AS 101 applies to the first set of financial statements that contain an explicit and unreserved statement of compliance with IND ASs
- IND AS 101 applies to any interim financial statements for a period covered by those first financial statements that are prepared under IND ASs

GENERAL REQUIREMENTS

- Previous GAAP is defined as the basis of accounting that a first-time adopter used for its reporting requirements in India immediately before adopting IND AS
- Recognise all assets and liabilities whose recognition is required by IND ASs
- Derecognise assets and liabilities if IND ASs do not permit such recognition
- Reclassify items that it recognised in accordance with previous GAAP as one type of asset, liability or component of equity, but are a different type of asset, liability or component of equity in accordance with IND ASs; and
- Re-measure all assets and liabilities recognised under IND ASs

RECOGNITION AND MEASUREMENT

OPTIONAL EXEMPTIONS

IND AS 101 does not permit these to be applied by analogy to other items

An entity may elect to use one or more of the following exemptions, which provide specific relief, on adoption of IND ASs:

- Business combinations
- Share-based payment transactions
- Insurance contracts
- Fair value / revaluation / carrying values as deemed cost
- Leases
- Cumulative translation differences
- Long term Foreign currency monetary items
- Investments in subsidiaries, jointly controlled entities and associates
- Assets and liabilities of subsidiaries, associates and joint ventures
- Compound financial instruments
- Designation of previously recognised financial instruments
- Fair value measurement of financial assets / 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 Appendix C to IND AS 115 *Service Concession Arrangements*
- Extinguishing financial liabilities with equity instruments
- Joint arrangements
- Severe hyperinflation
- 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
- Non-current assets held for sale and discontinued operations

MANDATORY EXCEPTIONS

IND AS 101 prohibits retrospective application in relation to the following:
- Estimates
- Derecognition of financial assets and financial liabilities
- Hedge accounting
- Non-controlling interests
- Classification and measurement of financial assets
- Impairment of financial assets
- Embedded derivatives
- Government loans

ACCOUNTING POLICIES

- Use the same accounting policies in the opening IND AS balance sheet and throughout all periods presented in the first IND AS financial statements
- Those accounting policies have to comply with each IND AS effective at the end of the first IND AS reporting period
- The transitional provisions in other IND ASs apply to changes in accounting policies made by an entity that already uses IND ASs; they do not apply to a first-time adopter's transition to IND ASs, except as specified in Appendices B-D

OPENING IND AS BALANCE SHEET

- An opening IND AS balance sheet is prepared at the date of transition
- All IND ASs are applied consistently across all reporting periods in the entity's first set of IND AS compliant financial statements (i.e. both the comparatives and the current reporting period)
- If a standard is not yet mandatory but permits early application, an entity is permitted, but not required, to apply that Standard in its first IND AS set of financial statements

PRESENTATION AND DISCLOSURE

An entity's first set of financial statements are required to present at least three balance sheets and two statements of profit and loss, two statements of cash flows and two statements of changes in equity, related notes and in relation to the adoption of IND ASs, the following:
- A reconciliation of equity reported under previous GAAP to equity under IND ASs:
  - At the date of transition to IND ASs
  - At the end of the latest period presented in the entity's most recent annual financial statements under previous GAAP
- A reconciliation of total comprehensive income reported under previous GAAP to total comprehensive income under IND ASs for the entity's most recent annual financial statements under previous GAAP
- The reconciliations shall give sufficient detail to enable users to understand the material adjustments to the balance sheet and statement of profit and loss Errors identified under the previous GAAP shall be distinguished separately in the reconciliations above
- Interim financial reports:
  In addition to the reconciliations above, the entity is also required to provide:
  - A reconciliation of equity reported under its previous GAAP to equity under IND ASs at the end of the comparable interim period, and
  - A reconciliation of total comprehensive income reported under Indian GAAP to total comprehensive income under IND ASs for the comparative interim period, and
  - Explanations of the transition from its previous GAAP to IND AS
- Additional disclosure requirements are set out in IND AS 101

IND AS 102 *Share-based Payment*

SCOPE

IND AS102 applies to all share-based payment transactions, which are defined as follows:

- **Equity-settled**, in which the entity receives goods or services as consideration for equity instruments of the entity (including shares or share options)
- **Cash-settled**, in which the entity receives goods or services by incurring a liability to the supplier that is based on the price (or value) of the entity's shares or other equity instruments of the entity
- Transactions in which the entity receives goods or services and either the entity or the supplier of those goods or services have a **choice of settling** the transaction in cash (or other assets) or equity instruments.

IND AS102 does not apply to:

- Transactions in which the entity acquires goods as part of the net assets acquired in a business combination to which IND AS103 *Business Combinations* applies
- Share-based payment transactions in which the entity receives or acquires goods or services under a contract within the scope of IND AS 32 *Financial Instruments: Presentation* and IND AS 109 *Financial Instruments: Recognition and Measurement*
- Transactions with an employee in his/her capacity as a holder of equity instruments.

- IND AS102 also applies to transfers by shareholders to parties (including employees) that have transferred goods or services to the entity. This would include transfers of equity instruments of the entity or fellow subsidiaries by the entity's parent entity to parties that have provided goods and services
- IND AS102 also applies when an entity does not receive any specifically identifiable good/services.

RECOGNITION

- Recognise the goods or services received or acquired in a share-based payment transaction when the goods are obtained or as the services are received
- Recognise an increase in equity for an equity-settled share-based payment transaction
- Recognise a liability for a cash-settled share-based payment transaction
- When the goods or services received or acquired do not qualify for recognition as assets, recognise an expense.

MEASUREMENT

EQUITY-SETTLED

Transactions with employees

- Measure at the fair value of the equity instruments granted at grant date
- The fair value is never remeasured
- The grant date fair value is recognised over the vesting period.

Transactions with non-employees

- Measure at the fair value of the goods or services received at the date the entity obtains the goods or receives the service
- If the fair value of the goods or services received cannot be estimated reliably, measure by reference to the fair value of the equity instruments granted.

CHOICE OF SETTLEMENT

Share-based payment transactions where there is a choice of settlement

- If the counterparty has the right to choose whether a share-based payment transaction is settled in cash or by issuing equity instruments, the entity has granted a compound instrument (a cash-settled component and an equity-settled component)
- If the entity has the choice of whether to settle in cash or by issuing equity instruments, the entity shall determine whether it has a present obligation to settle in cash and account for the transaction as cash-settled or if no such obligation exists, account for the transaction as equity-settled.

CASH-SETTLED

Cash-settled share-based payment transactions

- Measure the liability at the fair value at grant date
- Re-measure the fair value of the liability at each reporting date and at the date of settlement, with any changes in fair value recognised in profit or loss for the period
- Liability is recognised over the vesting period (if applicable).

VESTING CONDITIONS

Performance condition - requires counterparty to:

- complete a specified period of service (i.e. **service condition**); and
- fulfil specified performance targets while rendering the service.

The period of service cannot extend beyond the end of the service period and may start before commencement of the service period if it is not substantially before the start of the service period.

Performance targets are either defined with reference to a:

Market condition

Non-market condition
Relates to operations of the entity or an entity within the group.

Market condition - performance condition, upon which the exercise price, the vesting or exercisability of an equity instrument depends, that is related to the market price of the entity's equity instruments (including share options) or those of another entity within the group.

Service condition - requires the counterparty to complete a specified period of service.

A performance target is not required to be met.

- **Excluded** from grant date fair value calculation
- Adjustment to the number of shares and/or vesting date amount for actual results.

- **Included** in grant date fair value calculation
- No adjustment to the number of shares or vesting date amount for actual results.
- Requires counterparty to complete a specified period of service.

NON-VESTING CONDITIONS

- **Included** in the grant date fair value calculation
- No adjustment to the number of shares or vesting date amount for actual results.

GROUP SETTLED SHARE-BASED PAYMENTS

An entity that receives goods or services (receiving entity) in an equity-settled or a cash-settled share-based payment transaction is required to account for the transaction in its separate or individual financial statements.

- The entity receiving the goods recognises them, regardless of which entity settles the transaction, this must be on an equity-settled or a cash-settled basis assessed from the entities own perspective (this might not be the same as the amount recognised by the consolidated group)
- The term 'group' has the same definition as per IND AS 110 *Consolidated Financial Statements* that it includes only a parent and all its subsidiaries.

IND AS 103 *Business Combinations*

IDENTIFYING A BUSINESS COMBINATION / SCOPE

A business combination is a transaction or event in which acquirer obtains **control** over a **business** (e.g. acquisition of shares or net assets, legal mergers, reverse acquisitions). Appendix C includes guidance on common control transactions

IND AS 103 does not apply to-
- The accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself.
- Acquisition of an asset or group of assets that is not a business
- A combination of entities or businesses under common control

Definition of "control of an investee"
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

Control (refer to IND AS 110)
- Ownership of more than half the voting right of another entity
- Power over more than half of the voting rights by agreement with investors
- Power to govern the financial and operating policies of the other entity under statute/ agreement
- Power to remove / appoint majority of directors
- Power to cast majority of votes

Definition of a "Business"
- Integrated set of activities and assets
- Capable of being conducted and managed to provide return
- Returns include dividends and cost savings

Acquisition Costs
- Cannot be capitalised, must instead be expensed in the period they are incurred
- Costs to issue debt or equity are recognised in accordance with IND AS 32 and IND AS 109

ACQUISITION METHOD

A business combination must be accounted for by applying the acquisition method

STEP 1: IDENTIFY ACQUIRER

IND AS 110 *Consolidated Financial Statements* is used to identify the acquirer – the entity that obtains control of the acquiree

STEP 2: DETERMING THE ACQUISITION DATE

The date on which the acquirer obtains control of the acquiree

STEP 3: RECOGNITION AND MEASUREMENT OF ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS (NCI)

- As of the acquisition date, the acquirer recognises, separately from goodwill:
  - The identifiable assets acquired
  - The liabilities assumed
  - Any NCI in the acquiree
- The acquired assets and liabilities are required to be measured at their acquisition-date fair values
- NCI interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation (e.g. shares) are measured at acquisition-date fair value or at the NCI's proportionate share in net assets
- All other components of NCI (e.g. from IND AS 102 *Share-based payments* or calls) are required to be measured at their acquisition-date fair values
- There are certain exceptions to the recognition and / or measurement principles which cover contingent liabilities, income taxes, employee benefits, indemnification assets, reacquired rights, share-based payments and assets held for sale

STEP 4: RECOGNITION AND MEASUREMENT OF GOODWILL OR A BARGAIN PURCHASE

- Goodwill is recognised as the excess between:
  - The aggregate of the consideration transferred, any non-controlling interest in the acquiree and, in a business combination achieved in stages, the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree
  - The identifiable net assets acquired (including any deferred tax balances)
- Goodwill can be grossed up to include the amounts attributable to NCI
- A gain from a bargain purchase is to be recognised in other comprehensive income and accumulated in equity as capital reserve
- The consideration transferred in a business combination (including any contingent consideration) is measured at fair value
- Contingent consideration is either classified as a liability or an equity instrument on the basis of IND AS 32 *Financial Instruments*
- Contingent consideration that is within the scope of IND AS 109 (classified as a financial liability) needs to be remeasured at fair value at each reporting date with changes reported in profit or loss

ADDITIONAL GUIDANCE FOR APPLYING THE ACQUISITION METHOD

STEP ACQUSITION

- An acquirer sometimes obtains control of an acquiree in which it held an equity interest immediately before the acquisition date. This is known as a business combination achieved in stages or as a step acquisition
- Obtaining control triggers re-measurement of previous investments (equity interests)
- The acquirer remeasures its previously held equity interest in the acquiree at its acquisition-date fair value. Any resulting gain / loss is recognised in profit or loss

BUSINESS COMBINATION WITHOUT TRANSFER OF CONSIDERATION

- The acquisition method of accounting for a business combination also applies if no consideration is transferred
- Such circumstances include:
  - The acquiree repurchases a sufficient number of its own shares for an existing investor (the acquirer) to obtain control
  - Minority veto rights lapse that previously kept the acquirer from controlling an acquiree in which the acquirer held the majority voting rights
  - The acquirer and the acquiree agree to combine their businesses by contract alone

SUBSEQUENT MEASUREMENT AND ACCOUNTING

- In general, after the date of a business combination an acquirer measures and accounts for assets acquired and liabilities assumed or incurred in accordance with other applicable IND ASs
- However, IND AS 103 includes accounting requirements for reacquired rights, contingent liabilities, contingent consideration and indemnification assets

IND AS 104 *Insurance Contracts*

SCOPE

This Standard applies to:

- Insurance contracts that an entity issues and reinsurance contracts that it holds
- Financial instruments that an entity issues with a discretionary participation feature

If insurance contracts include a deposit component, unbundling may be required.

The following are examples of contracts that **are** insurance contracts, if the transfer of insurance risk is significant:

- Insurance against theft or damage to property
- Insurance against product liability, professional liability, civil liability or legal expenses
- Life insurance and prepaid funeral expenses
- Life-contingent annuities and pensions
- Disability and medical cover
- Surety bonds, fidelity bonds, performance bonds and bid bonds
- Credit insurance that provides for specified payments to be made to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due
- Product warranties (other than those issued directly by a manufacturer, dealer or retailer)
- Title insurance
- Travel assistance
- Catastrophe bonds that provide for reduced payments of principal, interest or both if a specified event adversely affects the issuer of the bond
- Insurance swaps and other contracts that require a payment based on changes in climatic, geological or other physical variables that are specific to a party to the contract
- Reinsurance contracts.

The following are examples of items that **are not** insurance contracts:

- Investment contracts that have the legal form of an insurance contract but do not expose the insurer to significant risk
- Contracts that pass all significant insurance risk back to the policyholder
- Self-insurance i.e. retaining a risk that could have been covered by insurance
- Gambling contracts
- Derivatives that expose one party to financial risk but not insurance risk
- A credit-related guarantee
- Product warranties issued directly by a manufacturer, dealer or retailer
- Financial guarantee contracts accounted for under IND AS 109 *Financial Instruments*

LIABILITY ADEQUACY TEST

An insurer is required to 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 not sufficient, the liability is increased and a corresponding expense is recognised in profit or loss.

AREAS OF ADDITIONAL GUIDANCE OPENING IND AS BALANCE SHEET

Additional guidance is provided in IND AS 104 in relation to:

- Changes in accounting policies
- Prudence
- Insurance contracts acquired in a business combination or portfolio transfer
- Discretionary participation features.

It is highly recommended that insurers gain a full understanding of IND AS 104 as requirements and disclosures are onerous.

Additional guidance is provided in appendices A and B.

DISCLOSURE

An insurer is required to disclose information that identifies and explains the amounts arising from insurance contracts:

- Its accounting policies for insurance contracts and related assets, liabilities, income and expense
- Recognised assets, liabilities, income and expense
- The process used to determine the assumptions that have the greatest effect on measurement
- The effect of any changes in assumptions
- Reconciliations of changes in liabilities and assets.

An insurer is required to disclose information that enables user of its financial statement to evaluate the nature and extent of risks arising from insurance contracts:

- Its objectives, policies and processes for managing risks
- Information about insurance risk
- Information about credit risk, liquidity risk and market risk
- Information about exposures to market risk arising from embedded derivatives.

IND AS 105 *Non-current Assets Held for Sale and Discontinued Operations*

DEFINITIONS

Cash-generating unit – The smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets

Discontinued operation – A component of an entity that either has been disposed off or is classified as held for sale and either:
- Represents a separate major line of business or geographical area
- Is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations
- Is a subsidiary acquired exclusively with a view to resale

CLASSIFICATION OF NON-CURRENT ASSETS (OR DISPOSAL GROUPS) HELD FOR SALE OR DISTRIBUTION TO OWNERS

- Classify a non-current asset (or disposal group) as **held for sale** if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. The following criteria must be met:
  - The asset (or disposal group) is available for immediate sale (not sale in distant future)
  - The terms of asset sale must be usual and customary for sales of such assets
  - The sale must be highly probable
  - Management is committed to a plan to sell the asset
  - Asset must be actively marketed for a sale at a reasonable price in relation to its current fair value
  - Sale should be completed within one year from classification date
  - Sale transactions include exchanges of non-current assets for other non-current assets when the exchange has commercial substance in accordance with IND AS 16 Property, Plant and Equipment
  - When an entity acquires a non-current asset exclusively with a view to its subsequent disposal, it shall classify the non-current asset as held for sale at the acquisition date only if the one year requirement is met
  - There are special rules for subsidiaries acquired with a view for resale
- **Note**: The classification criteria also apply to non-current assets (or disposal groups) **held for distribution to owners**
  A reclassification from held for sale to held for distribution to owners is not a change to a plan and therefore not a new plan

DISCONTINUED OPERATIONS

- Classification as a discontinued operation depends on when the operation also meets the requirements to be classified as held for sale
- Results of discontinued operations are presented as a single amount in the statement of profit and loss. An analysis of the single amount is presented in the notes or in the statement of profit and loss
- Cash flow disclosure is required – either in the notes or statement of cash flows
- Comparatives are restated

SCOPE

- Applies to all recognised non-current assets and disposal groups of an entity that are:
  - held for sale; or
  - Held for distribution to owners

- Assets classified as non-current in accordance with IND AS 1 *Presentation of Financial Statements* shall not be reclassified as current assets until they meet the criteria of IND AS 105
- If an entity disposes of a group of assets, possibly with directly associated liabilities (i.e. an entire cash-generating unit), together in a single transaction, if a non-current asset in the group meets the measurement requirements in IND AS 105, then IND AS 105 applies to the group as a whole. The entire group is measured at the lower of its carrying amount and fair value less costs to sell
- Non-current assets to be abandoned cannot be classified as held for sale

Exclusions to measurement requirements of IND AS 105, Disclosure requirements still to be complied with:
- Deferred tax assets (IND AS 12 *Income Taxes*)
- Assets arising from employee benefits (IND AS 19 *Employee Benefits*)
- Financial assets in the scope of IND AS 39 *Financial Instruments: Recognition and Measurement* / IND AS 109 *Financial Instruments*
- Non-current assets that are accounted for in accordance with the fair value model (IND AS 40 *Investment Property)*
- Non-current assets that are measured at fair value less estimated point of sale costs (IND AS 41 *Biological Assets*)
- Contractual rights under insurance contracts (IND AS 104 *Insurance Contracts*)

MEASUREMENT

- Immediately prior to classification as held for sale, carrying amount of the asset is measured in accordance with applicable IND ASs
- After classification, it is measured at the lower of carrying amount and fair value less costs to sell. Assets covered under certain other IND ASs are scoped out of measurement requirements of IND AS 105 – see above
- Impairment must be considered at the time of classification as held for sale and subsequently
- Subsequent increases in fair value cannot be recognised in profit or loss in excess of the cumulative impairment losses that have been recognised with this IND AS or with IND AS 36 *Impairment of Assets*
- Non-current assets (or disposal groups) classified as held for sale are not depreciated
- Adjustment of number of shares and / or vesting date amount for actual results

DISCLOSURE

- Non-current assets (or a disposal group) held for sale is disclosed separately from other assets in the balance sheet. If there are any liabilities, these are disclosed separately from other liabilities
- Description of the nature of assets (or disposal group) held for sale and facts and circumstances surrounding the sale
- A gain or loss resulting from the initial or subsequent fair value measurement of the disposable group or non-current asset held for sale if not presented separately in the statement of Profit and Loss and the line item that includes that gain or loss
- Prior year balances in the balance sheet are not reclassified as held for sale
- If applicable, the reportable segment (IND AS 108) in which the non-current asset or disposable group is presented

IND AS 106 *Exploration for and Evaluation of Mineral Resources*

SCOPE

- An entity applies IND AS 106 to exploration and evaluation expenditures that it incurs
- An entity does not apply IND AS 106 to expenditures incurred:
  - Before the exploration for and evaluation of mineral resources, such as expenditures incurred before the entity has obtained the legal rights to explore a specific area
  - After the technical feasibility and commercial viability of extracting a mineral resource are demonstrable

PRESENTATION

An entity classifies exploration and evaluation assets as tangible or intangible according to the nature of the assets acquired and applies the classification consistently

CHANGES IN ACCOUNTING POLICY OPTIONAL EXEMPTIONS

An entity may change its accounting policies for exploration and evaluation expenditures if the change makes the financial statements more relevant and no less reliable to the economic decision-making needs of users, or more reliable and no less relevant to those needs

DISCLOSURE

An entity discloses information that identifies and explains the amounts recognised in its financial statements arising from the exploration for and evaluation of mineral resources

An entity discloses:

- Its accounting policies for exploration and evaluation expenditures and evaluation assets
- The amounts of assets, liabilities, income and expense and operating and investing cash flows arising from the exploration for and evaluation of mineral resources

Exploration and evaluation assets are disclosed as a separate class of assets in the disclosures required by IND AS 16 *Property, Plant and Equipment* or IND AS 38 *Intangible Assets*

MEASUREMENT AT RECOGNITION

At recognition, exploration and evaluation assets are measured at cost

ELEMENTS OF COST OF EXPLORATION AND EVALUATION ASSETS

- An entity determines an accounting policy specifying which expenditures are recognised as exploration and evaluation assets
- The following are examples of expenditures that might be included in the initial measurement of exploration and evaluation assets:
  - Acquisition of rights to explore
  - Topographical, geological, geochemical and geophysical studies
  - Exploratory drilling
  - Trenching
  - Sampling
  - Activities in relation to evaluating the technical feasibility and commercial viability of extracting a mineral resource

MEASUREMENT AFTER RECOGNITION

After recognition, an entity applies either the cost model or the revaluation model to the exploration and evaluation assets. Refer to IND AS 16 *Property, Plant and Equipment* and IND AS 38 *Intangible Assets* for guidance

IMPAIRMENT

- One or more of the following facts and circumstances indicate that an entity should test exploration and evaluation assets for impairment:
  - The period for which the entity has the right to explore in the specific area has expired during the period or will expire in the near future, and is not expected to be renewed
  - Substantive expenditure on further exploration for and evaluation of mineral resources in the specific area is neither budgeted nor planned
  - Exploration for and evaluation of mineral resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the entity has decided to discontinue such activities in the specific area
  - Sufficient data exists to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale
- An entity determines an accounting policy for allocating exploration and evaluation assets to cash-generating units or groups of cash-generating units for the purpose of assessing such assets for impairment

IND AS 107 *Financial Instruments: Disclosures*

DISCLOSURE REQUIREMENTS: SIGNIFICANCE OF FINANCIAL INSTRUMENTS IN TERMS OF THE FINANCIAL POSITION AND PERFORMANCE

BALANCE SHEET

- Total carrying value of each category of financial assets and liabilities on face of the balance sheet or in the notes
- Information on fair value of loans and receivables
- Financial liabilities designated as at fair value through profit or loss
- Financial assets reclassified
- Financial assets that do not qualify for derecognition
- Details of financial assets pledged as collateral & collateral held
- Reconciliation of allowance account for credit losses
- Compound financial instruments with embedded derivatives
- Details of defaults and breaches of loans payable

STATEMENT OF PROFIT AND LOSS

- Gain or loss for each category of financial assets and liabilities in the statement of profit and loss or in the notes
- Total interest income and interest expense (effective interest method)
- Fee income and expense
- Interest on impaired financial assets
- Amount of impairment loss for each financial asset

OTHER

Accounting policies
- All relevant accounting policies. Include measurement basis

Hedge accounting
- Description of hedge, description and fair value of hedged instrument and type of risk hedged
- Details of cash flow hedges, fair value hedges and hedge of net investment in foreign operations

Fair value
- Fair value for each class of financial asset and liability
- Disclose method and relevant assumptions to calculate fair value
- Disclose if fair value cannot be determined

DISCLOSURE REQUIREMENTS: NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS AND HOW THE RISKS ARE MANAGED

Qualitative disclosure
- Exposure to risk and how it arises
- Objectives, policies and processes for managing risk and method used to measure risk

Quantitative disclosure
- Summary of quantitative data about exposure to risk based on information given to key management
- Concentrations of risks

SPECIFIC QUANTITATIVE DISCLOSURE REQUIREMENTS

LIQUIDITY RISK

Definition
The risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities

- Maturity analysis for financial liabilities that shows the remaining contractual maturities
- Time bands and increment are based on the entities' judgement How liquidity risk is managed

CREDIT RISK

Definition
The risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation

- Maximum exposure to credit risk without taking into account collateral
- Collateral held as security and other credit enhancements
- Information of financial assets that are either past due (when a counterparty has failed to make a payment when contractually due) or impaired
- Information about collateral and other credit enhancements obtained

MARKET RISK

Definition
The risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk

- A sensitivity analysis (including methods and assumptions used) for each type of market risk exposed, showing impact on profit or loss and equity

or

- If a sensitivity analysis is prepared by an entity, showing interdependencies between risk variables and it is used to manage financial risks, it can be used in place of the above sensitivity analysis

SCOPE

IND AS 107 applies to all recognised and unrecognised financial instruments (including contracts to buy or sell non-financial assets) except:
- Interests in subsidiaries, associates or joint ventures, where IND AS 27 / 28 or IND AS 110 / 111 permit accounting in accordance with IND AS 109
- Assets and liabilities resulting from IND AS 19
- Insurance contracts in accordance with IND AS 104 (excluding embedded derivatives in these contracts if IND AS 109 require separate accounting)
- Financial instruments, contracts and obligations under IND AS 2, except contracts within the scope of IND AS 109
- Puttable instruments (IND AS 32)

FAIR VALUE (FV) HIERARCHY

All financial instruments measured at fair value must be classified into the levels below (that reflect how fair value has been determined)
- **Level 1:** Quoted prices, in active markets
- **Level 2:** Level 1 quoted prices are not available but fair value is based on observable market data
- **Level 3:** Inputs that are not based on observable market data

A financial Instrument will be categorised based on the lowest level of any one of the inputs used for its valuation

The following disclosures are also required:
- Significant transfers of financial instruments between each category - and reasons why
- For level 3, a reconciliation between opening and closing balances, incorporating; gains / losses, purchases / sales / settlements, transfers
- Amount of gains / losses and where they are included in profit and loss
- For level 3, if changing one or more inputs to a reasonably possible alternative would result in a significant change in FV, disclose this fact

TRANSFER OF FINACIAL ASSETS

Information for transferred assets that are and that are not derecognised in their entirety
- Information to understand the relationship between financial assets and associated liabilities that are not derecognised in their entirety
- Information to evaluate the nature and risk associated with the entities continuing involvement in derecognised assets.

IND AS 108 *Operating Segments*

CORE PRINCIPLE

An entity shall disclose information to enable users of its financial statements to evaluate the nature and financial effects of the business activities in which it engages and the economic environments in which it operates.

QUANTITATIVE THRESHOLDS

- Information is required to be disclosed separately about an operating segment that meets any of the following quantitative thresholds:
  - Its reported revenue, including both sales to external customers and intersegment sales or transfers, is 10 per cent or more of the combined revenue, internal and external, of all operating segments
  - The absolute amount of its reported profit or loss is 10 per cent or more of the greater, in absolute amount, of:
    - The combined reported profit of all operating segments that did not report a loss; and
    - The combined reported loss of all operating segments that reported a loss.
  - Its assets are 10 per cent or more of the combined assets of all operating segments.
- If the total external revenue reported by operating segments constitutes less than 75% of the total revenue, additional operating segments shall be identified as reportable segments until at least 75% of the entity's revenue is included in reportable segments.

OPERATING SEGMENTS

An operating segment is a component of an entity:

- That engages in business activities from which it may earn revenues and incur expenses
- Whose operating results are regularly reviewed by the entity's chief operating decision maker (CODM) to make decisions about resources to be allocated to the segment and assess its performance
- For which discrete financial information is available.

REPORTABLE SEGMENTS

Information is required to be disclosed separately about each identified operating segment and aggregated operating segments that exceed the quantitative thresholds.

AGGREGATION CRITERIA

Two or more operating segments may be aggregated if the segments are similar in each of the following respects:

- The nature of the products and services
- The nature of the production processes
- The type or class of customer for their products and services
- The methods used to distribute their products or provide their services
- The nature of the regulatory environment.

DEFINITION OF THE CODM

The CODM is the individual or group of individuals who is / are responsible for strategic decision making regarding the entity. That is, the CODM allocates resources and assess the performance of the operating segments.

SCOPE

- Applies to Companies to which Indian Accounting Standards (IND ASs) notified under the Companies Act apply.
- If an entity that is not required to apply this IND AS chooses to disclose information about segments that does not comply with this IND AS, it shall not describe the information as segment information.
- If a financial report contains both the consolidated financial statements of a parent that is within the scope of this IND AS as well as the parent's separate financial statements, segment information is required only in the consolidated financial statements.

DISCLOSURE

Major disclosures include:

- An entity shall report a measure of profit or loss and total assets for each reportable segment - only if this information is regularly provided to the CODM
- Other disclosures are required regarding each reportable segment if specific amounts are reported to the CODM
- Judgements made by management for the purposes of aggregation of operating segments
  - Description of the operating segments that have been aggregated
  - Economic indicators considered in determining that segments share similar economic characteristics.
- Operating segment information disclosed is not necessarily IND AS compliant information, as it is based on amounts reported internally
- Operating segment information disclosed must be reconciled back to IND AS amounts disclosed in the financial statements
- An entity reports the following geographical information if available:
  - Revenues from external customers, both attributed to the entity's country of domicile and attributed to all foreign countries
  - Non-current assets (except financial instruments, deferred tax assets, post-employment benefit assets and rights arising under insurance contracts) located both in the entity's country of domicile and in foreign countries
  - The amounts reported are based on the financial information that is used to produce the entity's financial statements.
- An entity provides information about the extent of its reliance on its major customers. If revenues from transactions with a single external customer amount to 10% or more of an entity's revenues, the entity discloses that fact.

IND AS 109 *Financial Instruments*

BACKGROUND

IND AS 109 introduces a single classification and measurement model for financial assets, dependent on both:

- The entity's business model objective for managing financial assets
- The contractual cash flow characteristics of financial assets

IND AS 109 removes the requirement to separate embedded derivatives from financial asset host contracts (it instead requires a hybrid contract to be classified in its entirety at either amortised cost or fair value)

Separation of embedded derivatives has been retained for financial liabilities (subject to criteria being met)

INITIAL RECOGNITION AND MEASUREMENT (FINANCIAL ASSETS AND FINANCIAL LIABILITIES)

Initial Recognition

When the entity becomes party to the contractual provisions of the instrument

Initial Measurement

At fair value, plus for those financial assets and liabilities not classified at fair value through profit or loss, directly attributable transaction costs

- **Fair value** - is 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
- **Directly attributable transaction costs** - incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability

FINANCIAL ASSETS - SUBSEQUENT CLASSIFICATION AND MEASUREMENT

Financial Assets are classified as either: **(1) Amortised cost (2) Fair value through profit or loss (3) Fair Value through other comprehensive income**

(1) AMORTISED COST

Category classification criteria

Both of the below conditions must be met:

(i) Business model objective: financial assets held in order to collect contractual cash flows

(ii) Contractual cash flow characteristics: solely payments of principal and interest on the principal amount outstanding

Subsequent measurement

- Amortised cost using the effective interest method

(i) BUSINESS MODEL ASSESSMENT

Based on the **overall business**, not instrument-by-instrument

Centres on whether financial assets are held to collect contractual cash flows:

- How the entity is run
- The objective of the business model as determined by key management personnel (KMP) (per IND AS 24 *Related Party Disclosures*)

Financial assets do not have to be held to contractual maturity in order to be deemed to be held to collect contractual cash flows, but the overall approach must be consistent with 'hold to collect'

(ii) CONTRACTUAL CASH FLOW ASSESSMENT

Based on an **instrument-by-instrument** basis

Financial assets with cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding

Interest is consideration for only the time-value of money and credit risk

FOREX financial assets: assessment is made in the denomination currency (i.e. FX movements are not taken into account)

IND AS 109 contains various illustrative examples in the application of both the (i) Business Model Assessment and (ii) Contractual Cash Flow Characteristics

(2) FAIR VALUE THROUGH PROFIT OR LOSS

Category classification criteria

- Financial assets that do not meet the amortised cost criteria
- Financial assets designated at initial recognition. The option to designate is available:
  - If doing so eliminates, or significantly reduces, a measurement or recognition inconsistency (i.e. 'accounting mismatch')

Note: the option to designate is irrevocable

Subsequent measurement

- Fair value, with all gains and losses recognised in profit or loss

(3) FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

Equity Instruments

Note: Designation at initial recognition is optional and irrevocable.

Category classification criteria

- Available **only** for investments in equity instruments (within the scope of IND AS 109) that are not held for trading.

Subsequent measurement

- Fair value, with all gains and losses recognised in other comprehensive income
- Changes in fair value are not subsequently recycled to profit and loss
- Dividends are recognised in profit or loss.

Debt Instruments

Category classification criteria

- meets the SPPI contractual cash flow characteristics test (see box (1)(ii) above)
- Entity holds the instrument to collect contractual cash flows and to sell the financial assets

Subsequent measurement

- Fair value, with all gains and losses recognised in other comprehensive income
- Changes in fair value are not subsequently recycled to profit and loss.

IND AS 109 *Financial Instruments*

IMPAIRMENT OF FINANCIAL ASSETS

Scope

The impairment requirements are applied to:
- Financial assets measured at amortised cost (incl. trade receivables)
- Financial assets measured at fair value through OCI
- Loan commitments and financial guarantees contracts where losses are currently accounted for under IND AS 37 *Provisions, Contingent Liabilities and Contingent Assets*
- Lease receivables

The impairment model follows a three-stage approach based on changes in expected credit losses of a financial instrument that determine
- the recognition of impairment, and
- the recognition of interest revenue

Initial recognition

At initial recognition of the financial asset an entity recognises a loss allowance equal to 12 months expected credit losses which consist of expected credit losses from default events possible within 12 months from the entity's reporting date. An exception is purchased or originated credit impaired financial assets.

Subsequent measurement

Stage	1	2	3
Impairment	12 month expected credit loss	Lifetime expected credit loss	
Interest	Effective interest on the gross carrying amount (before deducting expected losses)		Effective interest on the net (carrying) amount

THREE-STAGE APPROACH

STAGE 1

12 month expected credit losses (gross interest)

- Applicable when **no significant increase in credit risk**
- Entities continue to recognise 12 month expected losses that are updated at each reporting date
- Presentation of interest on gross basis

STAGE 2

Lifetime expected credit losses (gross interest)

- Applicable in case of **significant increase in credit risk**
- Recognition of lifetime expected losses
- Presentation of interest on gross basis

STAGE 3

Lifetime expected credit losses (net interest)

- Applicable in case of **credit impairment**
- Recognition of lifetime expected losses
- Presentation of interest on a net basis

PRACTICAL EXPEDIENTS

30 days past due rebuttable presumption

- Rebuttable presumption that credit risk has increased significantly when contractual payments are more than 30 days past due
- When payments are 30 days past due, a financial asset is considered to be in stage 2 and lifetime expected credit losses would be recognised
- An entity can rebut this presumption when it has reasonable and supportable information available that demonstrates that even if payments are 30 days or more past due, it does not represent a significant increase in the credit risk of a financial instrument

Low credit risk instruments

- Instruments that have a low risk of default and the counterparties have a strong capacity to repay (e.g. financial instruments that are of investment grade)
- Instruments would remain in stage 1, and only 12 month expected credit losses would be provided.

SIMPLIFIED APPROACH

Short term trade receivables

- Recognition of only 'lifetime expected credit losses' (i.e. stage 2)
- Expected credit losses on trade receivables can be calculated using provision matrix (e.g. geographical region, product type, customer rating, collateral or trade credit insurance, or type of customer)
- Entities will need to adjust the historical provision rates to reflect relevant information about current conditions and reasonable and supportable forecasts about future expectations

Long term trade receivables and lease receivables

Entities have a choice to either apply:
- the three-stage expected credit loss model; or
- the 'simplified approach' where only lifetime expected credit losses are recognised

LOAN COMMITMENTS AND FINANCIAL GUARANTEES

- The three-stage expected credit loss model also applies to these off balance sheet financial commitments
- An entity considers the expected portion of a loan commitment that will be drawn down within the next 12 months when estimating 12 month expected credit losses (stage 1), and the expected portion of the loan commitment that will be drawn down over the remaining life the loan commitment (stage 2)
- For loan commitments that are managed on a collective basis an entity estimates expected credit losses over the period until the entity has the practical ability to withdraw the loan commitment

IND AS 109 *Financial Instruments*

FINANCIAL LIABILTIES - SUBSEQUENT CLASSIFICATION AND MEASUREMENT

Financial Liabilities are classified as either: **(1) Amortised Cost (2) Fair value through profit or loss**.

In addition, specific guidance exists for:
(i) Financial guarantee contracts and **(ii) Commitments to provide a loan at a below market interest rate**
(iii) Financial Liabilities that arise when the transfer of a financial asset either does not qualify for derecognition or where there is continuing involvement

(1) AMORTISED COST

Category classification criteria

All financial liabilities, except those that meet the criteria of (2), (i), and (ii).

Subsequent measurement

- Amortised cost using the effective interest method

(2) FAIR VALUE THROUGH PROFIT OR LOSS

Category classification criteria

- Financial liabilities held for trading
- Derivative financial liabilities
- Financial liabilities designated at initial recognition. The option to designate is available:
  - If doing so eliminates, or significantly reduces, a measurement or recognition inconsistency (i.e. 'accounting mismatch'), or
  - If a group of financial liabilities (or financial assets and financial liabilities) is managed, and evaluated, on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally to KMP

Subsequent measurement

- Fair value with all gains and losses being recognised in profit or loss

(i) FINANCIAL GUARANTEE CONTRACTS

(ii) COMMITMENTS TO PROVIDE A LOAN AT A BELOW MARKET INTEREST RATE

Subsequent measurement (the higher of either)

(i) The amount determined in accordance with IND AS 37 *Provisions, Contingent Liabilities and Contingent Assets*

(ii) The amount initially recognised, less (when appropriate) cumulative amortisation recognised in accordance with IND AS 115 *Revenue from contracts with customers*

(iii) FINANCIAL LIABILITIES RESULTING FROM THE TRANSFER OF A FINANCIAL ASSET

(That does not qualify for derecognition)

(Where there is continuing involvement)

Financial liability for the consideration received is recognised

Subsequent measurement

The net carrying amount of the transferred asset and associated liability is measured as either:
Amortised cost of the rights and obligations retained (if the transferred asset is measured at amortised cost)
The fair value of the rights and obligations retained by the entity when measured on a stand-alone basis (if the transferred asset is measured at fair value)

EMBEDDED DERIVATIVES

Definition and description

Embedded derivatives are components of a hybrid contract (i.e. a contract that also includes a non-derivative host), that causes some (or all) of the contractual cash flows to be modified according to a specified variable (e.g. interest rate, commodity price, foreign exchange rate, index, etc.)

Exclusions and exemptions (i.e. not embedded derivatives)

- Non-financial variables that are specific to a party to the contract.
- A derivative, attached to a financial instrument that is contractually transferable independently of that instrument, or, has a different counterparty from that instrument.
  - Instead, this is a separate financial instrument.

Embedded derivatives are accounted for differently depending on whether they are within a host contract that is a financial asset or a financial liability

EMBEDDED DERIVATIVES WITHIN A FINANCIAL ASSET HOST CONTRACT

The embedded derivative is not separated from the host contract

Instead, the whole contract in its entirety is accounted for as a single instrument in accordance with the requirements of Ind AS 109.

EMBEDDED DERIVATIVES WITHIN A HOST CONTRACT THAT IS A FINANCIAL LIABILITY

Subject to meeting the adjacent criteria, the embedded derivative is:

- Separated from the host contract
- Accounted for as a derivative in accordance with IND AS 109 (i.e. at fair value through profit or loss)

Criteria: to separate an embedded derivative

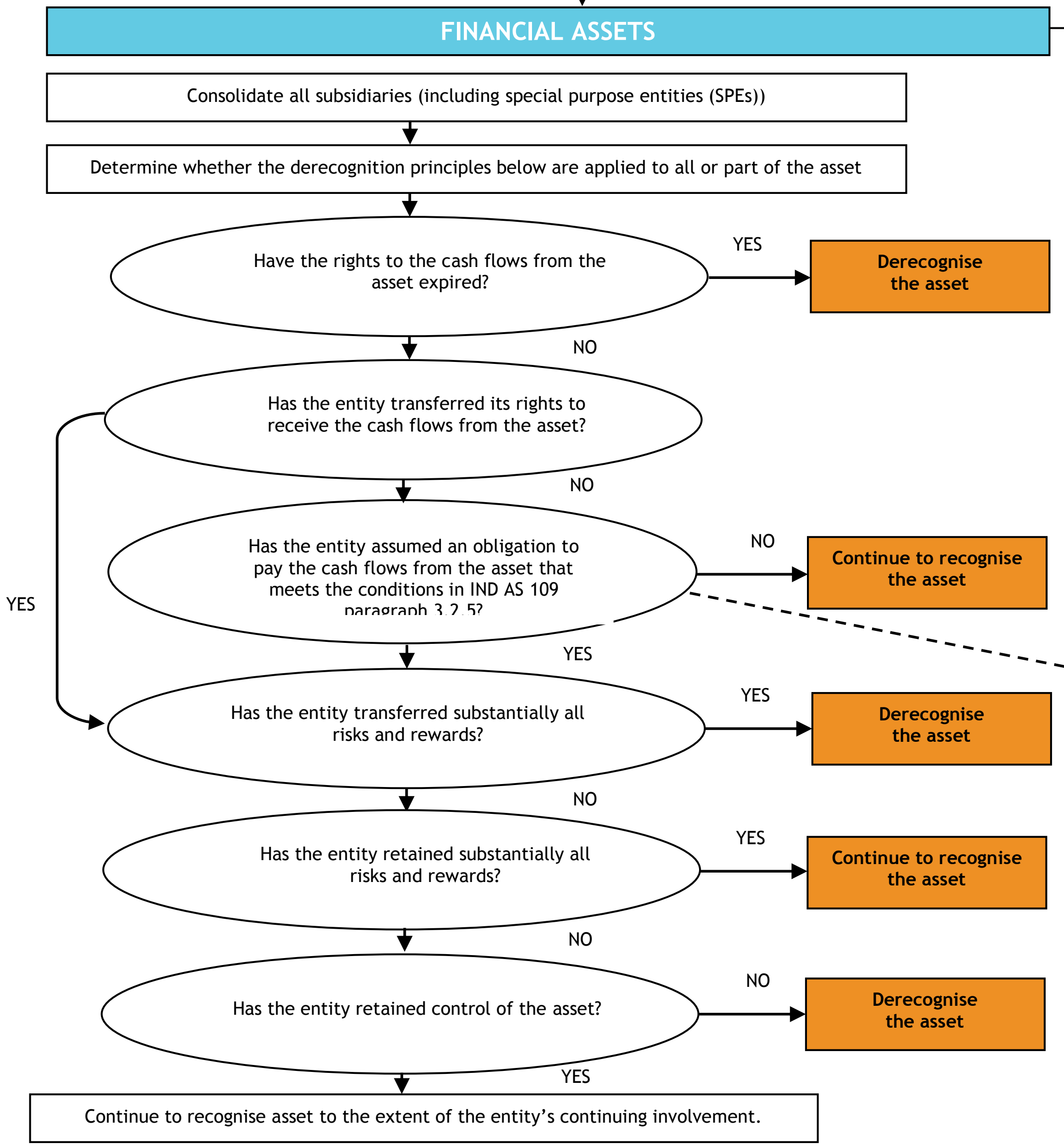
1) Economic characteristics of the embedded derivative and host are not closely related
2) An identical instrument (with the same terms) would meet the definition of a derivative, and
3) The entire (hybrid) contract is not measured at fair value through profit or loss

Host contract (once embedded derivative is separated)

The (non-financial asset) host contract is accounted for in accordance with the appropriate IND AS

INS 109 *Financial Instruments*

DERECOGNITION



FINANCIAL LIABILITIES

- A financial liability is derecognised only when extinguished – i.e., when the obligation specified in the contract is discharged, cancelled or it expires
- An exchange between an existing borrower and lender of debt instruments with substantially different terms or substantial modification of the terms of an existing financial liability of part thereof is accounted for as an extinguishment
- The difference between the carrying amount of a financial liability extinguished or transferred to a 3rd party and the consideration paid is recognised in profit or loss.

- If an entity transfers a financial asset in a transfer that qualifies for derecognition in its entirety and retains the right to service the financial asset for a fee, it recognises either a servicing asset or liability for that servicing contract
- If, as a result of a transfer, a financial asset is derecognised, but the entity obtains a new financial asset or assumes a new financial liability or servicing liability, the entity recognises the new financial asset, financial liability or servicing liability at fair value
- On derecognition of a financial asset, the difference between the carrying amount and the sum of (i) the consideration received and (ii) any cumulative gain or loss that was recognised directly in equity is recognised in profit or loss.

IND AS 109 paragraph 3.2.5 – where an entity retains the contractual rights to receive the cash flows of a financial asset, but assumes a contractual obligation to pay those cash flows to one or more entities, three conditions need to be met before an entity can consider the additional derecognition criteria:

- The entity has no obligation to pay amounts to the eventual recipients unless it collects equivalent amounts from the original asset
- The entity is prohibited by the terms of the transfer contract from selling or pledging the original asset other than as security to the eventual recipients
- The entity has an obligation to remit any cash flows it collects on behalf of the eventual recipients without material delay. The entity is not entitled to reinvest the cash flows except for the short period between collection and remittance to the eventual recipients. Any interest earned thereon is remitted to the eventual recipients

BDO

IND AS 109 *Financial Instruments*

CRITERIA TO APPLY HEDGE ACCOUNTING (ALL CRITERIA MUST BE MET)

(i) Hedging Relationship

Must consist of:
- Eligible hedging instruments
- Eligible hedged items.

(ii) Designation and Documentation

Must be formalised at the inception of the hedging relationship:
- The hedging relationship
- Risk management strategy and objective for undertaking the hedge
- The hedged item and hedging instrument
- How hedge effectiveness will be assessed.

(iii) All three hedge effectiveness requirements met

(a) An economic relationship exists between the hedged item and hedging instrument
(b) Credit risk does not dominate changes in value
(c) The hedge ratio is the is the same for both the:
- Hedging relationship
- Quantity of the hedged item actually hedged, and the quantity of the hedging instrument used to hedge it.

ELIGIBLE HEDGING INSTRUMENTS

Only those with from contracts with **EXTERNAL** parties of the entity (or group), that are:

Derivatives measured at fair value through profit or loss (FVTPL)

Note: this excludes written options unless they are designated as an offset to a purchased option

Non-derivatives measured at fair value through profit or loss (FVTPL)

Note: this excludes FVTPL financial liabilities where fair value changes resulting from changes in own credit risk are recognised in other comprehensive income (OCI)

Designation: An entity must designate a hedging instrument in full, except for:
- A proportion (e.g. 50%) of the nominal amount an entire hedging instrument (but not part of the fair value change resulting from a portion of the time period that the hedging instrument is outstanding)
- **Option contracts**: separating the intrinsic value and time value, and designating only the change in intrinsic value
- **Forward contract**: separating the forward element and spot element, and designating only the change in the spot element

HEDGING OF GROUP ENTITY TRANSACTIONS

Hedging of group entity transactions is not applied in the consolidated financial statements of group entities, except for:

- Foreign currency risk on intra-group monetary items that are not fully eliminated on consolidation
- Investment entities where transactions between the parent and subsidiaries measured at fair value are not subject to elimination adjustments

Hedging of group entity transactions is able to be applied in separate / individual financial statements of group entities

REBALANCING

If the hedge ratio hedge effectiveness test ceases to be met, but the risk management objective is unchanged, an entity adjusts ('rebalances'), the hedge ratio so the criteria is once again met

DISCONTINUATION

Hedge accounting is discontinued only if the qualifying criteria are no longer met (after applying 'rebalancing'). This including hedging instrument sale / termination / expiration, but excluding:

- Replacement / rollovers documented in the risk management objective
- Novations of hedging instruments (subject to specific criteria)

ELIGIBLE HEDGED ITEMS

Eligible hedged items are reliably measurable: assets; liabilities; unrecognised firm commitment; highly probable forecast transactions; net investment in a foreign operation. May be a single item, or a group of items (subject to additional criteria - below).

HEDGES OF A GROUP OF ITEMS (ALL CRITERIA MUST BE MET)

(i) All items and (and components) are eligible hedged items

(ii) The items are managed as a group for risk management purposes.

(iii) For group cash flow hedges: where cash flow variability is not expected to be approximately proportional to the overall group cash flows variability, both:
- Foreign currency is being hedged
- The reporting period, nature, and volume, in which the forecast transactions are expected to affect profit or loss is specified.

Designation: An entity can designate a hedged item (i) in full (ii) in part (component). If in part, only the following types of parts (components) of hedged items can be hedged:
- One or more selected contractual cash flows
- Parts (components) of a nominal amount
- Separately identifiable and reliably measureable changes (cash flow or fair value) that, based on the context of the market structure they relate to, are attributable to a specific risk(s)

ELIGIBLE HEDGED ITEMS

(i) Cash flow hedge

Hedge of exposure to cash flow variability in cash attributable to a particular risk associated with an asset, liability, or highly probable forecast transaction (or part thereof i.e. component)

Recognition
- Hedge effectiveness is recognised in OCI
- Hedge ineffectiveness is recognised in profit or loss
- The lower of the cumulative gain or loss on the hedging instrument or fair value in the hedged item is recognised separately within equity (cash flow hedge reserve (CFHR))
- For forecast transactions resulting in a non-financial asset / liability, the amount recognised in CFHR is removed and included in the initial cost of the non-financial asset / liability. This is not accounted for as a reclassification
- For all other forecast transactions, the amount recognised in CFHR is reclassified to profit or loss in the periods when the cash flows are expected to affect profit or loss

(ii) Fair value hedge

Hedge of exposure to fair value variability in an asset, liability, or unrecognised firm commitment (or part thereof i.e. component), attributable to a risk that could affect profit or loss

Recognition
- Gain or loss on hedging instrument: recognised in profit or loss (unless the hedging instrument is an equity instrument measured at fair value through OCI, then recognised in OCI)
- Gain or loss on hedged item: recognised in profit or loss (unless the hedged item is an equity instrument measured at fair value through OCI, then recognised in OCI)

(iii) Hedges of a net investment in a foreign operation

Hedge of an entity's interest in the net assets of a foreign operation.

Recognition
- Hedge effectiveness is recognised in OCI
- Hedge ineffectiveness is recognised in profit or loss
- Upon disposal of the foreign operation, accumulated amounts in equity are reclassified to profit or loss

IND AS 110 *Consolidated Financial Statements*

SCOPE

A parent is required to present consolidated financial statements, except if:

- It meets all the following conditions:
  - It is a subsidiary of another entity and all its other owners, including those not otherwise entitled to vote, have been informed about, and do not object to, the parent not presenting consolidated financial statements
  - Its debt or equity instruments are not traded in a public market
  - It did not, nor is in the process of filing, financial statements for the purpose of issuing instruments to the public
  - Its ultimate or any intermediate parent produces IND AS compliant consolidated financial statements available for public use
- It is a post or long term-employment benefit plan to which IND AS 19 *Employee Benefits* applies
- It meets the criteria of an investment entity (see page 2 of 2)

THE CONTROL MODEL

Model

An investor determines whether it is a parent by assessing whether it controls the investee. An investor is required continuously to reassess whether it controls an investee. An investor **controls** an investee if it has **all** of the following:

- **Power** over the investee
- **Exposure**, or **rights**, to variable returns from its involvement with the investee
- The **ability** to use its power, to affect the amount of the investor's returns

Considerations (refer to boxes below)

(i) The purpose and design of the investee
(ii) What the relevant activities are and how decisions about those activities are made
(iii) Whether the rights of the investor give it the current ability to direct the relevant activities
(iv) Whether the investor is exposed, or has rights, to variable returns from its involvement
(v) Whether the investor has the ability to use its power to affect the amount of the investor's returns

(i) PURPOSE AND DESIGN

In assessing the purpose and design of the investee, consider:

- The **relevant activities**
- How **decisions** about relevant activities are made
- Who has the **current ability** to direct those activities
- Who **receives returns** from those activities

In some cases, **voting rights** (i.e. if unrelated to relevant activities) may not be the dominant factor of control of the investee.

(ii) RELEVANT ACTIVITIES

Relevant activities include (but are not limited to):

- Selling and purchasing of goods or services
- Managing financial assets during their life
- Selecting, acquiring or disposing of assets
- Researching / developing new products or processes
- Determining a funding structure or obtaining funding.

Decisions on relevant activities include (but are not limited to):

- Establishing operating and capital decisions & budgets
- Appointing, remunerating, and terminating an investee's key management personnel (KMP) or service providers.

(iii) RIGHTS TO DIRECT RELEVANT ACTIVITIES

Rights that, either individually or in combination, can give an investor **power** include (but are not limited to):

- Rights in the form of **voting rights** (or **potential voting rights**) of an investee
- Rights to appoint, reassign or remove members of an investee's key management personnel (KMP), or another entity that has the ability to direct the relevant activities
- Rights to direct the investee into (or veto any changes to) transactions for the **benefit** of the investor
- Other rights (such as decision-making rights specified in a **management contract**) that give the holder the ability to direct the relevant activities

Special relationships beyond a passive interest

- Sometimes there may be indicators present that an investor has more than simply a passive interest
- The presence of indicators alone may not satisfy the power criteria, but may add to other considerations:
  - The investee's KMP who direct relevant activities are current or previous employees of the investor
  - Investee operations are dependent on the investor (e.g. funding, guarantees, services, materials, etc.)
  - A significant portion of the investee activities involve, or are conducted on behalf of, the investor
  - Investor's exposure or rights to returns is disproportionally greater that it's voting (or similar) rights.

Substantive rights

- Only substantive rights (i.e. rights that can be practically exercised) are considered in assessing power
- Factors to consider whether rights are substantive include (but are not limited to):
  - Whether there are barriers that prevent the holder from exercising (e.g. financial penalties, detrimental exercise or conversion price, detrimental terms and conditions, laws and regulations)
  - Whether there is a practical mechanism to facilitate multiple parties exercising rights
  - Whether the party holding the rights would benefit from the exercise of those rights
  - Whether the rights are actually exercisable when decisions about relevant activities need to be made

Protective rights

- Are designed to protect the interests of the holder, but do not give the holder power over the investee, e.g. - operational lending covenants; non-controlling interest rights to approve significant transactions of capital expenditure, debt, and equity; seizure of assets by a borrower upon default
- **Franchisor's right in franchise arrangements** are generally considered protective rights as they are intended to protect the franchise brand

Voting rights

Power with a majority of voting rights, occurs where:

- Relevant activities are directed by vote; or
- A majority of the governing body is appointed by vote.

Majority of voting right but no power occurs where:

- Relevant activities are not directed by vote
- Such voting rights are not substantive.

De-facto control

Power without a majority of voting rights, occurs where:

- Contractual arrangements with other vote holders exist
- Relevant activities directed by arrangements held
- The investor has practical ability to unilaterally direct relevant activities, considering all facts and circumstances:
  - Relative size and dispersion of other vote holders
  - Potential voting rights held – by the investor and other parties
  - Rights arising from contractual arrangements
  - Any additional facts or circumstances (i.e. voting patterns)

Potential voting rights

- Potential voting rights are only considered if substantive
- Must consider the purpose and design of the instrument.

(iv) EXPOSURE, OR RIGHTS, TO VARIABLE RETURNS (I.E. RETURNS THAT ARE NOT FIXED, AND VARY AS A RESULT OF PERFORMANCE OF AN INVESTEE)

Based on the substance of the arrangement (not the legal form) assesses whether investee returns are variable, and how variable they are. Variable returns can be: only positive; only negative; or both positive and negative. Including:

- Dividends, other distributions of economic benefits from an investee (e.g. interest from debt securities issued by the investee) and changes in the value of the investor's investment in that investee
- Fees from servicing assets or liabilities, fees and exposure to loss from providing credit or liquidity support, residual interests in net assets on liquidation, tax benefits, and access to future liquidity
- Returns unavailable to other interest holders – synergies, economies of scale, cost savings, sourcing scarce products, access to proprietary knowledge, limiting operations or assets to enhance the value of the investor's other assets

IND AS 110 *Consolidated Financial Statements*

(v) LINK BETWEEN POWER AND RETURNS – DELEGATED POWER

- When an investor with decision-making rights (a decision maker (DM)) assesses whether it controls an investee, it determines whether it is a principal or an agent. An agent is primarily engaged to act on behalf of the principal and therefore does not control the investee when it exercises decision making authority
- An investor may delegate its decision-making authority to an agent on specific issues or on all relevant activities. When assessing whether it controls an investee, the investor treats the decision-making rights delegated to its agent as held by itself directly
- A DM considers the relationship between itself, the investee and other parties involved, in particular the following factors below, in determining whether it is an agent

SCOPE OF DECISION MAKING AUTHORITY

Activities permitted in agreements and specified by law:
- Discretion available on making decisions
- Purpose and design of the investee:
  - Risks the investee was designed to be exposed to
  - Risks to be passed to other involved parties
  - Level of involvement of DM in design of the investee

RIGHTS HELD BY OTHER PARTIES

- May affect the DM's ability to direct relevant activities
- Removal rights, or other rights, may indicate that the DM is an agent
- Rights to restrict activities of the DM are treated the same as removal rights

REMUNERATION

The greater the magnitude of, and variability associated with the DM's remuneration relative to returns, the more likely the DM is a principal.

DM's considered as agent if the following exists:
- Remuneration is commensurate with the services provided
- The remuneration includes only terms customarily present in arrangements for similar services and level of skills negotiated on an arm's length basis

RETURNS FROM OTHER INTERESTS

An investor may hold other interests in an investee (e.g. investments, guarantees). In evaluating its exposure to variability of returns from other interests in the investee the following are considered:
- The greater the magnitude of, and variability associated with, its economic interests, considering its remuneration and other interests in aggregate, the more likely the DM is a principal
- Whether its exposure to variability of returns is different from that of other investors and, if so, whether this might influence actions

INVESTMENT ENTITIES

Definition of an investment entity
- Obtains funds from one or more investors for the purpose of providing those investor(s) with investment management services
- Commits to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both
- Measures and evaluates performance of substantially all of its investments on a fair value basis

Other typical characteristics (not all have to be met, but if not met additional disclosures are required):
- More than one investment
- More than one investor
- Investors not related parties of the entity
- Ownership interests in the form of equity or similar interests

Investment entity shall not consolidate its subsidiaries or apply IND AS 103 when it obtains control of another entity. Instead, an investment entity shall measure an investment in a subsidiary at fair value through profit or loss in accordance with IND AS 109

RELATIONSHIP WITH OTHER PARTIES

In assessing **control** an investor considers the nature of relationships with other parties and whether they are acting on the investor's behalf (de facto agents).

Such a relationship need not have a contractual arrangement, examples may be:
- The investor's related parties
- A party whose interest in the investee is through a loan from the investor
- A party who has agreed not to sell, transfer, or encumber its interests in the investee without the approval of the investor
- A party that cannot fund its operations without investor (sub-ordinated) support
- An investee where the majority of the governing body or key management personal are the same as that of the investor
- A party with a close business relationship with the investor

NON-CONTROLLING INTERESTS

- A parent presents non-controlling interests in the consolidated Balance Sheet within equity, separately from the equity of the owners of the parent.
- Changes in a parent's ownership interest in a subsidiary that do not result in the parent losing control of the subsidiary are equity transactions.
- The entity shall also attribute total comprehensive income to the owners of the parent and to the non controlling interest even if this results in the non controlling interests having a deficit balance.

CONTROL OF SPECIFIED ASSETS (SILOS)

An investor considers whether it treats a portion of an investee as a deemed separate entity and whether it controls it. Control exists if and only if, the following conditions are satisfied:

(i) Specified assets of the investee (and related credit enhancements, if any) are the only source of payment for specified liabilities of, or specified other interests in, the investee

(ii) Parties other than those with the specified liability do not have rights or obligations related to the specified assets or to residual cash flows from those assets

(iii) In substance, returns from the specified assets cannot be used by the remaining investee and none of the liabilities of the deemed separate entity are payable from the assets of the remaining investee

Thus, in substance, all the assets, liabilities and equity of that deemed a separate entity are ring-fenced from the overall investee. Such a deemed separate entity is often called a 'silo'.

LOSS OF CONTROL

- Derecognition of the assets and liabilities and of any non controlling interests in the former subsidiary at their carrying amounts from the consolidated balance sheet
- Recognise any investment retained in the former subsidiary at its fair value when control is lost and subsequently accounts for it and for any amounts owed by or to the former subsidiary in accordance with relevant IND AS's
- Recognises the gain or loss associated with the loss of control attributable to the former controlling interest
- If the parent losses control of a subsidiary, the parent shall account for all amounts previously recognised in other comprehensive income in relation to that subsidiary on the same basis as would be require if parent had directly disposed of the related assets or liabilities

- Since, IND AS 40, Investment Properties requires all investment properties to be measure at cost initially and cost less depreciation subsequently, sub-paragraph (a) of B85L have been deleted as this deal with investment property measure at fair value which is not relevant in the Indian context.

CONSOLIDATION PROCEDURES

Consolidation procedures:
- Combine assets, liabilities, income, expenses, cash flows of the parent and subsidiary
- Eliminate parent's investment in each subsidiary with its portion of the subsidiary's equity
- Fully eliminate intra group transactions and balances

Parent and subsidiaries must have uniform accounting policies and reporting dates. If not, alignment adjustments must be quantified and posted to ensure consistency.

Reporting dates cannot vary by more than 3 months.

Consolidation of an investee begins from the date the investor obtains control of the investee and ceases when the investor loses control of the investee.

DISCLOSURE

Refer to IND AS 112 *Disclosure of Interests in Other Entities.*

IND AS 111 *Joint Arrangements*

SCOPE

IND AS 111 applies to all parties subject to a joint arrangement. A joint arrangement (JA):

- Binds the parties by way of contractual agreement (does not have to be in writing, instead it is based on the substance of the dealings between the parties)
- Gives two (or more) parties joint control.

Joint arrangements are classified either as:

- **Joint operation** - parties have rights to the assets, and obligations for the liabilities of the JA
- **Joint venture** - parties have rights to only the net assets of the JA.

JOINT CONTROL (JOINT DE-FACTO CONTROL, SUBSTANTIVE RIGHTS, PROTECTIVE RIGHTS)

Joint control

Joint control is based on the same control principle as IND AS 110 Consolidation (i.e. Power, exposure to variable returns, ability to use power to affect variable returns).

Joint control is the contractually agreed sharing of control in relation to decisions regarding the relevant activities and requires the unanimous consent of the controlling parties (refer to IND AS 110 for definition of relevant activities). This can be explicit or implicit:

- E.g. joint control exists if two parties hold 50% voting rights, and a 51% majority is required to make decisions regarding relevant activities
- E.g. joint control does not exists if, after considering all contractual agreements, the minimum required majority of voting rights can be achieved by more than one combination of parties agreeing together.

Joint de-facto control

Joint de-facto control is based on the same de-facto control principle as IND AS 110. Joint de-facto control only exists if the parties are contractually bound to vote together in relation to decisions on relevant activities. In assessing joint de-facto control, an entity may consider previous voting attendance, but not previous voting results (i.e. whether other parties historically voted the same way as the entity).

Substantive and protective rights

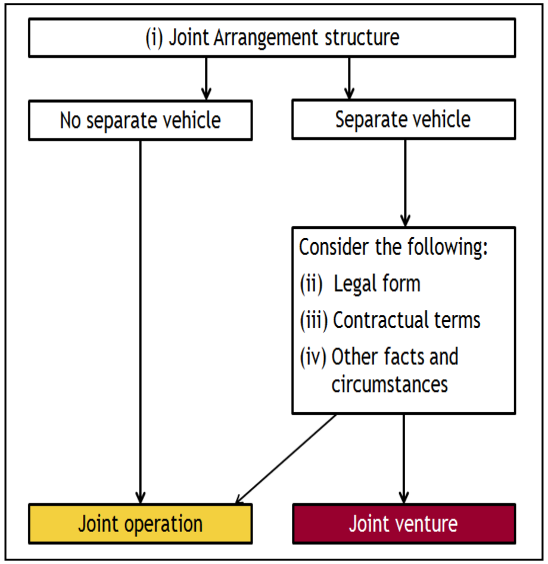
The assessment of substantive and protective rights is based on the same principles as IND AS 110:

- Substantive rights (rights that can be practically exercised) are considered in assessing power
- Protective rights (rights designed to protect the interests of the holder) are not considered in assessing power.

Arrangements are not within the scope of IND AS 111 if joint control (or joint de-facto control) does not exist (i.e. no contractual unanimous consent required for decisions that relate to the relevant activities).

CLASSIFICATION OF JOINT ARRANGEMENTS (AS EITHER JOINT OPERATIONS OR JOINT VENTURES)

Classification depends upon the assessment of the rights and obligations of the parties, and considers the JA's: (i) Structure; (ii) Legal form; (iii) Contractual terms; (iv) Other facts and circumstances (refer to boxes below).



(i) STRUCTURE

JAs not structured through a separate vehicle are classified as a **joint operation**.
JAs structured through a separate vehicle may be classified as a either a joint operation or joint venture depending on analysis of (i),(ii),(iii) below.

(ii) LEGAL FORM

The legal form of the separate vehicle may be relevant in determining whether parties have rights to assets and obligations for liabilities, or the rights to net assets of the JA. However, must consider whether any contractual terms (iii) and/or other facts and circumstances (iv) impact the rights of the parties conferred by the legal form.

Partnerships: Legal form gives parties rights to assets and liabilities, rather than net assets. JA is therefore classified as a joint operation.

Unlimited liability vehicles: Legal form does not give parties rights to assets, merely guarantees liabilities. JA is therefore classified as a joint venture.

(iii) CONTRACTUAL TERMS

Usually, the rights and obligations agreed in the contractual terms are consistent, or do not conflict, with those conferred by legal form (ii).

However parties must assess contractual terms to confirm is in fact the case.

On their own, guarantees provided to third parties, and obligations for unpaid or additional capital do not result in an obligation for liabilities and hence classification as a joint operation.

(iv) OTHER FACTS AND CIRCUMSTANCES

Other facts and circumstances may:

- Give parties rights to substantially all economic benefits from the JA
- Cause the JA to depend on the parties to continuously settle its liabilities.

E.g. JAs designed to primarily sell output to the parties give the parties substantially all economic benefits, and means the JA relies on cash flows from the parties to settle its liabilities. JA is therefore classified as a joint operation.

IND AS 111 *Joint Arrangements*

RECOGNITION AND MEASUREMENT: JOINT CONTROLLING PARTIES

JOINT OPERATIONS

Consolidated / Individual Financial Statements

A joint operator recognises in relation to interest in a joint operation:

a) Its assets, including its share of any assets held jointly
b) Its liabilities, including its share of any liabilities incurred jointly
c) Its revenue from the sale of its share of the output arising from the joint operation
d) Its expenses, including its share of any expenses incurred jointly.

The above are accounted for in accordance with the applicable IND ASs.

Separate Financial Statements

Same treatment as for consolidated / individual financial statements detailed above.

JOINT VENTURES

Consolidated / Individual Financial Statements

Apply the equity method in accordance with IND AS 28 *Investments in Associates and Joint Ventures* (unless the entity is exempted from applying the equity method).

Separate Financial Statements

Recognise interest either:

- At cost
- As a financial asset in accordance with IND AS 109 *Financial Instruments*

RECOGNITION AND MEASUREMENT: ENTITIES THAT PARTICIAPTE, BUT DO NOT HAVE JOINT CONTROL ('NON-JOINT CONTROLLING PARTIES')

In some instances, there may be other parties who are investees in a joint arrangement but do not themselves have joint control of the joint arrangement.

JOINT OPERATIONS

(non-joint controlling party has contractual rights and obligations to assets, liabilities, expenses, and revenues)

Account for its contractual share of assets, liabilities, expenses, and revenues in both its

- Consolidated/Individual financial statements
- Separate financial statements.

JOINT VENTURES

Identical to joint operations where the non-joint controlling party does not have contractual rights and obligations to assets, liabilities, expenses and revenues (i.e. assess for significant influence, and then account for accordingly).

JOINT OPERATIONS

(non-joint controlling party does not have contractual rights and obligations to assets, liabilities, expenses, and revenues)

Consolidated / Individual Financial Statements

Assess for significant influence in accordance with IND AS 28 (i.e. as an associate):

- If present: apply the equity method[1] in accordance with IND AS 28 (unless the entity is exempted from applying the equity method)[1].
- If not present: financial asset (IND AS 109).

Separate Financial Statements

Assess for significant influence in accordance with IND AS 28:

- If present: either (i) at cost (ii) financial asset (IND AS 109)
- If not present: financial asset (IND AS 109).

EQUITY METHOD EXEMPTION

Venture capital organisation, mutual funds, unit trusts, investment-linked insurance funds, and similar entities may elect to measure associates and joint ventures at fair value through profit or loss in accordance with IND AS 109 *Financial Instruments* rather than apply the equity method.

DISCLOSURE

Refer to IND AS 112 *Disclosure of Interests in Other Entities.*

EFFCTIVE DATE & TRANSITION REQUIREMENTS

Appendix C of IND AS 11 dealing with effective date, transition and withdrawal of other IND ASs has not been included in IND AS 111, due to the following reasons:

- Effective date is not relevant as the date of application will be notified under the Companies Act.
- Transitional provisions related to IND ASs, 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

BUSINESS COMBINATIONS UNDER COMMON CONTROL IND AS 103

Paragraph B33D refers to the accounting specified in Appendix C 'Business Combinations under Common Control' of IND AS 103 for the acquisition of an interest in a joint operation when the parties sharing joint control, including the entity acquiring the interest in the joint operation, are under the common control of the same ultimate controlling party or parties both before and after the acquisition, and that control is not transitory.

IND AS 112 *Disclosure of Interests in Other Entities*

SCOPE

Applied by entities that has an interest in: **Subsidiaries; joint arrangements, associates; and unconsolidated structured entities.**

IND AS 112 does not apply to:

- Post-employment benefit plans or other long-term employee benefit plans to which IND AS 19 *Employee Benefits* applies
- Separate financial statements, where IND AS 27 *Separate Financial Statements* applies
- An interest held by an entity that participates in, but does not have joint control of, a joint arrangement unless that interest results in significant influence over the arrangement or is an interest in a structured entity.
- Interests accounted for in accordance with IND AS 109 *Financial Instruments*, except for:
  - Interests in an associate or joint venture measured at fair value as required by IND AS 28 *Investments in Associates and Joint Ventures*.
  - When that interest is an interest in an unconsolidated structured entity

DEFINITIONS

Structured entity - An entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements.

Income from a structured entity – Includes (but not is limited to) recurring and non recurring fees, interest, dividends, gains or losses on the re-measurement or de-recognition of interests in structured entities and gains or losses from the transfer of assets and liabilities to the structured entity.

Interest in another entity - Refers to contractual and non-contractual involvement that exposes an entity to variability of returns from the performance of the other entity. Evidenced by but not limited to holding of equity or debt instruments as well as other forms of involvement such as provision of funding, liquidity support, credit enhancement and guarantees. It includes the means by which an entity has control or joint control of, or significance influence over, another entity. An entity does not necessarily have an interest in another entity solely because of a typical customer supplier relationship.

The following terms used in IND AS 12 are defined in IND AS 27 *Separate Financial Statements*, IND AS 28 *Investments in Associates and Joint Ventures* IND AS 110 *Consolidated Financial Statements*, and IND AS 111 *Joint Arrangements*:

- Associate; consolidated financial statements; control of an entity; equity method; group; joint arrangement; joint control; joint operation; joint venture; non-controlling interest (NCI); parent; protective rights; relevant activities; separate financial statements; separate vehicle; significant influence; and subsidiary.

SIGNIFICANT JUDGEMENTS AND ASSUMPTIONS

Disclose information about significant judgements and assumptions made (and changes to those judgements and assumptions) in determining:

- Control over another entity
- Joint control over an arrangement
- Significant influence over another entity
- The type of joint arrangement (i.e. joint operation or joint venture) when the arrangement has been structured through a separate vehicle.

(a) INTERESTS IN SUBSIDIARIES – REQUIRED DISCLOSURES

Information that enables users…

To understand:

- The composition of the group and the interest that NCI's have in the group's activities and cash flows.

To evaluate:

- The nature and extent of significant restrictions on the ability to access or use assets, and settle liabilities, of the group
- The nature of, and changes in, the risks associated with interests in consolidated structured entities
- The consequences of changes in ownership interest in a subsidiary that do not result in a loss of control
- The consequences of losing control of a subsidiary during the reporting period.

When the financial statement of a subsidiary used in the preparation of consolidated financial statements are as of a date or for a period that is different from that of the consolidated financial statements and entity shall disclose:

- The date of the end of the reporting period of the financial statements of that subsidiary; and
- The reason for using a different date or period.

(i) The Interest that Non-controlling interests (NCI) have in group's activities and cash flows

For each of subsidiary with material NCI's:

- Name of the subsidiary
- Principal place of business and country of incorporation (if different from the principal place of business) of the subsidiary
- Proportion of ownership interests held by NCI
- Proportion of NCI voting rights, if different from the proportion of ownership interests held
- Profit or loss allocated to non-controlling interests of the subsidiary during the reporting period
- Accumulated NCI of the subsidiary at the end of the reporting period
- Summarised financial information about the subsidiary.

(ii) Nature and extent of restrictions

Significant restrictions on ability to access or use the assets and settle the liabilities of the group, such as:

- Those that restrict the ability of a parent or its subsidiaries to transfer cash or other assets to (or from) other entities within the group
- Guarantees or other requirements that may restrict dividends and other capital distributions being paid, or loans and advances being made or repaid, to (or from) other entities within the group.

The nature and extent to which protective rights of NCI can significantly restrict the entity's ability to access or use the assets and settle the liabilities of the group.

The carrying amounts in the consolidated financial statements of the assets and liabilities to which those restrictions apply.

(iii) Nature of risks in consolidated structured entities (CSE)

Terms of any contractual arrangements that could require the parent or its subsidiaries to provide financial support to a CSE including events and circumstances that could expose the reporting entity to a loss

If financial or other support has been provided to a CSE in the absence of a contractual obligation to do so:

- The type and amount of support provided, including obtaining financial support, and
- The reasons for providing the support.

If financial (or other) support has been provided to a previously unconsolidated structured entity that resulted in control, explanation of the relevant factors in reaching that decision.

Any current intentions to provide financial or other support to a consolidated structured entity, including intention to assist the structured entity in obtaining financial support.

(iv) Consequences of changes in a parent's ownership interest in a subsidiary that do not result in a loss of control

Present a schedule showing the effects on the equity (attributable to owners of the parent) of any changes in ownership interest that do not result in a loss of control.

(v) Consequences of losing control of a subsidiary

Disclose the gain or loss, if any, and:

- The portion of that gain or loss attributable to measuring any investment retained in the former subsidiary at its fair value at the date when control is lost
- The line item(s) in profit or loss in which the gain or loss is recognised.

IND AS 112 *Disclosure of Interests in Other Entities*

(b) INTERESTS IN JOINT ARRANGEMENTS AND ASSOCIATES – REQUIRED DISCLOSURES

Information that enables users to evaluate:

(i) The nature of, and changes in, risks associated with interests held

(ii) The nature, extent, and financial effects of interests in joint arrangements and associates (including contractual relationships with the other investors with joint control or significant influence).

(i) Risks associated with an entity's interests in joint ventures and associates

Commitments relating to joint ventures

Contingent liabilities incurred relating to joint ventures or associates (including its share of contingent liabilities incurred jointly with other investors), unless the probability of loss is remote.

(ii) Nature, extent and financial effects of an entity's interests in joint arrangements and associates

- The name of the joint arrangement or associates
- The nature of the entity's relationship with the joint arrangement or associate
- The principal place of business (and country of incorporation, if applicable and different from the principal place of business) of the joint arrangement or associate
- The proportion of ownership interest or participating share held by the entity and, if different, the proportion of voting rights held (if applicable)
- Measurement: whether equity method or at fair value
- If measured using equity method: the fair value of its investment in the joint venture or associate (if a quoted market price is available)
- Summarised financial information about the joint venture or associate.

- Financial information about the entity's investments in joint ventures and associates that are not individually material:
  - In aggregate for all individually immaterial joint ventures and, separately,
  - In aggregate for all individually immaterial associates.
- The nature and extent of any significant restrictions on the ability of joint ventures or associates to transfer funds to the entity in the form of cash dividends, or to repay loans or advances made by the entity
- When there is a difference in reporting date of a joint venture or associate's financial statements used in applying the equity method:
  - The date of the end of the reporting period of the financial statements of that joint venture or associate.
  - The reason for using a different date or period.
- The unrecognised share of losses of a joint venture or associate, both for the reporting period and cumulatively, if the entity has stopped recognising its share of losses of the joint venture or associate when applying the equity method.

(c) INTERESTS IN UNCONSOLIDATED STRUCTURED ENTITIES (UCSE) – REQUIRED DISCLOSURES

Information that enables users…

To understand:

- The nature and extent of its interests in UCSE.

To evaluate:

- The nature of, and changes in, the risks associated with its interests in UCSE.

Including, information about the exposure to risk from involvement in previous periods (even if the entity no longer has any contractual involvement with the entity at reporting date).

(i) Nature of interests

Qualitative and quantitative information, including (but not limited to):

- Nature, purpose, size and activities of the structured entity and how the structured entity is financed.

If an entity has sponsored UCSE, for which it does not provide information (e.g. because it holds no interest at reporting date), disclose:

- How it has determined which structured entities it has sponsored
- Income from those structured entities during the reporting period, including a description of types of income presented
- The carrying amount (at the time of transfer) of all assets transferred to those structured entities during the reporting period.

An entity is required to present the information above:

- In tabular format (unless another format is more appropriate)
- Classify its sponsoring activities into relevant categories.

(ii) Nature of risks

Disclose in tabular format (unless another format is more appropriate) a summary of:

- The carrying amounts of the assets and liabilities recognised in its financial statements relating to interests in UCSE.
- The line items in the balance sheet in which those assets and liabilities are recognised
- The amount that best represents the entity's maximum exposure to loss from its interests in UCSE, including how the maximum exposure to loss is determined. If an entity cannot quantify its maximum exposure to loss from its interests in UCSE it is required to disclose that fact and the reasons
- A comparison of the carrying amounts of the assets and liabilities of the entity that relate to its interests in UCSE and the entity's maximum exposure to loss from those entities.

If during the reporting period an entity has, without having a contractual obligation to do so, provided financial (or other) support to an UCSE in which it previously had or currently has an interest, disclose:

- The type and amount of support provided, including situations in which the entity assisted the structured entity in obtaining financial support
- The reasons for providing the support.

An entity is required to disclose any current intentions to provide financial or other support to UCSE, including intentions to assist the structured entity in obtaining financial support.

(iii) Investment entity status: When a parent determines that it is an investment entity in accordance with IND AS 110, the investment entity shall disclose information about significant judgement and assumptions it has made in determining that it is an investment entity. If the entity does not have one or more of the typical characteristics of an investment entity, is shall disclose its reasons for concluding that it is nevertheless an Investment entity.
When an entity becomes or ceases to be an investment entity it shall disclose the change of investment entity status and the reasons for the change. In addition an entity that becomes an investment entity shall disclose the effect of the change of status on the financial statements for the period presented including: the total fair value, as of the date of change, of the subsidiaries that cease to be consolidated, the total gain or loss and the line item in profit or loss in which the gain or loss is recognised.

IND AS 113 *Fair Value Measurement*

SCOPE AND SCOPE EXEMPTIONS

IND AS 113 applies when another IND AS requires or permits fair value measurements (both initial and subsequent) or disclosures about fair value measurements, except as detailed below:

Exemption from both **measurement** and **disclosure** requirements:
- Share-based payment transactions within the scope of IND AS 102 *Share-based Payment*
- Leasing transactions within the scope of IND AS 17 *Leases*
- Measurements that have some similarities to fair value, but are not fair value, such as:
  - Net realisable value in IND AS 2 *Inventories*
  - Value-in-use in IND AS 36 *Impairment of Assets*.

Exemption from **disclosure** requirements only:
- Plan assets measured at fair value in accordance with IND AS 19 *Employee Benefits*
- Assets for which recoverable amount is fair value less costs of disposal in accordance with IND AS 36.

DEFINITION OF FAIR VALUE

Fair Value: measurement-date price received to sell and asset, or paid to transfer a liability, in an orderly transaction between market participants.

Price

The price is determined at measurement date under current market conditions (i.e. an exit price).

This is regardless of whether that price is directly observable or estimated using another valuation technique.

Asset or liability

Fair value considers specific characteristics:
- Asset condition and location
- Any restrictions on the sale.

Transaction

Is assumed to takes place either in:
- The **principal market** (i.e. market with the greatest volume and level of activity), or in the absence of a principal market
- The **most advantageous market** (i.e. the market that maximises / minimises the amount received / paid, after transaction and transport costs).

Market participants

Fair value of an asset or liability is measured using the assumptions that market participants would use when pricing the asset or liability (assuming they act in their own economic best interest)

Market participants do not need to be identified.

APPLICATION TO NON-FINANCIAL ASSETS

Highest and best use (HBU)

Fair value measurement of non-financial assets considers a **market participant's** ability (not the entity's) to either:
- Generate economic benefits by using the asset in its HBU
- Sell the asset to another market participant who would then use the asset in its HBU.

Factors to consider in determining HBU:
- Physically possible
- Legally permitted
- Financially viable.

Valuation premise - stand alone

If the HBU is on a stand-alone basis:
- Fair value is the price that would be received in a current sale, to a market participant, that would use the asset on a standalone basis.

Valuation premise - combination

If the HBU is in combination with other assets:
- Fair value is the price that would be received in a current sale, to market participants assuming the asset will be used in combination with those assets (which are also assumed to be available to the market participants).

APPLICATION TO LIABILITIES AND AN ENTITY'S OWN EQUITY INSTRUMENTS

General principles

Liabilities: Assume that these would remain outstanding and the market participant transferee would be required to fulfil the obligation. The liability would not be settled with the counterparty or otherwise extinguished on the measurement date.

Entity's own equity instruments: Assume that these would remain outstanding and the market participant transferee would take on the rights and responsibilities associated with the instrument. The instrument would not be cancelled or otherwise extinguished on measurement date.

Whether held (or not held) by other parties as assets

When a quoted price for the transfer of an identical (or a similar) liability or entity's own equity instrument is not available, and that identical (or similar) item is held by another party as an asset:
- Measure the fair value from the perspective of a market participant that holds the identical item as an asset at the measurement date, by:
  - Using the quoted price in an active market for the identical item, or if not available
  - Using other observable inputs, or if not available
  - Using another valuation technique (i.e. income approach, or market approach).

When a quoted price for the transfer of an identical (or a similar) liability or entity's own equity instrument is not available, and that identical (or similar) item is not held by another party as an asset:
- Measure the fair value using a valuation technique from the perspective of a market participant that either:
  - Owes the liability
  - Has issued the claim on equity.

Restriction preventing transfer

The inclusion of a separate input (or an adjustment to other inputs) relating to the existence of a restriction that prevents the transfer of the item liability or entity's own equity instrument, is not permitted when determining fair value.

The effect of such a restriction is either implicitly or explicitly included in the other inputs to the fair value measurement.

Liabilities - Non-performance risk, and liabilities with a demand feature

Non-performance risk (NPR)

- NPR is reflected in the fair value of a liability and includes (but is not limited to) an entity's own credit risk
- NPR is assumed to be the same before and after the transfer of the liability
- NPR considers the effect of an entity's credit risk and any other factors that might influence the likelihood that the obligation will or will not be fulfilled. That effect may differ depending on the liability, for example:
  - Whether the liability is an obligation to deliver cash (a financial liability), or an obligation to deliver goods or services (a non-financial liability)
  - The terms of credit enhancements related to the liability, if any.

Liabilities with a demand feature (i.e. a 'demand deposit')

Fair value is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

IND AS 113 *Fair Value Measurement*

APPLICATION TO FINANCIAL ASSETS AND FINANCIAL LIABILITIES WITH OFFSETTING POSITIONS IN MARKET RISKS OR COUNTERPARTY CREDIT RISK

An entity that holds a group of financial assets and financial liabilities is exposed to:
(i) **Market risks**
(ii) **Credit risk** of each of the counterparties.

If these are managed on either a market risk or a credit risk net exposure basis:

- The entity is permitted to apply an exception ('offsetting exemption') to IND AS 113 for measuring fair value. Fair value would be based on the price:
  - Received to sell a net long position (i.e. an asset) for a particular risk exposure, or
  - To transfer a net short position (i.e. a liability) for a particular risk exposure in an orderly transaction between market participants.

Fair value of this 'offset group' of financial assets and financial liabilities is made consistently with how market participants would price the net risk exposure.

Offsetting exemption

Can only be used if the entity does all the following:

- Manages the offset group on the basis of net exposure to a particular market risk (or risks) or to the credit risk of a particular counterparty in accordance with the entity's documented risk management or investment strategy.
- Provides information on that basis about the offset group to the entity's key management personnel, as defined in IND AS 24 Related Party Disclosures.
- Is required (or has elected) to measure the offset group at fair value in the Balance Sheet at the end of each reporting period.

The exception does not relate to presentation.

IND AS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* must be applied when using the offsetting exception.

(i) Exposure to market risk

When using the offsetting exception:

- Apply the price within the bid-ask spread that is most representative of fair value in the circumstances to the entity's net exposure to those market risks
- Ensure that the market risk (or risks) within the offset group are substantially the same:
  - Any basis risk resulting from the market risk parameters not being identical are taken into account in the fair value measurement of the financial assets / liabilities within the offset group
  - Similarly, the duration of the entity's exposure to a particular market risk (or risks) arising from the financial assets and financial liabilities of the offset group must be substantially the same.

(ii) Exposure to credit risk

When using the offsetting exception:

- Include the effect of the entity's net exposure to the credit risk of that counterparty's net exposure to the credit risk of the entity in the fair value measurement when market participants would take into account any existing arrangements that mitigate credit risk exposure in the event of default.

Fair value is required to reflect market participants' expectations about the likelihood that such an arrangement would be legally enforceable in the event of default.

FAIR VALUE AT INITIAL RECOGNITION

The transaction price is the price paid / received to acquire an asset or to assume a liability (i.e. entry price).

In contrast, fair value is the price that would be received to sell the asset or paid to transfer the liability (i.e. exit price).

However, in many cases the transaction price will equal the fair value – however it is still necessary to take into account factors specific to the transaction and to the asset or liability.

VALUATION TECHNIQUES

Must use appropriate valuation techniques in the circumstances and for which sufficient data are available to measure fair value.

Changes in the valuation technique or its application are accounted for as a change in accounting estimate in accordance with IND AS 108.

<u>Inputs to valuation techniques</u>

- Must aim to maximise the use of relevant observable inputs and minimise the use of unobservable inputs.
- If an asset / liability measured at fair value has both a bid and ask price, the price within the bid-ask spread that is most representative of fair value is used - regardless of where the input is categorised within the fair value hierarchy.

FAIR VALUE HIERARCHY

IND AS 113 includes a fair value hierarchy that categorises the inputs to valuation techniques used to measure fair value into three (input) levels:

- **Level 1**: Observable quoted prices, in active markets
- **Level 2**: Quoted prices are not available but fair value is based on observable market data
- **Level 3**: Unobservable inputs.

The level of an item is based on its lowest input level.

RECURRING OR NON-RECURRING

IND AS 113 requires specific disclosures based on whether fair value measurement is recurring (RFVM) or non-recurring (NRFVM).

RFVM and NRFVM are not defined in IND AS 113.

However, in general:

- **RFVM**: Fair value measurement is required at reporting date by other IND ASs (e.g. investment property, biological assets etc.)
- **NRFVM**: Fair value measurement is triggered by particular events / circumstances (e.g. assets held for sale under IND AS 105 etc.).

UNIT OF ACCOUNT

In most cases, the unit of account is not specified by IND AS 113.

Instead, the unit of account is specified by the IND AS that permits or requires fair value measurement and disclosure of the item.

DISCLOSURE

Disclosure requirement	RFVM	NRFVM	FV Disclosed
Fair value at reporting date	X	X	
Reasons for fair value measurement		X	
Fair value hierarchy level i.e. Level 1, 2, or 3	X	X	X
Transfers between Level 1 and 2 (including reasons for the transfer and the entity's policy for transfer)	X		
Valuation technique, inputs, changes, reasons for change etc. - Level 2 and 3	X	X	X
Level 3 valuation processes / policies	X	X	
Level 3 unobservable inputs	X	X	

Disclosure requirement	RFVM	NRFVM	FV Disclosed
Level 3 reconciliation of total gains or losses in P&L and OCI, purchases, sales issues, settlements, and transfers	X		
Level 3 unrealised gains / losses recognised in P&L	X		
Level 3 sensitivity to changes in unobservable inputs (Qualitative for non-financial instruments, quantitative for financial instruments)	X		
Reasons if HBU differs from current use	X	X	X

FV Disclosed	Refers to items that are measured on a basis other than fair value, but where applicable IND ASs require the items fair value to be determined and disclosed.

IND AS 114 *Regulatory Deferral Accounts*

SCOPE

Does the entity conduct 'rate-regulated activities'?
- No → Entity is outside scope of IND AS 114
- Yes → Are these the entity's first annual IND AS financial statements?
  - Yes → Does the entity have 'regulatory deferral balances' recognised in accordance with Guidance Note for Rate Regulated Activities (taken to be 'previous GAAP')?
    - Yes → Entity is within the scope of IND AS 114
  - No → Has the entity recognised regulatory deferral balances that it has previously elected to recognise in accordance with this IND AS?
    - Yes → Entity is within the scope of IND AS 114
    - No → Entity is outside scope of IND AS 114

RECOGNITION AND MEASURMENT

An entity within the scope of IND AS 114 is able to make a voluntary irrevocable election in its first annual IND AS financial statements whether or not to recognise regulatory deferral balances in accordance with IND AS 114

An entity that has elected to apply IND AS 114 in its first annual IND AS financial statements, continues to apply the recognition, measurement, impairment and derecognition requirements in accordance with its previous GAAP to all its regulatory deferral account balances

Changes are only permitted if they result in the financial statements being either:
- More relevant and no less reliable, or
- More reliable and no less relevant

DISCLOSURE

IND AS 114 requires a number of disclosures to enable users to assess:
- The nature of and risks associated with the rate regulation the entity is exposed to
- The effects of that rate regulation of the entity's financial position and financial performance

DEFINITIONS

Rate-regulated activities - Activities that are subject to rate regulation

Rate regulation

A framework that establishes prices for goods and / or services that are subject to the oversight / approval of a 'rate regulator'

Rate regulator

A body that has been empowered through statute or legislation to establish (a range of) rates that bind an entity

Regulatory deferral account balance

A balance that would not otherwise be recognised in accordance with other IND ASs, but qualifies for deferral as it is (expected to be) included in establishing the (range of) rates

Previous GAAP

Guidance Note of Accounting for Rate Regulated Activities

First-time adopter

An entity presenting its first IND AS financial statements

First IND AS financial statements

An entity's first financial statements in which there is an unreserved statement of compliance with IND AS

PRESENTATION

Balance Sheet

The total of regulatory deferral account debit balances, and regulatory deferral account credit balances, are presented separately from, and after, all other items.

They are not split into current and non-current portions

Statement of profit and loss

The net movements in regulatory deferral account balances related to both:
- Profit or loss, and
- Other comprehensive income

Are presented separately from, and after, all other items and subtotalled appropriately

INTERACTION WITH OTHER IND ASs - APPLICATION GUIDANCE WITHIN IND AS 114

- Estimates used in determining regulatory deferral account balances (IND AS 10)
- Scope of income tax requirements (IND AS 12)
- Where rates are permitted or required to be increased to recover some or all of an entity's tax expense (IND AS 12)
- Presentation with respect to income taxes (IND AS 12)
- Consistent accounting policies for associates and joint ventures (IND AS 28)
- Presentation of basic and diluted earnings per share (IND AS 33)
- Impairment of regulatory deferral account balances (IND AS 36)
- Impairment of cash generating units (CGU) containing regulatory deferral account balances (IND AS 36)
- Recognition and measurement of regulatory deferral account balances in an acquiree (IND AS 103)
- Presentation in respect of non-current assets held for sale and discontinued operations (IND AS 105)
- Consistent accounting policies for subsidiaries (IND AS 110)
- Disclosures of regulatory deferral account balances in material subsidiaries with non-controlling interests, material joint ventures, and material associates (IND AS 112)
- Disclosures of gain or loss on the loss of control over a subsidiary (IND AS 112)

IND AS 115 *Revenue from Contracts with Customers*

SCOPE

Applies to all contracts with customers, except:

- Lease contracts (refer to IND AS 17)
- Insurance contracts (refer to IND AS 104)
- Financial instruments and other contractual rights or obligations (refer to IND AS 109, IND AS 110 / 111, IND AS 27, and IND AS 28)
- Certain non-monetary exchanges.

DEFINITIONS

Contract:
An agreement between two or more parties that creates enforceable rights and obligations.

Customer:
A party that has contracted with an entity to obtain goods or services that are an output of the entity's ordinary activities in exchange for consideration.

Revenue:
Income arising in the course of an entity's ordinary activities.

Income:
Increases in economic benefits in the form of inflows or enhancements of assets or decreases of liabilities that result in an increase in equity (other than those from equity participants).

Distinct selling price:
Refer to Step 2 below.

Stand-alone selling price:
The price at which a good or service would be sold separately to a customer.

Performance obligation:
A promise to transfer to the customer either:
(i) A distinct (bundle of) good(s) or service(s)
(ii) A series of substantially the same distinct goods or services that have the same pattern of transfer to the customer, and the pattern of transfer is both over time and represents the progress towards complete satisfaction of the performance obligation.

THE 'FIVE STEP' MODEL

Revenue from contracts with customers is recognised based on the application of a principle-based 'five step' model:

Step 1 and 2 Identify…		Step 3 Determine…	Step 4 Allocate…	Step 5 Recognise…
…the contract	…the performance obligation(s)	…the transaction price	…the transaction price to each performance obligation	…revenue when each performance obligation is satisfied

STEP 1 – IDENTIFY THE CONTRACT

Features of a 'contract' under IND AS 115

Contracts, and approval of contracts, can be written, oral or implied by an entity's customary business practices.

IND AS 115 requires contracts to have all of the following attributes:

- The contract has been approved
- The rights and payment terms regarding goods and services to be transferred can be identified
- The contract has commercial substance
- It is probable that the consideration will be received (considering only the customer's ability and intention to pay).

If each party to the contract has a unilateral enforceable right to terminate a wholly unperformed contract without compensating the other party (or parties), no contract exists under IND AS 115.

Combining multiple contracts

Contracts are combined if they are entered into at (or near) the same time, with the same customer, if either:

- The contracts are negotiated as a package with a single commercial objective
- The consideration for each contract is interdependent on the other, or
- The overall goods or services of the contracts represent a single performance obligation.

Contract modifications

A change in enforceable rights and obligations (i.e. scope and / or price) is only accounted for as a contract modification if it has been approved, and creates new or changes existing enforceable rights and obligations.

Contract modifications are accounted for as a separate contract if, and only if:

- The contract scope changes due to the addition of distinct goods or services, and
- The change in contract price reflects the standalone selling price of the distinct good or service.

Contract modifications that are not accounted for as a separate contract are accounted for as either:

(i) *Replacement of the original contract with a new contract* (if the remaining goods or services under the original contract are distinct from those already transferred to the customer)

(ii) *Continuation of the original contract* (if the remaining goods or services under the original contract are not distinct from those already transferred to the customer, and the performance obligation is partially satisfied at modification date).

(iii) *Mixture of (i) and (ii)* (if elements of both exist).

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STEP 2 – IDENTIFY THE PERFORMANCE OBLIGATIONS

Performance obligations are the contractual promise by an entity, to transfer to a customer, distinct goods or services, either individually, in a bundle, or as a series over time (Refer to the 'Definitions' section above).

Activities of the entity that do not result in a transfer of goods or services to the customer (e.g. certain internal administrative 'set-up activities') are not performance obligations of the contract with the customer and do not give rise to revenue.

DEFINITION OF 'DISTINCT' (TWO CRITERIA TO BE MET)

(i) The customer can 'benefit' from the good or service

Benefit from the good or service can be through either:
- Use, consumption, or sale (but not as scrap)
- Held in a way to generate economic benefits.

Benefit from the good or service can be either:
- On its own
- Together with other readily available resources (i.e. those which can be acquired by the customer from the entity or other parties).

(ii) The promise to transfer a good or service is separable from other promises in the contract

The assessment requires judgement, and consideration of all relevant facts and circumstances.

A good or service may not be separable from other promised goods or services in the contract, if:
- There are significant integration services with other promised goods or services
- It modifies / customises other promised goods or services
- It is highly dependent / interrelated with other promised goods or services.

STEP 3 – DETERMINE THE TRANSACTION PRICE

The transaction price is the amount of consideration an entity expects to be entitled to in exchange for transferring the promised goods or services (not amounts collected on behalf of third parties, e.g. excise duty, sales taxes or value added taxes). The transaction price may be affected by the nature, timing, and amount of consideration, and includes consideration of significant financing components, variable components, amounts payable to the customer (e.g. refunds and rebates), and non-cash amounts.

Accounting for a significant financing component

If the timing of payments specified in the contract provides either the customer or the entity with a significant benefit of financing the transfer of goods or services.

The transaction price is adjusted to reflect the cash selling price at the point in time control of the goods or services is transferred.

A significant financing component can either be explicit or implicit.

Factors to consider include:
- Difference between the consideration and cash selling price
- Combined effect of interest rates and length of time between transfer of control of the goods or services and payment.

A significant financing component does not exist when
- Timing of the transfer of control of the goods or services is at the customer's discretion
- The consideration is variable with the amount or timing based on factors outside of the control of the parties
- The difference between the consideration and cash selling price arises for other non-financing reasons (i.e. performance protection).

Discount rate to be used

- Must reflect credit characteristics of the party receiving the financing and any collateral / security provided.

Practical expedient - period between transfer and payment is 12 months or less

- Do not account for any significant financing component.

Accounting for variable consideration

E.g. Discounts, rebates, refunds, credits, concessions, incentives, performance bonuses, and contingent payments (penalties excluded).

Variable consideration must be estimated using either:

(i) **Expected value method**: based on probability weighted amounts within a range (i.e. for large number of similar contracts)

(ii) **Single most likely amount**: the amount within a range that is most likely to eventuate (i.e. where there are few amounts to consider).

Constraining (limiting) the estimates of variable consideration

- Variable consideration is only recognised if it is highly probable that a subsequent change in its estimate would not result in a significant revenue reversal (i.e. a significant reduction in cumulative revenue recognised).

Accounting for consideration payable to the customer

Includes cash paid (or expected to be paid) to the customer (or the customer's customers) as well as credits or other items such as coupons and vouchers.

Accounted for as a reduction in the transaction price, unless payment is in exchange for a good or service received from the customer in which case no adjustment is made – except where:
- The consideration paid exceeds the fair value of the goods or services received (the difference is set against the transaction price)
- The fair value of the goods or services cannot be reliably determined (full amount taken against the transaction price).

Accounting for non-cash consideration

Accounted for at fair value (if not reliably determinable, it is measured indirectly by reference to stand-alone selling price of the goods or services).

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STEP 4 – ALLOCATE THE TRANSACTION PRICE TO EACH PERFORMANCE OBLIGATION

The transaction price (determined in **Step 3**) is allocated to each performance obligation (determined in **Step 2**) based on the *stand-alone selling price* of each performance obligation.

If the *stand-alone selling price(s)* are not observable, they are estimated. Approaches to estimate may include:

(i) **Adjusted market assessment approach**
(ii) **Expected cost plus a margin approach**
(iii) **Residual approach** (i.e. residual after observable stand-alone selling prices of other performance obligations have been deducted).

Note that restrictive criteria must be met for approach (iii) to be applied.

Allocating a 'discount'

A discount exists where the sum of the stand-alone selling price of each performance obligation exceeds the consideration payable.

Discounts are allocated on a proportionate basis, unless there is observable evidence that the discount relates to one or more specific performance obligation(s) after meeting all of the following criteria:

– The goods or services (or bundle thereof) in the performance obligation are regularly sold on a stand-alone basis, and at a discount
– The discount is substantially the same in amount to the discount that would be given on a stand-alone basis.

Allocating variable consideration

Variable consideration is allocated entirely to a performance obligation (or a distinct good or service within a performance obligation), if both:

– The terms of the variable consideration relate specifically to satisfying the performance obligation (or transferring the distinct good or service within the performance obligation)
– The allocation of the variable consideration is consistent with the principle that the transaction price is allocated based on what the entity expects to receive for satisfying the performance obligation (or transferring the distinct good or service within the performance obligation).

STEP 5 – RECOGNISE REVENUE AS EACH PERFORMANCE OBLIGATION IS SATISFIED

The transaction price allocated to each performance obligation (determined in **Step 4**) is recognised as / when the performance obligation is satisfied, either

(i) Over time, or
(ii) At a point in time.

Satisfaction occurs when **control** of the promised good or service is transferred to the customer:

– Ability to direct the use of the asset
– Ability to obtain substantially all the remaining benefits from the asset.

Factors to consider when assessing transfer of **control**:

– Entity has present right to payment for the asset
– Entity has physically transferred the asset
– Legal title of the asset
– Risks and rewards of ownership
– Acceptance of the asset by the customer.

(i) RECOGNISING REVENUE OVER TIME (APPLIES IF ANY OF THE FOLLOWING THREE CRITERIA ARE MET)

(a) Customer simultaneously receives and consumes all of the benefits

e.g. many recurring service contracts (such as cleaning services).

If another entity would not need to substantially re-perform the work already performed by the entity in order to satisfy the performance obligation, the customer is considered to be simultaneously receiving and consuming benefits.

(b) The entity's work creates or enhances an asset controlled by the customer

The asset being created or enhanced (e.g. a work in progress asset) could be tangible or intangible.

(c) The entity's performance does not create an asset with an alternative use to the entity, and the entity has an enforceable right to payment for performance completed to date.

(i) Alternate use

Assessment requires judgment and consideration of all facts and circumstances.

An asset does not have an alternate use if the entity cannot *practically* or *contractually* redirect the asset to another customer, such as:

– Significant economic loss, i.e. through rework, or reduced sale price (*practical*)
– Enforceable rights held by the customer to prohibit redirection of the asset (*contractual*).

Whether or not the asset is largely interchangeable with other assets produced by the entity should also be considered in determining whether practical or contractual limitations occur.

(ii) Enforceable right to payment

Consider both the specific contractual terms and any applicable laws or regulations. Ultimately, other than due to its own failure to perform as promised, an entity must be entitled to compensation that approximates the selling price of the goods or services transferred to date.
The profit margin does not need to equal the profit margin expected if the contract was fulfilled as promised. For example, it could be a proportion of the expected profit margin that reflects performance to date.

Revenue that is recognised over time is recognised in a way that depicts the entity's performance in transferring control of goods or services to customers. Methods include:

– Output methods: e.g. Surveys of performance completed to date, appraisals of results achieved, milestones reached, units produced / delivered etc.
– Input methods: e.g. Resources consumed, labour hours, costs incurred, time lapsed, machine hours etc., excluding costs that do not represent the seller's performance.

(ii) RECOGNISING REVENUE AT A POINT IN TIME

Revenue is recognised at a point in time if the criteria for recognising revenue over time are not met.

Revenue is recognised at the point in time at which the entity transfers control of the asset to the customer (see adjacent box).

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APPLICATION GUIDANCE WITHIN IND AS 115

IND AS 115 contains application guidance for:
- **Contract costs**
- Sale with a right of return
- **Warranties**
- Principal versus agent considerations
- Customer options for additional goods or services
- Customers' unexercised rights
- **Non-refundable upfront fees (and some related costs)**
- **Licensing**
- Repurchase agreements
- Consignment arrangements
- Bill-and-hold arrangements
- Customer acceptance.

A summary is set out on this page for those items in bold type above.

Contract costs

Only incremental costs of obtaining a contract that are incremental and expected to be recovered can be recognised as an asset.

If costs to fulfil a contract are within the scope of other IND ASs (e.g. IND AS 2, IND AS 16, IND AS 38 etc.) apply those IND ASs.
If not, a contract asset is recognised under IND AS 115 if, and only if, the costs:
- Are specifically identifiable and directly relate to the contract (e.g. direct labour, materials, overhead allocations, explicitly on-charged costs, other unavoidable costs (e.g. sub-contractors))
- Create (or enhance) resources of the entity that will be used to satisfy performance obligation(s) in the future, and
- Are expected to be recovered.

Costs that are recognised as an expense as incurred
- General and administrative expenses
- Wastage, scrap, and other (unanticipated) costs not incorporated into pricing the contract
- Costs related to (or can't be distinguished from) past performance obligations.

Amortisation and impairment of contract assets
- **Amortisation** is based on a systematic basis consistent with the pattern of transfer of the goods or services to which the asset relates
- **Impairment** exists where the contract carrying amount is greater than the remaining consideration receivable, less directly related costs to be incurred.

Licensing (of an entity's intellectual property (IP))

*(i) If the licence is **not** distinct from other goods or services*
- It is accounted for together with other promised goods or services as a single performance obligation
- A licence is not distinct if either:
  - It is an integral component to the functionality of a tangible good, or
  - The customer can only benefit from the licence in conjunction with a related service.

(ii) If the licence is distinct from other goods or services
- It is accounted for as a single performance obligation.
- Revenue from a distinct licence is recognised over time (refer **Step 5**) if, and only if:
  (a) The entity (is reasonably expected to) undertakes activities that will significantly affect the IP to which the customer has rights
  (b) The customer's rights to the IP expose it to the positive / negative effects of the activities that the entity undertakes in (a).
  (c) No goods or services are transferred to customer as the entity undertakes the activities in (a).
- Revenue from a distinct licence is recognised at a point in time (refer to **Step 5**) if the criteria for recognition over time (above) are not met. The right is over the IP in its form and functionality at the point at which the licence is granted to the customer.
  - Revenue is recognised at the point in time at which control of the licence is transferred to the customer.

Warranties (fall into either one of the two categories):

<u>(i) Assurance type (apply IND AS 37):</u>
- An assurance to the customer that the good or service will function as specified
- The customer cannot purchase this warranty separately from the entity.

<u>(ii) Service type (accounted for separately in accordance with IND AS 115):</u>
- A service is provided in addition to an assurance to the customer that the good or service will function as specified
- This applies regardless of whether the customer is able to purchase this warranty separately from the entity.

In determining the classification (or part thereof) of a warranty, an entity considers:
- *Legal requirements:* warranties required by law are usually assurance type
- *Length:* longer the length of coverage, more likely additional services are being provided
- *Nature of tasks:* do they provide a service or are they related to assurance (e.g. return shipping for defective goods)?.

Non-refundable upfront fees

Includes additional fees charged at (or near) the inception of the contract (e.g. joining fees, activation fees, set-up fees etc.).

Treatment dependents on whether the fee relates to the transfer of goods or services to the customer (i.e. a performance obligation under the contract):
- Yes: Recognise revenue in accordance with IND AS 115 (as or when goods or services transferred)
- No: Treated as an **advance payment** for the performance obligations to be fulfilled.
  (Note: Revenue recognition period may in some cases be longer than the contractual period if the customer has a right to, and is reasonably expected to, extend / renew the contract).

PRESENTATION

Balance Sheet
- Contract assets and contract liabilities from customers are presented separately
- Unconditional rights to consideration are presented separately as a receivable.

Statement of profit or loss
Line items (revenue and impairment) are presented separately in accordance with the requirements of IND AS 1 *Presentation of Financial Statements*.
Amount of Excise duty included in revenue

TRANSITION (APPENDIX C)

Retrospective application (either)
- For each prior period presented in accordance with IND AS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*; or
- Cumulative effect taken to the opening balance of retained earnings in the period of initial application.

For full retrospective application, practical expedients (for)
- Restatement of completed contracts
- Determining variable consideration of completed contracts
- Disclosures regarding the transaction price allocation to performance obligations still to be satisfied.

DISCLOSURE

Overall objective to disclose sufficient information to enable users to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from an entity's contracts with customers.

Contracts with customers (information regarding):
- Disaggregation of revenue
- Contract assets and contract liabilities
- Performance obligations (incl. remaining)
- Reconciliation with Contract Price

Use of practical expedients (related to):
- Significant financing component (12 month)
- Contract costs (12 month amortisation).

Significant judgements:
- Performance obligation satisfaction
- Transaction price (incl. allocation)
- Determining contract costs capitalised.

Contract costs capitalised:
- Method of amortisation
- Closing balances by asset type
- Amortisation and impairment.