REFRESHER COURSE ON IND AS

BACKGROUND MATERIAL

BOARD OF STUDIES

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA

(Set up by an Act of Parliament)

NEW DELHI

This Background Material has been prepared by the Board of Studies. The objective of the Background Material is to impart broad conceptual knowledge of Ind AS, to the students. For detailed and in-depth study of the subject, students are advised to refer to the Study Material on Financial Reporting for Final (under new course).

All care has been taken to provide interpretations and discussions in a manner useful for the students. However, the Background Material has not been specifically discussed by the Council of the Institute or any of its Committees and the views expressed herein may not be taken to necessarily represent the views of the Council or any of its Committees.

Edition	:	December, 2017
Website	:	www.icai.org
E-mail	:	bosnoida@icai.in
Committee/ Department	:	Board of Studies
ISBN No.	:	
Published by	:	The Publication Department on behalf of The Institute of Chartered Accountants of India, ICAI Bhawan, Post Box No. 7100, Indraprastha Marg, New Delhi 110 002, India.
Printed by	:	

PREFACE

With the world becoming a global village and with the liberalisation and globalisation of the economy, it becomes imperative that the disclosures and reporting of companies are made in line with that of the International Regulations. India has now finally opened a new chapter in its accounting reforms initiative with the formal notification of Indian Accounting Standards (Ind AS) issued by the Ministry of Corporate Affairs (MCA) on 20 February 2015. The transition from Indian GAAP to Ind AS is a historic and a landmark change.

With the introduction of Ind AS, many sweeping changes have brought into the Schedule III which will help in ease of preparing the financial statements and thwart the fraudulent web of reporting hitherto followed by many companies. The reporting under the Ind-AS makes the financials easily comparable with the financials of the peers globally. The move would surely enhance the international comparability of financial statements of Indian companies and make the Indian capital markets more attractive.

This Background material has been designed to develop an individual's knowledge of Ind AS – providing an understanding of the concepts and principles which underpin them, and their application in the practical scenarios.

You being the future Chartered Accountants have the onerous responsibility to keep yourself abreast with the developments in the area of reporting. We, at ICAI, always endeavour to facilitate our students in remaining updated and au courant with the recent developments. The Refresher Course on Ind AS has been designed by the Board of Studies to disseminate knowledge on significant Ind AS amongst students and build their capacities in this new epoch of financial reporting. To facilitate students further, the Board of Studies has also prepared this Background Material on Ind AS to supplement the knowledge gained through the various sessions of the Course.

However, for a detailed and in-depth study of the subject, students are advised to refer to the Study Material on Financial Reporting for Final New Course.

The Background Material is divided into twenty six chapters covering the significant Ind AS. The main features of the Material are as under:

- It contains summary of significant Ind AS covered in the 6 days Refresher Course on Ind AS, alongwith the roadmap for implementation of the standards.
- It also contains significant differences between Ind AS and AS and major carve outs/ins in Ind AS from IFRS.
- Each Ind AS has been explained in a step by step approach with a logical flow within the contents for better understanding.
- The text has been explained, wherever appropriate, through pictorial /diagrammatic presentations for quick reference of students.

The students are required to develop understanding of the Indian Accounting Standards and gain ability to apply the provisions contained therein. We are sure that you will make full use of this Background Material on Refresher Course on Ind AS and continue increasing your knowledge base in this area.

Happy Reading and Best Wishes!

1

INTRODUCTION TO INDIAN ACCOUNTING STANDARDS (IND AS)

In the present era of globalisation and liberalisation, the world has become an economic village. The globalisation of the business world, the attendant structures and the regulations, which support it, as well as the development of e-commerce make it imperative to have a single globally accepted financial reporting system. A number of multi-national companies are establishing their businesses in various countries with emerging economies and vice versa. The entities in emerging economies are increasingly accessing the global markets to fulfill their capital needs by getting their securities listed on the stock exchanges outside their country. Capital markets are, thus, becoming integrated consistent with this world-wide trend. More and more Indian companies are being listed on overseas stock exchanges. The use of different accounting frameworks in different countries, which require inconsistent treatment and presentation of the same underlying economic transactions, creates confusion for users of financial statements. This confusion leads to inefficiency in capital markets across the world. Therefore, increasing complexity of business transactions and globalisation of capital markets call for a single set of high quality accounting standards.

High standards of financial reporting underpin the trust investors place in financial and non-financial information. Thus, the case for a single set of globally accepted accounting standards has prompted many countries to pursue convergence of national accounting standards with IFRS.

International Financial Reporting Standards (IFRS) are considered a "principles-based" set of standards. In fact, they establish broad rules rather than dictating specific treatments. Every major nation is moving toward adopting them to some extent. Large number of authorities requires public companies to use IFRS for stock-exchange listing purposes, and in addition, banks, insurance companies and stock exchanges may use them for their statutorily required reports. So over the next few years, thousands of companies will adopt the international financial reporting standards while preparing their financial statements.

1 HISTORY OF IFRS-CONVERGED INDIAN ACCOUNTING STANDARDS (IND AS)

Government of India - Commitment to IFRS Converged Ind AS

Consistent, comparable and understandable financial reporting is essential to develop a robust economy. With a view to achieve international benchmarks of financial reporting, the Institute of Chartered Accountants of India (ICAI), as a proactive role in accounting, set out to introduce Indian Accounting Standards (Ind AS) converged with the International Financial Reporting Standards (IFRS). This endeavour of the ICAI is supported by the Government of India.

Initially Ind AS were expected to be implemented from the year 2011. However, keeping in view the fact that certain issues including tax issues were still to be addressed, the Ministry of Corporate Affairs decided to postpone the date of implementation of Ind AS.

In July 2014, the Finance Minister of India at that time, Shri Arun Jaitely ji, in his Budget Speech, announced an urgency to converge the existing accounting standards with the International Financial Reporting Standards (IFRS) through adoption of the new Indian Accounting Standards (Ind AS) by the Indian companies from the financial year 2015-16 voluntarily and from the financial year 2016-17 on a mandatory basis.

Pursuant to the above announcement, various steps have been taken to facilitate the implementation of IFRS-converged Indian Accounting Standards (Ind AS). Moving in this direction, the Ministry of Corporate Affairs (MCA) has issued the Companies (Indian Accounting Standards) Rules, 2015 vide Notification dated February 16, 2015 covering the revised roadmap of implementation of Ind AS for companies other than Banking companies, Insurance Companies and NBFCs and Indian Accounting Standards (Ind AS). As per the Notification, Indian Accounting Standards (Ind AS) converged with International Financial Reporting Standards (IFRS) shall be implemented on voluntary basis from 1st April, 2015 and mandatorily from 1st April, 2016.

Initially, India decided to adopt Ind AS 115 corresponding to IFRS 15 two years ahead of the world. However, after the same were notified by the MCA, many representations were being received from various organisations, industry associations etc. for deferring the applicability of Ind AS 115. Considering the difficulties being faced by various industries, it was decided to defer the applicability of Ind AS 115 and to bring Ind AS 11 and Ind AS 18 in its place. Further, there were certain amendments that were made in IFRS/IAS issued by the IASB. The Institute of Chartered Accountants of India (ICAI) to keep up the pace with the global developments, revised the notified Ind AS in line with the amendments made in IFRS/IAS issued by the IASB. MCA had notified the amendments to the Ind AS vide notification dated March 30, 2016, as Companies (Indian Accounting Standards) Amendment Rules, 2016.

2 WHAT ARE INDIAN ACCOUNTING STANDARDS (IND AS)?

Indian Accounting Standards (Ind-AS) are the International Financial Reporting Standards (IFRS) converged standards issued by the Central Government of India under the supervision and control of Accounting Standards Board (ASB) of ICAI and in consultation with National Advisory Committee on Accounting Standards (NACAS).

ASB is a committee under Institute of Chartered Accountants of India (ICAI) which consists of representatives from government department, academicians, other professional bodies viz. icsi, icai, representatives from ASSOCHAM, CII, FICCI, etc. National Advisory Committee on Accounting Standards (NACAS) recommend these standards to the Ministry of Corporate Affairs (MCA). MCA has to spell out the accounting standards applicable for companies in India.

The Ind AS are named and numbered in the same way as the corresponding International Financial Reporting Standards (IFRS).

3 WHAT ARE CARVE OUTS/INS IN IND AS?

The Government of India in consultation with the ICAI decided to converge and not to adopt IFRS issued by the IASB. The decision of convergence rather than adoption was taken after the detailed analysis of IFRS requirements and extensive discussion with various stakeholders.

Accordingly, while formulating IFRS-converged Indian Accounting Standards (Ind AS), efforts have been made to keep these Standards, as far as possible, in line with the corresponding IAS/IFRS and departures have been made where considered absolutely essential. These changes have been made considering various factors, such as

- Various terminology related changes have been made to make it consistent with the terminology used in law, e.g., 'statement of profit and loss' in place of 'statement of comprehensive income' and 'balance sheet' in place of 'statement of financial position'.
- Removal of options in accounting principles and practices in Ind AS vis-a-vis IFRS, have been made to maintain consistency and comparability of the financial statements to be prepared by following Ind AS. However, these changes will **not result into carve outs.**
- Certain changes have been made considering the economic environment of the country, which is different as compared to the economic environment presumed to be in existence by IFRS. These differences are due to differences in application of accounting principles and practices and economic conditions prevailing in India. These diffferences which are in deviation to the accounting principles and practices stated in IFRS, are commonly known as **'Carve-outs'.**

Note: In Ind AS 103 "Business Combination", an additional guidance on "Accounting of Business Combinations of Entities under Common Control" is given which is over and above what is given in IFRS. This is termed as 'Carve-in'.

4 ROADMAP FOR IMPLEMENTATION OF THE INDIAN ACCOUNTING STANDARDS (IND AS)

4.1 For Companies other than banks, NBFCs and Insurance Companies

Phase I	**1st April 2015 or thereafter: Voluntary Basis for all companies (with Comparatives)**	
	1st April 2016: Mandatory Basis	
	(a)	Companies listed/in process of listing on Stock Exchanges in India or Outside India having net worth ≥ INR 5 Billion
	(b)	Unlisted Companies having net worth ≥ INR 5 Billion
	(c)	Parent, Subsidiary, Associate and J.V. of above
Phase II	**1st April 2017: Mandatory Basis**	
	(a)	All companies which are listed/or in process of listing inside or outside India on Stock Exchanges not covered in Phase I (other than companies listed on SME Exchanges)
	(b)	Unlisted companies having net worth INR 5 Billion > INR 2.5 Billion
	(c)	Parent, Subsidiary, Associate and J.V. of Above

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

4.2 For Scheduled Commercial Banks (Excluding RRBs), Insurers/Insurance Companies and Non-Banking Financial Companies (NBFC's)

Non-Banking Financial Companies (NBFC's)	
Phase I:	From 1st April, 2018 (with comparatives)
	▪ NBFCs (whether listed or unlisted) having net worth 500 crore or more
	▪ Holding, Subsidiary, JV and Associate companies of above NBFC other than those already covered under corporate roadmap shall also apply from said date
Phase II:	From 1st April, 2019 (with comparatives)
	▪ NBFCs whose equity and/or debt securities are listed or are in the process of listing on any stock exchange in India or outside India and having net worth less than 500 crore
	▪ NBFCs that are unlisted having net worth 250 crore or more but less 500 crore
	▪ Holding, Subsidiary, JV and Associate companies of above other than those already covered under corporate roadmap shall also apply from said date

- Applicable for both Consolidated and Individual Financial Statements
- NBFC having net worth below 250 crore shall not apply Ind AS.
- Adoption of Ind AS is allowed only when required as per the roadmap.
- Voluntary adoption of Ind AS is not allowed.

Scheduled Commercial banks (excluding RRB's) and Insurers/Insurance companies

- From 1st April, 2018 (with comparatives):
  - Holding, subsidiary, JV and Associates companies of scheduled commercial banks (excluding RRB's) shall also apply from the said date irrespective of it being covered under corporate roadmap.
  - Applicable for both Consolidated and individual Financial Statements
- Urban Cooperative banks (UCBs) and Regional Rural banks (RRBs) are not required to apply Ind AS.

5 DIVISION II OF THE SCHEDULE III TO THE COMPANIES ACT, 2013

The Ministry of Corporate Affairs vide its notification dated 6th April, 2016 notified amendments to Schedule III to the Companies Act, 2013 thereby inserting Division II to Schedule III for preparation of financial statements by those entities who have to comply with Indian Accounting Standards (Ind AS). Now

1. Division I is applicable to a company whose financial statements are required to comply with the current accounting standards
2. Division II is applicable to a company whose financial statements are drawn up in compliance with Ind AS.

Points which merits consideration

- All companies that prepare, either voluntarily or mandatorily, Financial Statements in compliance with the Companies Ind AS Rules, should consider Ind AS Schedule III as well as this Guidance Note.
- The requirements of Ind AS Schedule III however, do not apply to companies as referred to in the proviso to Section 129(1) of the Act, i.e., any insurance or banking company, or any company engaged in the generation or supply of electricity or to any other class of company for which a form of Balance Sheet and Statement of Profit and Loss has been specified in or under any other Act governing such class of company. Moreover, the requirements of Ind AS Schedule III do not apply to Non-Banking Finance Companies (NBFCs) that adopt Ind AS.
- It may, however, be clarified that for companies engaged in the generation and supply of electricity, neither the Electricity Act, 2003, nor the rules framed thereunder, prescribe any specific format for presentation of Financial Statements by an electricity company. Section 1(4) of the Act states that the Act will apply to electricity companies, to the extent it is not inconsistent with the provisions of the Electricity Act. Keeping this in view, Ind AS Schedule III as applicable may be followed by such companies till the time any other format is prescribed by the relevant statute.
- Listed entities shall follow guidelines issued by SEBI by way of circulars prescribing formats for publishing financial results (quarterly, half yearly and annual) which is guided by the relevant provisions of the Ind AS and Ind AS Schedule III and may make suitable modifications, as applicable.

Division II of the Schedule III provides instructions for preparation of financial statements and additional disclosure requirements for companies required to comply with Ind AS. The following is an overview of the Division II of the Schedule III:

5.1 Applicability

- It is applicable to every company to which Ind AS apply in preparation of its financial statements.
- The provisions of Schedule III also apply when a company is required to prepare consolidated financial statements, in addition to the disclosure requirements specified under Ind AS.
- Financial Statements include Balance Sheet, Statement of Changes in Equity for the period, Statement of Profit and Loss for the period and Notes. Cash Flow Statement shall be prepared in accordance with the requirements of the relevant Ind AS.
- The Ind AS Schedule III requires that if the compliance with the requirements of the Act including Ind AS as applicable to the companies, require any change in presentation or disclosure in the Financial Statements, the requirements of Ind AS Schedule III will stand modified accordingly.

5.2 Balance Sheet

- Schedule III provides a format of the balance sheet and sets out the minimum requirements of disclosure on the face of the balance sheet
- Items presented in the balance sheet are to be classified as current and non-current.
- Schedule III does not permit companies to avail of the option of presenting assets and liabilities in the order of liquidity, as provided by Ind AS 1, Presentation of Financial Statements.

5.3 Statement of Profit and Loss

- Schedule III provides a format of the statement of profit and loss and sets out the minimum requirements of disclosure on the face of the statement of profit and loss.
- The statement of profit and loss is to be presented in accordance with the nature of expenses and would include profit or loss for the period and other comprehensive income for the period.

5.4 Statement of changes in Equity

- This is a new component for preparers of financial statements that have historically prepared financial statements under Indian GAAP.
- The Statement of changes in equity would reconcile opening to closing amounts for each component of equity including reserves and surplus and items of other comprehensive income.
- The format also includes disclosure of the equity component of compound financial instruments in 'other equity', which is in accordance with Ind AS 32, *Financial Instruments: Presentation*.

5.5 Statement of Cash Flows

- The Statement of cash flows would be presented when required in accordance with Ind AS 7, *Statement of Cash Flows*.

5.6 Notes

- Notes containing information in addition to that which is presented in the financial statements would be provided, including, where required, narrative descriptions or disaggregation of items recognised in the financial statements and information about items that do not qualify for such recognition.
- Disclosure under Ind AS (for e.g., fair value measurement reconciliation, fair value hierarchy, risk management and capital management, disclosure of interests in other entities, components of other comprehensive income, reconciliations on first-time adoption of Ind AS, etc.) shall be made in the Notes or by way of additional statement(s) unless required to be disclosed on the face of the Financial Statements.

5.7 Compliance with Ind AS and the Companies Act, 2013

- In situations where compliance with the requirements of the 2013 Act including Ind AS requires any change in treatment or disclosure (including addition, amendment, substitution or deletion in the head/sub-head or any changes in the financial statements or statements forming part thereof) in the formats given in Schedule III, then Schedule III permits such changes to be made and the requirements of Schedule III would stand modified accordingly.

5.8 Conflict of requirements of Ind AS and Schedule III

It further mentions that disclosure requirements specified in Schedule III would be in addition to and not in substitution of the disclosure requirements specified in Ind AS. Companies would be required to make additional disclosures specified in Ind AS either in the notes or by way of additional statement(s) unless required to be disclosed on the face of financial statements. Similarly, all other disclosures as required by the 2013 Act should be made in the notes in addition to the requirements of Schedule III. This is an important provision, as it clarifies that in situations where an accounting treatment or disclosure in an Ind AS is in conflict with the requirements of Schedule III, companies are required to comply with the relevant Ind AS.

5.9 General Instruction

- Where any Act or Regulation requires specific disclosures to be made in the Financial Statements of a company, the said disclosures shall be made in addition to those required under Ind AS Schedule III.
- Note 8 to General Instructions for Preparation of Financial Statements in Ind AS Schedule III states that the terms used in the Ind AS Schedule III will carry the meaning as defined by the applicable Ind AS.

  For example, the terms such as 'associate', 'related parties', etc. will have the same meaning as defined in Ind AS notified under the Companies Ind AS Rules.

- For any terms which are not specifically defined in Ind AS, attention may also be drawn to the Framework for the preparation and presentation of Financial Statements in accordance with Indian Accounting Standards ('Ind AS Framework') issued by ICAI. However, if any term is not defined in the Ind AS Framework, the entity may give consideration to the principles described in Ind AS 8 for the purpose of developing and applying an accounting policy.
- A General Instruction on 'Materiality' has been included in Note 7 to General Instructions for Preparation of Financial Statements requiring Financial Statements to disclose items that could, individually or collectively, influence the economic decisions that users make on the basis of the Financial Statements. Materiality depends on the size or nature of the item or a combination of both, to be judged based on particular facts and in particular circumstances.
- Moreover, Ind AS 1 states w.r.t. 'materiality' that an entity shall present separately each material class of similar items. An entity shall present separately items of a dissimilar nature or function unless they are immaterial except when required by law.

6 GUIDANCE NOTE ON DIVISION II- IND AS SCHEDULE III TO THE COMPANIES ACT 2013

The Institute of Chartered Accountants of India decided to bring out the Guidance Note on Division II- Ind AS Schedule III to the Companies Act 2013. The Guidance Note provides guidance on each of the item of the Balance Sheet, Statement of Profit and Loss, Major differences in Division I and Division II of the Schedule III to the Companies Act, 2013 besides providing Illustrative format for Standalone financial statements and Consolidated Financial Statements etc.

7 LIST OF INDIAN ACCOUNTING STANDARDS

Ind AS	Title of Ind AS
101	First Time Adoption of Indian Accounting Standards
102	Share Based Payment
103	Business Combinations
104	Insurance Contracts
105	Non-current Assets Held for Sale and Discontinued Operations
106	Exploration for and Evaluation of Mineral Resources
107	Financial Instruments: Disclosures
108	Operating Segments
109	Financial Instruments
110	Consolidated Financial Statements
111	Joint Arrangements
112	Disclosure of Interests in Other Entities

113	Fair Value Measurement
114	Regulatory Deferral Accounts
1	Presentation of Financial Statements
2	Inventories
7	Statement of Cash Flows
8	Accounting Policies, Changes in Accounting Estimates and Errors
10	Events after the Reporting Period
11	Construction Contracts
12	Income Taxes
16	Property, Plant and Equipment
17	Leases
18	Revenue
19	Employee Benefits
20	Accounting for Government Grants and Disclosure of Government Assistance
21	The Effects of Changes in Foreign Exchange Rates
23	Borrowing Costs
24	Related Party Disclosures
27	Separate Financial Statements
28	Investment in Associates and Joint Ventures

29	Financial Reporting in Hyperinflationary Economies
32	Financial Instruments: Presentation
33	Earnings per Share
34	Interim Financial Reporting
36	Impairment of Assets
37	Provisions, Contingent Liabilities and Contingent Assets
38	Intangible Assets
40	Investment Property
41	Agriculture

2

IND AS 1 : PRESENTATION OF FINANCIAL STATEMENTS

1 OBJECTIVE

This Standard prescribes the basis for presentation of general purpose financial statements to ensure comparability both with the entity's financial statements of previous periods and with the financial statements of other entities. It sets out

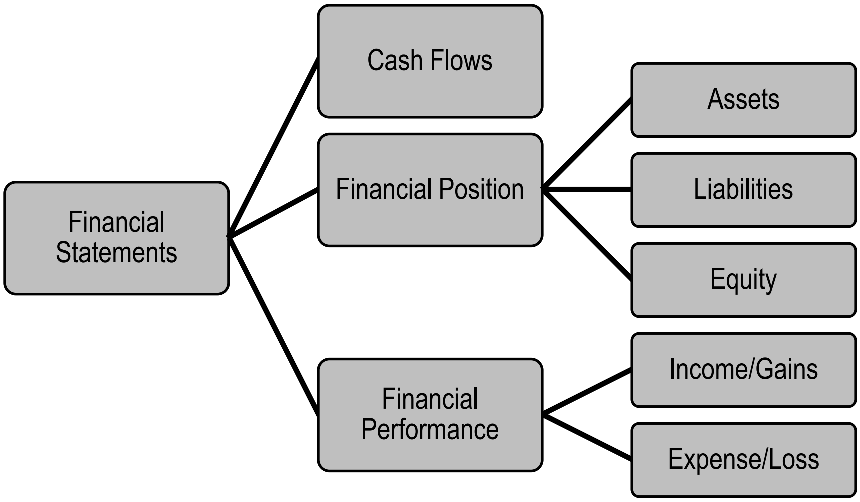
- Overall requirements for the presentation of financial statements,
- Guidelines for their structure and
- Minimum requirements for their content.

2 FINANCIAL STATEMENTS

Purpose of financial statements

Financial statements are a structured representation of the:

- financial position and
- financial performance of an entity.



A complete set of financial statements comprises:

- A balance sheet as at the end of the period
- Statement of changes in equity for the period
- A statement of profit and loss for the period
- A statement of cash flows for the period
- Notes, comprising significant accounting policies and other explanatory information
- Comparative information in respect of the preceeding period
- A balance sheet as at the beginning of the preceeding 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

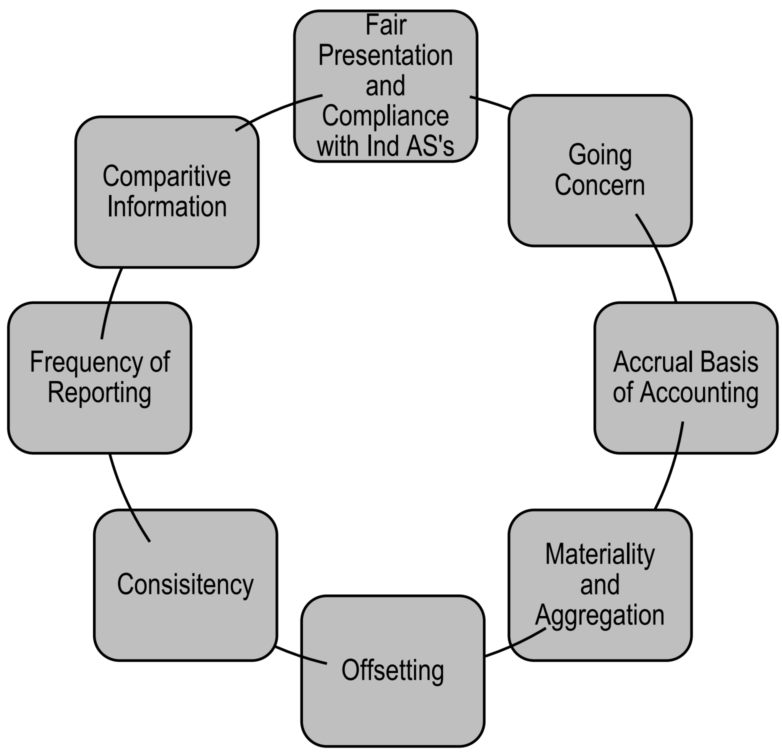
The Standard requires an entity to present, in a statement of changes in equity, all owner changes in equity. All non-owner changes in equity (ie comprehensive income) are required to be presented in single statement of profit and loss, with profit or loss and other comprehensive income presented in two sections. The sections shall be presented together, with the profit or loss section presented first followed directly by the other comprehensive income section.

The Standard requires that an entity whose financial statements comply with Ind AS must make an explicit and unreserved statement of such compliance in the notes. An entity must not describe financial statements as complying with Ind AS unless they comply with all the requirements of Ind AS. The application of Ind AS, with additional disclosure when necessary, is presumed to result in financial statements that achieve a presentation of true and fair view.

3 PRESENTATION OF TRUE AND FAIR VIEW

Presentation of true and fair view requires the faithful representation of

- The effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the Framework.
- The application of Ind AS, with additional disclosure when necessary, is presumed to result in financial statements that present a true and fair view.



Structure and Content: The Standard requires that an entity shall clearly identify the financial statements and distinguish them from other information in the same published document. The Standard requires some line items to be presented in the balance sheet. An entity shall present additional line items, headings and sub-totals in the balance sheet when such presentation is relevant to an understanding of the entity's financial position. It also prescribes the information to be presented in statement of profit and loss, other comprehensive income section and statement of changes in equity. However, this Standard does not apply to the structure and content of condensed interim financial statements prepared in accordance with Ind AS 34 *'Interim Financial Reporting'*. However, this Standard does not apply to the structure and content of condensed interim financial statements prepared in accordance with Ind AS 34 *'Interim Financial Reporting'*.

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

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

The other comprehensive income section shall present line items for amounts for the period of:

(a) items of other comprehensive income (excluding amounts in paragraph (b)), classified by nature and grouped into those that, in accordance with other Ind AS:

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

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

(b) the share of the other comprehensive income of associates and joint ventures accounted for using the equity method, separated into the share of items that in accordance with other Ind AS:

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

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

Current/non-current distinction: The Standard requires that an entity shall present current and non-current assets, and current and non-current liabilities, as separate classifications in its balance sheet except when a presentation based on liquidity provides information that is reliable and more relevant. When that exception applies, an entity shall present all assets and liabilities in order of liquidity.

The Standard also requires that whichever method of presentation is adopted, an entity shall disclose the amount expected to be recovered or settled after more than twelve months for each asset and liability line item that combines amounts expected to be recovered or settled:

(a) no more than twelve months after the reporting period, and

(b) more than twelve months after the reporting period.

4 OTHER ISSUES

The Standard also deals with certain issues like

(a) Going Concern

- When preparing financial statements, management shall make an assessment of an entity's ability to continue as a going concern.
- An entity shall prepare financial statements on a going concern basis unless management either intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so.
- When management is aware, in making its assessment, of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern, the entity shall disclose those uncertainties.
- When an entity does not prepare financial statements on a going concern basis, it shall disclose that fact, together with the basis on which it prepared the financial statements and the reason why the entity is not regarded as a going concern.

(b) Accrual Basis of Accounting

- An entity shall prepare its financial statements, except for cash flow information, using the accrual basis of accounting.
- When the accrual basis of accounting is used, an entity recognises items as assets, liabilities, equity, income and expenses (the elements of financial statements) when they satisfy the definitions and recognition criteria for those elements in the Framework.

(c) Materiality and Aggregation

- An entity shall present separately each material class of similar items.
- An entity shall present separately items of a dissimilar nature or function unless they are immaterial except when required by law.

- An entity shall not reduce the understanding ability of financial statements by obscuring material information or by aggregating material items that have different natures or functions.
- An entity shall consider whether to provide additional disclosures when compliance with the specific requirements in Ind AS is insufficient to enable users of financial statements to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

(d) Offsetting

- An entity shall not offset assets and liabilities or income and expenses, unless required or permitted by an Ind AS.
- An entity reports separately both assets and liabilities, and income and expenses. Offsetting in the statements of profit and loss or balance sheet, except when offsetting reflects the substance of the transaction or other event, detracts from the ability of users both to understand the transactions, other events and conditions that have occurred and to assess the entity's future cash flows. Measuring assets net of valuation allowances—for example, obsolescence allowances on inventories and doubtful debts allowances on receivables—is not offsetting.

(e) Frequency of Reporting

An entity shall present a complete set of financial statements (including comparative information) at least annually. When an entity changes the end of its reporting period and presents financial statements for a period longer or shorter than one year, an entity shall disclose, in addition to the period covered by the financial statements:

1. the reason for using a longer or shorter period, and
2. the fact that amounts presented in the financial statements are not entirely comparable.

(f) Comparative Information

Except when Ind AS permit or require otherwise, an entity shall present comparative information in respect of the preceding period for all amounts reported in the current period's financial statements. An entity shall include comparative information for narrative and descriptive information if it is relevant to understanding the current period's financial statements.

An entity shall present, as a minimum:

- 2 Balance Sheets
- 2 Statement of Profit and Loss

- 2 Statement of Cash Flows
- 2 Statement of Changes in Equity and
- Related Notes

In some cases, narrative information provided in the financial statements for the preceding period(s) continues to be relevant for the current period.

(g) Change in Accounting Policy, Retrospective Restatement or Reclassification

An entity shall present a Third Balance Sheet as at the beginning of the preceding period in addition to the minimum comparative financial statements if:

(a) It applies an accounting policy retrospectively, makes a retrospective restatement of items in its financial statements or reclassifies items in its financial statements; and

(b) 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.

In the above circumstances, an entity shall present 3 Balance sheets as at:

(a) The end of the current period;

(b) The end of the preceding period;

(c) The beginning of the preceding period.

When an entity is required to present an additional Balance sheet, it need not present the related notes to the opening Balance Sheet as at the beginning of the preceding period.

If an entity changes the presentation or classification of items in its financial statements, it shall reclassify comparative amounts unless reclassification is impracticable.

When an entity reclassifies comparative amounts, it shall disclose (including as at the beginning of the preceding period):

(a) the nature of the reclassification;

(b) the amount of each item or class of items that is reclassified; and

(c) the reason for the reclassification.

When it is impracticable to reclassify comparative amounts, an entity shall disclose:

(a) the reason for not reclassifying the amounts, and

(b) the nature of the adjustments that would have been made if the amounts had been reclassified.

(h) Consistency of Presentation

An entity shall retain the presentation and classification of items in the financial statements from one period to the next.

5 DISCLOSURES

The Standard, among other things, requires that:

(a) An entity shall disclose, alongwith its significant accounting policies or other notes, the judgements, apart from those involving estimations, that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

(b) An entity shall disclose information about the assumptions it makes about the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

(c) An entity shall disclose information that enables users of its financial statements to evaluate the entity's objectives, policies and processes for managing capital. An entity shall also provide additional disclosures on puttable financial instruments classified as equity instruments.

6 MAJOR CHANGES IN IND AS 1 VIS-À-VIS IAS* 1

6.1 Resulting in Carve outs

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

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

Carve Out: Ind AS 1 clarifies that where there is a breach of a material provision of a long-term loan arrangement on or before the end of the reporting period with the effect that the liability becomes payable on demand on the reporting date, the entity does not classify the liability as current, if the

* The term 'IFRS' includes not only the International Financial Reporting Standards (IFRSs) issued by the IASB, it also includes the International Accounting Standards (IASs), IFRICs and SICs.

lender agreed, after the reporting period and before the approval of the financial statements for issue, not to demand payment as a consequence of the breach.

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

6.2 Not Resulting in Carve outs

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

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

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

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

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

5. ***Materiality:*** Paragraphs 29 of IAS 1 requires that items of dissimilar nature or function shall be presented separately unless these are immaterial and paragraph 31 provides that specific disclosure required by IFRS need not be provided if the information is not material. In Ind AS 1, such paragraphs have been modified to include words ‘except when required by law’.

6. ***Disclosures regarding Reconciliation:*** Paragraph 106(d)(iv) of Ind AS 1 dealing with disclosures regarding reconciliation between the carrying amount at the beginning and the end of the period for each component of equity, has been amended to include disclosure regarding recognition of bargain purchase gain arising on business combination in line with treatment prescribed in this regard in Ind AS 103.

7 MAJOR CHANGES IN IND AS 1 VIS-A-VIS AS 1

Ind AS 1 deals with presentation of financial statements, whereas AS 1 deals only with the disclosure of accounting policies. The scope of Ind AS 1 is thus much wider and line by line comparison of the differences with the existing standard is not possible. However, the major requirements as laid down in Ind AS 1 are as follows:

(i) ***Explicit Statement of Compliance:*** An enterprise shall make an explicit statement in the financial statements of compliance with all the Indian Accounting Standards. Further, Ind AS 1 allows deviation from a requirement of an accounting standard in case the management concludes that compliance with Ind AS will be misleading and if the regulatory framework requires or does not prohibit such a departure.

(ii) ***Current and Non-current Classification:*** Ind AS 1 requires presentation and provides criteria for classification of Current / Non- Current assets / liabilities.

(iii) ***Extraordinary Items:*** Ind AS 1 prohibits presentation of any item as 'Extraordinary Item' in the statement of profit and loss or in the notes.

(iv) ***Disclosure of Judgements and Assumptions made:*** Ind AS 1 requires disclosure of judgments made by management while framing of accounting policies. Also, it requires disclosure of key assumptions about the future and other sources of measurement of uncertainty that have significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within next financial year.

(v) ***Classification of Expenses:*** Ind AS 1 requires classification of expenses to be presented based on nature of expenses.

(vi) ***Comparative Balance Sheets:*** Ind AS 1 requires presentation of balance sheet as at the beginning of the earliest period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in the financial statements, or when it reclassifies items in its financial statements.

(vii) ***Disclosure of Reclassified Items:*** In respect of reclassification of items, Ind AS 1 requires disclosure of nature, amount and reason for reclassification in the notes to financial statements.

(viii) ***Statement of Changes in Equity:*** Ind AS 1 requires the financial statements to include a Statement of Changes in Equity to be shown as a separate statement, which, inter alia, includes reconciliation between opening and closing balance for each component of equity.

(ix) ***Statement of Other Comprehensive Income:*** Ind AS 1 requires that 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.

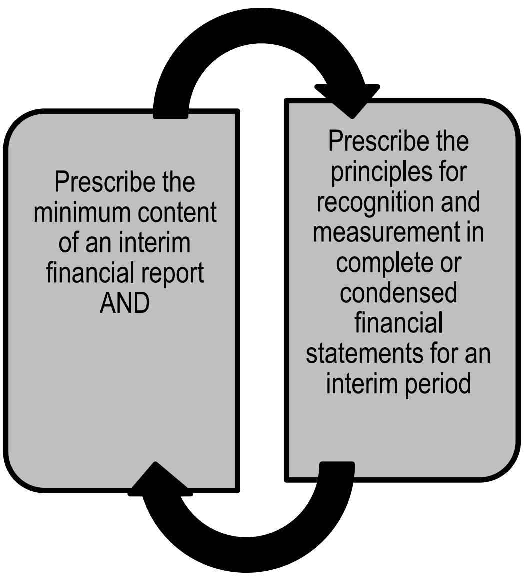
(x) ***Inclusion of Comparative Information:*** As per Ind AS 1, an entity shall include certain comparative information for understanding the current period's financial statements.

(xi) ***Classification of Long-term Loan Arrangement:*** Ind AS 1 clarifies that long term loan arrangement need not be classified as current on account of breach of a material provision, for which the lender has agreed to waive before the approval of financial statements for issue. (Paragraph 74)

3

IND AS 34 : INTERIM FINANCIAL REPORTING

1 OBJECTIVE



Timely and reliable interim financial reporting improves the ability of investors, creditors, and others to understand an entity's capacity to generate earnings and cash flows and its financial condition and liquidity.

2 SCOPE

This Standard does not mandate which entities should be required to publish interim financial reports, how frequently, or how soon after the end of an interim period. However, governments, securities regulators, stock exchanges, and accountancy bodies often require entities whose debt or equity securities are publicly traded to publish interim financial reports.

This Standard applies if an entity is required or elects to publish an interim financial report in accordance with Indian Accounting Standards.

3 INTERIM FINANCIAL REPORT

Interim financial report means a financial report containing either a complete set of financial statements (as described in Ind AS 1, *'Presentation of Financial Statements'*), or a set of condensed financial statements (as described in this Standard) for an interim period.

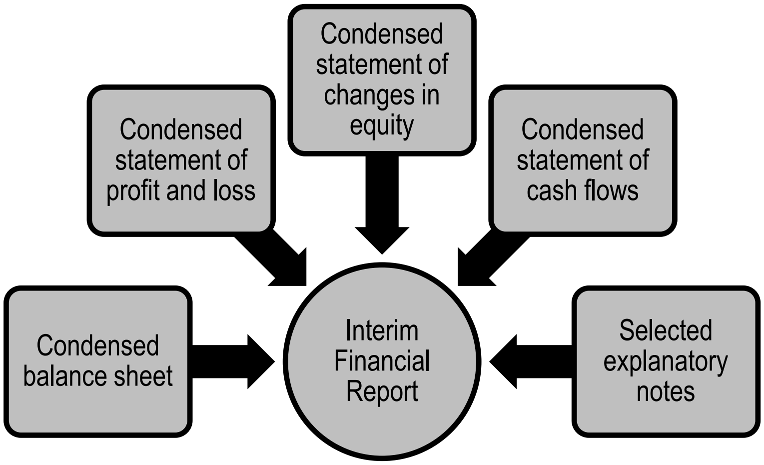
Interim period is a financial reporting period shorter than a full financial year.

4 MINIMUM COMPONENTS OF AN INTERIM FINANCIAL REPORT

In the interest of timeliness and cost considerations and to avoid repetition of information previously reported, an entity may be required to or may elect to provide less information at interim dates as compared with its annual financial statements. This Standard defines the minimum content of an interim financial report as including condensed financial statements and selected explanatory notes. The interim financial report is intended to provide an update on the latest complete set of annual financial statements. Accordingly, it focuses on new activities, events, and circumstances and does not duplicate information previously reported.

Nothing in this Standard is intended to prohibit or discourage an entity from publishing a complete set of financial statements (as described in Ind AS 1) in its interim financial report, rather than condensed financial statements and selected explanatory notes. If an entity publishes a complete set of financial statements in its interim financial report, the form and content of those statements shall conform to the requirements of Ind AS 1 for a complete set of financial statements.

An interim financial report shall include, at a minimum, the following components:

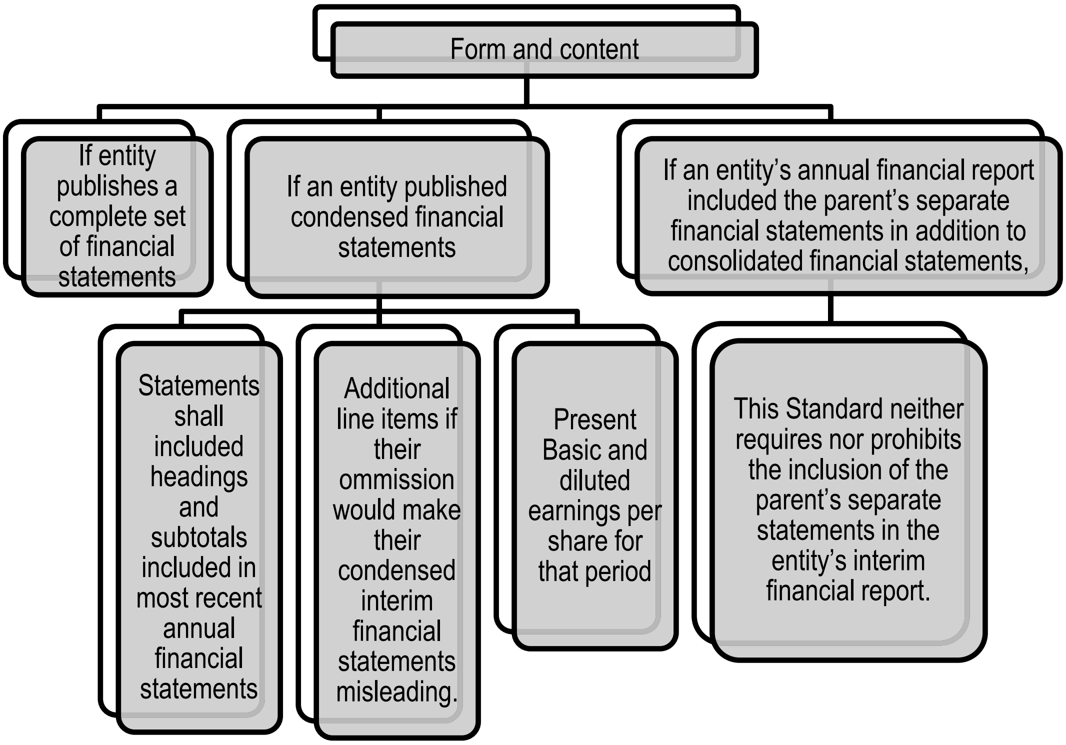


Form and Content of Interim Financial Statements

Situation I: if an entity publishes a complete set of financial statements in its interim financial report, the form and content of those statements shall conform to the requirements of Ind AS 1 for a complete set of financial statements.

Situation II: If an entity publishes a set of condensed financial statements in its interim financial report, those condensed statements shall include, at a minimum:

- Each of the headings and subtotals that were included in its most recent annual financial statements
- The selected explanatory notes as required by this Standard
- Additional line items or notes shall be included if their omission would make the condensed interim financial statements misleading
- In the statement that presents the components of profit or loss for an interim period, an entity shall present basic and diluted earnings per share for that period when the entity is within the scope of Ind AS 33, *'Earnings per Share'*.



5 SIGNIFICANT EVENTS AND TRANSACTIONS

The following is a list of events and transactions for which disclosures would be required if they are significant (the list is not exhaustive):

(a) the write-down of inventories to net realisable value and the reversal of such a write-down;

(b) recognition of a loss from the impairment of financial assets, property, plant and equipment, intangible assets, or other assets, and the reversal of such an impairment loss;

In addition to disclosing significant events and transactions in accordance with paragraphs 15–15C, an entity shall include the following information, in the notes to its interim financial statements or elsewhere in the interim financial report. The following disclosures shall be given either in the interim financial statements or incorporated by cross-reference from the interim financial statements to some other statement (such as management commentary or risk report) that is available to users of the financial statements on the same terms as the interim financial statements and at the same time. If users of the financial statements do not have access to the information incorporated by cross-reference on the same terms and at the same time, the interim financial report is incomplete. The information shall normally be reported on a financial year-to-date basis.

(c) the reversal of any provisions for the costs of restructuring;

(d) acquisitions and disposals of items of property, plant and equipment;

(e) commitments for the purchase of property, plant and equipment;

(f) litigation settlements;

(g) corrections of prior period errors;

(h) changes in the business or economic circumstances that affect the fair value of the entity's financial assets and financial liabilities, whether those assets or liabilities are recognised at fair value or amortised cost;

(i) any loan default or breach of a loan agreement that has not been remedied on or before the end of the reporting period;

(j) related party transactions;

(k) transfers between levels of the fair value hierarchy used in measuring the fair value of financial instruments;

(l) changes in the classification of financial assets as a result of a change in the purpose or use of those assets; and

(m) changes in contingent liabilities or contingent assets.

6 INTERIM REPORTING PERIODS

Interim reports shall include interim financial statements (condensed or complete) for periods as follows:

(a) 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.

(b) 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.

(c) 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.

(d) 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.

(e) For an entity whose business is highly seasonal, financial information for the twelve months up to the end of the interim period and comparative information for the prior twelve-month period may be useful.

7 RECOGNITION AND MEASUREMENT

In deciding how to recognise, measure, classify, or disclose an item for interim financial reporting purposes, materiality shall be assessed in relation to the interim period financial data. In making assessments of materiality, it shall be recognised that interim measurements may rely on estimates to a greater extent than measurements of annual financial data.

The measurement procedures to be followed in an interim financial report shall be designed to ensure that the resulting information is reliable and that all material financial information that is relevant to an understanding of the financial position or performance of the entity is appropriately disclosed. While measurements in both annual and interim financial reports are often based on reasonable estimates, the preparation of interim financial reports generally will require a greater use of estimation methods than annual financial reports.

7.1 Same Accounting Policies as Annual

An entity shall apply the same accounting policies in its interim financial statements as are applied in its annual financial statements, except for accounting policy changes made after the date of the most recent annual financial statements that are to be reflected in the next annual financial statements. However, the frequency of an entity's reporting (annual, half-yearly, or quarterly) shall not affect the measurement of its annual results. To achieve that objective, measurements for interim reporting purposes shall be made on a year-to-date basis.

7.2 Revenues received Seasonally, Cyclically, or Occasionally

Revenues that are received seasonally, cyclically, or occasionally within a financial year shall not be anticipated or deferred as of an interim date if anticipation or deferral would not be appropriate at the end of the entity's financial year.

7.3 Costs incurred unevenly during the financial year

Costs that are incurred unevenly during an entity's financial year shall be anticipated or deferred for interim reporting purposes if, and only if, it is also appropriate to anticipate or defer that type of cost at the end of the financial year.

7.4 Use of Estimates

The measurement procedures to be followed in an interim financial report shall be designed to ensure that the resulting information is reliable and that all material financial information that is relevant to an understanding of the financial position or performance of the entity is appropriately disclosed. While measurements in both annual and interim financial reports are often based on reasonable estimates, the preparation of interim financial reports generally will require a greater use of estimation methods than annual financial reports.

8 RESTATEMENT OF PREVIOUSLY REPORTED INTERIM PERIODS

A change in accounting policy, other than one for which the transition is specified by a new Ind AS, shall be reflected by:

(a) restating the financial statements of prior interim periods of the current financial year and the comparable interim periods of any prior financial years that will be restated in the annual financial statements in accordance with Ind AS 8; or

(b) when it is impracticable to determine the cumulative effect at the beginning of the financial year of applying a new accounting policy to all prior periods, adjusting the financial statements of prior interim periods of the current financial year, and comparable interim periods of prior financial years to apply the new accounting policy prospectively from the earliest date practicable.

There is an issue that whether an entity reverse impairment losses recognised in an interim period on goodwill if a loss would not have been recognised, or a smaller loss would have been recognised, had an impairment assessment been made only at the end of a subsequent reporting period. Appendix A of Ind AS 34 prescribes that an entity shall not reverse an impairment loss recognised in a previous interim period in respect of goodwill. Further this Appendix also prescribes that an entity shall not extend this accounting principle by analogy to other areas of potential conflict between Ind AS 34 and other Indian Accounting Standards.

9 MAJOR CHANGES IN IND AS 34 VIS-À-VIS IAS* 34 NOT RESULTING IN CARVE OUTS

(i) ***Addition of a footnote regarding Unaudited Financial Results:*** A footnote has been added to paragraph 1 of Ind AS 34, *'Interim Financial Reporting'* that Unaudited Financial Results required to be prepared and presented under Clause 41 of Listing Agreement with stock exchanges is not an 'Interim Financial Report' as defined in paragraph 4 of this Standard.

(ii) ***Single Statement Approach:*** IAS 34 provides option either to follow single statement approach or to follow two statement approaches. Ind AS 34 allows only single statement approach on the lines of Ind AS 1, *'Presentation of Financial Statements',* which also allows only single statement approach.

10 MAJOR DIFFERENCES BETWEEN IND AS 34 VIS A VIS AS 25

(i) ***Scope:*** Under AS 25, if an entity is required or elects to prepare and present an interim financial report, it should comply with that standard. Ind AS 34 applies only if an entity is required or elects to prepare and present an interim financial report in accordance with Accounting Standards. Consequently, it is specifically stated in Ind AS 34 that the fact that an entity may not have provided interim financial reports during a particular financial year or may have provided interim financial reports that do not comply with Ind AS 34 does not prevent the entity's annual financial statements from conforming to Ind AS if they otherwise do so.

(ii) ***Complete set of Financial Statements:*** In Ind AS 34, the term 'complete set of financial statements' appearing in the definition of interim financial report has been expanded as compared to AS 25. Accordingly, the said term (as described in Ind AS 1, '*Presentation of Financial Statements'*) includes 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 and comparative information in respect of the preceding period as specified in paragraphs 38 and 38A of Ind AS 1.

(iii) ***Contents of Interim Report:*** As per AS 25, the contents of an interim financial report include, at a minimum, a condensed balance sheet, a condensed statement of profit and loss, a

---

* The term 'IFRS' includes not only the International Financial Reporting Standards (IFRSs) issued by the IASB, it also includes the International Accounting Standards (IASs), IFRICs and SICs.

condensed cash flow statement and selected explanatory notes. Ind AS 34 requires, in addition to the above, a condensed statement of changes in equity.

(iv) ***Reversal of Impairment Loss:*** Ind AS 34 prohibits reversal of impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost. There is no such specific prohibition in AS 25. Ind AS 34 includes Appendix A which addresses the interaction between the requirements of Ind AS 34 and the recognition of impairment losses on goodwill in Ind AS 36 and certain financial assets in Ind AS 109, and the effect of that interaction on subsequent interim and annual financial statements.

(v) ***Inclusion of the Parent's Separate Statements and The Consolidated Financial Statements in the Entity's Interim Report:*** Under AS 25, if an entity's annual financial report included the consolidated financial statements in addition to the separate financial statements, the interim financial report should include both the consolidated financial statements and separate financial statements, complete or condensed. Ind AS 34 states that it neither requires nor prohibits the inclusion of the parent's separate statements in the entity's interim report prepared on a consolidated basis.

(vi) ***Accounting Policies:*** AS 25 requires the Notes to interim financial statements, (if material and not disclosed elsewhere in the interim financial report), to contain a statement that the same accounting policies are followed in the interim financial statements as those followed in the most recent annual financial statements or, in case of change in those policies, a description of the nature and effect of the change. Ind AS 34 additionally requires the above information in respect of methods of computation followed.

(vii) ***Dividends:*** AS 25 requires furnishing information, in interim financial report, of dividends, aggregate or per share (in absolute or percentage terms), for equity and other shares. Ind AS 34 requires furnishing of information, in interim financial report, on dividends paid, aggregate or per share separately for equity and other shares.

(viii) ***Contingent Liabilities and Contingent Assets:*** While AS 25 requires furnishing of information on contingent liabilities only, Ind AS 34 requires furnishing of information on both contingent liabilities and contingent assets, if they are significant.

(ix) ***Extraordinary Items:*** In comparison to AS 25, reference to extraordinary items (in the context of materiality) is deleted in Ind AS 34 in line with the Ind AS 1.

(x) ***Interim Financial Statements prepared on Complete Basis:*** Ind AS 34 requires that, where an interim financial report has been prepared in accordance with the requirements of Ind AS 34, that fact should be disclosed. Further, an interim financial report should not be described as complying with Ind AS unless it complies with all of the requirements of Ind AS.

(The latter statement is applicable when interim financial statements are prepared on complete basis instead of 'condensed basis'). AS 25 does not contain these requirements.

(xi) Change in Accounting Policy: Under AS 25, a change in accounting policy, other than the one for which the transitional provisions are specified by a new Standard, should be reflected by restating the financial statements of prior interim periods of the current financial year. Ind AS 34 additionally requires restatement of the comparable interim periods of prior financial years that will be restated in annual financial statements in accordance with Ind AS 8, subject to specific provisions when such restatement is impracticable.

(xii) Impact of Convergence: Convergence of all other standards with IFRS also has impact on interim financial reporting. For example, treatment of constructive obligation in Ind AS 37, etc. will have impact in interim financial reporting which could be different in the context of relevant existing standards. There are other consequential impacts also. For example, AS 20 requires EPS with and without extraordinary items. Since the concept of extraordinary items is no longer valid in the context of Ind AS 1 the question of EPS with and without extraordinary items does not arise in the context of Ind AS 33. This changed requirement of Ind AS 33 is equally applicable to interim financial reporting under Ind AS 34.

(xiii) Transitional Provision: Under AS 25, when an interim financial report is presented for the first time in accordance with that Standard, an entity need not present, in respect of all the interim periods of the current financial year, comparative statements of profit and loss for the comparable interim periods (current and year-to-date) of the immediately preceding financial year and comparative cash flow statement for the comparable year-to-date period of the immediately preceding financial year. Ind AS 34 does not have this transitional provision.

4

IND AS 8 : ACCOUNTING POLICIES, CHANGES IN ACCOUNTING ESTIMATES AND ERRORS

1 OBJECTIVE

The objective of this Standard is to prescribe:

- The criteria for selecting and changing accounting policies,
- The accounting treatment of changes in accounting policies, changes in accounting estimates and corrections of errors and
- Disclosure of changes in accounting policies, changes in accounting estimates and corrections of errors.

The Standard is intended to enhance the relevance and reliability of an entity's financial statements, and the comparability of those financial statements over time and with the financial statements of other entities.

Note: Disclosure requirements for accounting policies, except those for changes in accounting policies, are set out in Ind AS 1 Presentation of Financial Statements.

Note: The tax effects of corrections of prior period errors and of retrospective adjustments made to apply changes in accounting policies are accounted for and disclosed in accordance with Ind AS 12 '*Income Taxes'*.

2 ACCOUNTING POLICIES

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

This Standard provides guidance in selection and application of the accounting policies. A two-step approach is advocated.

Step 1 requires that when an Ind AS specifically applies to a transaction, other event or condition, the accounting policy or policies applied to that item shall be determined by applying the Ind AS.

Step 2 provides that in the absence of an Ind AS that specifically applies to a transaction, other event or condition, management shall use its judgment in developing and applying an accounting policy. This judgment should result in information that is:

- relevant to the economic decision-making needs of users; and
- reliable, so that the financial statements:
  - o represent faithfully the financial position, financial performance and cash flows of the entity;
  - o reflect the economic substance of transactions, other events and conditions, and not merely the legal form;
  - o are neutral, i.e. free from bias;
  - o are prudent; and
  - o are complete in all material respects.

Users of financial statements need to be able to compare the financial statements of an entity over time to identify trends in its financial position, financial performance and cash flows. Therefore, the same accounting policies are applied within each period and from one period to the next unless a change in accounting policy meets one of the criteria mentioned above.

An entity shall select and apply the accounting policies consistently for similar transactions, other events and conditions, unless an Ind AS specifically requires or permits categorisation of items for which different policies may be appropriate. If an Ind AS requires or permits such categorisation, an appropriate accounting policy shall be selected and applied consistently to each category.

3 CHANGES IN ACCOUNTING POLICIES

An entity shall change an accounting policy only if the change:

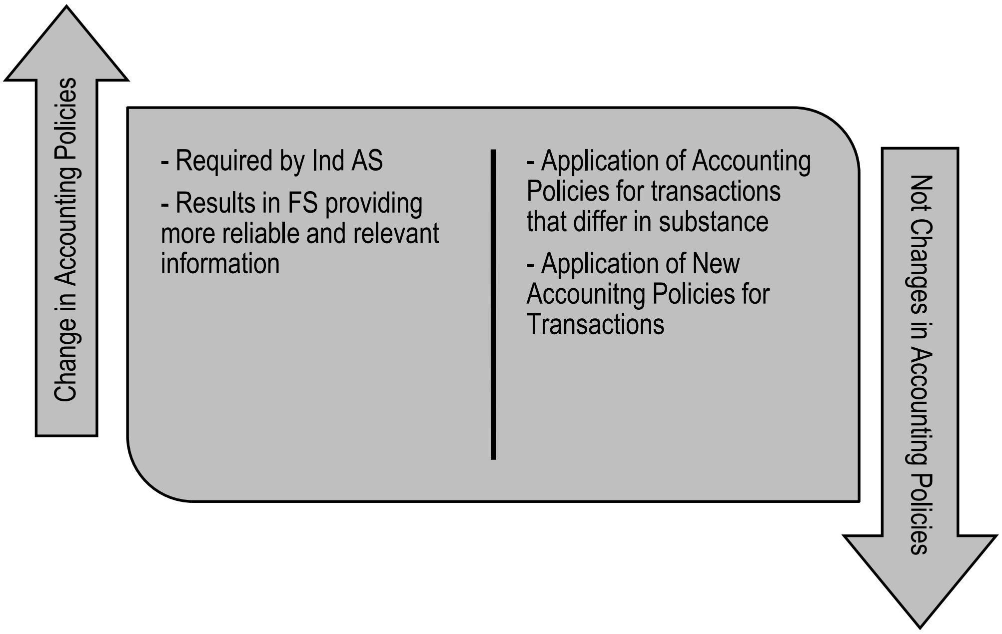
(a) is required by an Ind AS; or

(b) results in the financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the entity's financial position, financial performance or cash flows.

The following are <u>not changes</u> in accounting policies:

(a) the application of an accounting policy for transactions, other events or conditions that differ in substance from those previously occurring; and

(b) the application of a new accounting policy for transactions, other events or conditions that did not occur previously or were immaterial.



When it is impracticable for an entity to apply a new accounting policy retrospectively, because it cannot determine the cumulative effect of applying the policy to all prior periods, the entity will apply the new policy prospectively from the start of the earliest period practicable. It therefore disregards the portion of the cumulative adjustment to assets, liabilities and equity arising before that date. Changing an accounting policy is permitted even if it is impracticable to apply the policy prospectively for any prior period.

4 ACCOUNTING ESTIMATES

As a result of the uncertainties inherent in business activities, many items in financial statements cannot be measured with precision but can only be estimated. Estimation involves judgements based on the latest available, reliable information.

For example, estimates may be required of:

(a) bad debts;

(b) inventory obsolescence;

(c) the fair value of financial assets or financial liabilities;

(d) the useful lives of, or expected pattern of consumption of the future economic benefits embodied in, depreciable assets; and

(e) warranty obligations.

Note: The use of reasonable estimates is an essential part of the preparation of financial statements and does not undermine their reliability.

5 CHANGES IN ACCOUNTING ESTIMATES

An estimate may need revision if changes occur in the circumstances on which the estimate was based or as a result of new information or more experience.

By its nature, the revision of an estimate does not relate to prior periods and is not the correction of an error.

A change in accounting estimate is an:

- Adjustment of the carrying amount of an asset or a liability, or
- The amount of the periodic consumption of an asset,

That results from the assessment of the present status of, and expected future benefits and obligations associated with, assets and liabilities.

Changes in accounting estimates result from new information or new developments and, accordingly, are not corrections of errors.

A change in the measurement basis applied is a change in an accounting policy, and is not a change in an accounting estimate. When it is difficult to distinguish a change in an accounting policy from a change in an accounting estimate, the change is treated as a change in an accounting estimate.

The effect of change in an accounting estimate shall be recognised prospectively by including it in profit or loss in:

(a) the period of the change, if the change affects that period only; or

(b) the period of the change and future periods, if the change affects both.

Example: A provision for Depreciation is initially recognised by reflecting this as a charge to Profit and Loss. A change in such an estimate that would occur in a subsequent period, would also be taken to Profit and Loss. The debit in P&L corresponds to the credit in Accumulated Provision for Depreciation.

To the extent that a change in an accounting estimate gives rise to changes in assets and liabilities, or relates to an item of equity, it shall be recognised by adjusting the carrying amount of the related asset, liability or equity item in the period of the change.

Example: An estimate of a decommissioning liability or a liability for restoration of a site after removal of plant and machinery, the estimated amount of which would be initially recognised by increasing the carrying amount of related asset account and creating a liability account. Such estimates may undergo a change at a later date. Ind AS takes cognizance of these situations and provides that to the extent that where a change in accounting estimate affects assets and liabilities, or an item of equity, the change shall be recognised by adjusting the carrying amount of the related asset, liability or equity item in the period of the change.

6 PRIOR PERIOD ERRORS

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

(a) was available when financial statements for those periods were approved for issue; and

(b) could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

Such errors include the effects of:

- mathematical mistakes,
- mistakes in applying accounting policies,
- oversights or
- misinterpretations of facts, and
- fraud.

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

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

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

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

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

7 MAJOR CHANGE IN INDIAN ACCOUNTING STANDARD (IND AS) 8 VIS-À-VIS IAS* 8 NOT RESULTING IN CARVE OUT

Guidance to the Standard: Paragraph 9 of IAS 8 provides that IFRS are accompanied by guidance to assist entities in applying their requirements. Guidance that is an integral part of IFRS is mandatory. Guidance that is not an integral part of IFRS does not contain requirements for financial statements. In Ind AS 8, paragraph 9 has been modified by not including the text given in the context of the guidance forming non-integral part of the Ind AS as such guidance has not been given in the Ind AS.

8 MAJOR CHANGES IN IND AS 8 VIS-À-VIS AS 5

(i) ***Objective***: Objective of AS 5 is to prescribe the classification and disclosure of certain items in the statement of profit and loss for uniform preparation and presentation of financial statements. Objective of Ind AS 8 is to prescribe the criteria for selecting and changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates and corrections of errors. Ind AS 8 intends to enhance the relevance and reliability of an entity's financial statements and the comparability of those financial statements over time and with the financial statements of other entities.

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

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

* The term 'IFRS' includes not only the International Financial Reporting Standards (IFRSs) issued by the IASB, it also includes the International Accounting Standards (IASs), IFRICs and SICs.

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

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

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

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

(viii) ***Rectification of Material Prior Period Errors:*** Ind AS 8 requires rectification of material prior period errors with retrospective effect subject to limited exceptions viz., where it is impracticable to determine the period specific effects or the cumulative effect of applying a new accounting policy. On the other hand, AS 5 requires the rectification of prior period items with prospective effect.

(ix) ***Disclosure Requirements*****:** Disclosure requirements given in Ind AS 8 are more detailed as compared to the disclosure requirements given in AS 5.

5

IND AS 24 : RELATED PARTY DISCLOSURES

1 OBJECTIVE

The objective of this Standard is to ensure that an entity's financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and profit or loss may have been affected by the existence of related parties and by transactions and outstanding balances, including commitments, with such parties.

2 SCOPE

This Standard 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 are required
- Determining the disclosures to be made about those items

This Standard requires disclosure of:

- related party relationships,
- transactions and
- outstanding balances, including commitments,

In the consolidated and separate financial statements of:

- a parent,
- or investors with joint control of, or significant influence over, an investee

Presented in accordance with Indian Accounting Standard (Ind AS) 110 or 27 'Consolidated' and 'Separate Financial Statements'. This Standard also applies to individual financial statements.

This Standard shall **not** be applied:

- in circumstances where providing such disclosures would conflict with the reporting entity's duties of confidentiality as specifically required in terms of a statute or by any regulator or similar competent authority.
- In case a statute or a regulator or a similar competent authority governing an entity prohibits the entity to disclose certain information which is required to be disclosed as per this Standard, disclosure of such information is not warranted. For example, banks are obliged by law to maintain confidentiality in respect of their customers' transactions and this Standard would not override the obligation to preserve the confidentiality of customers' dealings.

3 DEFINITION OF RELATED PARTY AND RELATED PARTY TRANSACTIONS

3.1 A related party

A related party is a person or entity that is related to the entity that is preparing its financial statements (in this Standard referred to as the 'reporting entity').

(a) A person or a close member of that person's family is related to a reporting entity if that person:

   (i) has control or joint control of the reporting entity;

   (ii) has significant influence over the reporting entity; or

   (iii) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.

Where,

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity including:

(a) that person's children, spouse or domestic partner, brother, sister, father and mother;

(b) children of that person's spouse or domestic partner; and

(c) dependants of that person or that person's spouse or domestic partner.

The terms **'Control'** and **'Investment entity'**, **'Joint Control'** and **'Significant Influence'** are defined in Ind AS 110, Ind AS 111 and Ind AS 28 respectively and are used in this standard with the meanings specified in those Ind AS's.

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity.

(b) An entity is related to a reporting entity if any of the following conditions applies:

(i) The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the reporting entity or to the parent of the reporting entity.

The following are not related parties:

(a) two entities simply because they have a director or other member of key management personnel in common or because a member of key management personnel of one entity has significant influence over the other entity.

(b) Two joint venturers simply because they share joint control of a joint venture.

(c) (i) providers of finance,

(ii) trade unions,

(iii) public utilities, and

(iv) departments and agencies of a **government** that does not control, jointly control or significantly influence the reporting entity, simply by virtue of their normal dealings with an entity (even though they may affect the freedom of action of an entity or participate in its decision-making process).

(c) a customer, supplier, franchisor, distributor or general agent with whom an entity transacts a significant volume of business, simply by virtue of the resulting economic dependence.

3.2 A related party transaction

A related party transaction is a transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged.

4 DISCLOSURES

Relationships between a parent and its subsidiaries shall be disclosed irrespective of whether there have been transactions between them. An entity shall disclose the name of its parent and, if different, the ultimate controlling party. If neither the entity's parent nor the ultimate controlling party produces consolidated financial statements available for public use, the name of the next most senior parent that does so shall also be disclosed.

An entity shall disclose key management personnel compensation in total and for each of the following categories:

(a) short-term employee benefits;

(b) post-employment benefits;

(c) other long-term benefits;

(d) termination benefits; and

(e) share-based payment.

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

(a) the amount of the transactions;

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

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

   (ii) details of any guarantees given or received;

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

(d) the expense recognised during the period in respect of bad or doubtful debts due from related parties. (paragraph 18 of the Standard)

The Standard requires that the disclosures, as per paragraph 18 of the Standard, shall be made separately for each of the following categories:

(a) the parent;

(b) entities with joint control of, or significant influence over, the entity;

(c) subsidiaries;

(d) associates;

(e) joint ventures in which the entity is a joint venturer;

(f) key management personnel of the entity or its parent; and

(g) other related parties.

Items of a similar nature may be disclosed in aggregate except when separate disclosure is necessary for an understanding of the effects of related party transactions on the financial statements of the entity.

Disclosure of details of particular transactions with individual related parties would frequently be too voluminous to be easily understood. Accordingly, items of a similar nature may be disclosed in aggregate by type of related party. However, this is not done in such a way as to obscure the importance of significant transactions. Hence, purchases or sales of goods are not aggregated with purchases or sales of fixed assets. Nor a material related party transaction with an individual party is clubbed in an aggregated disclosure.

A reporting entity is exempt from the disclosure requirements of paragraph 18 of the Standard in relation to related party transactions and outstanding balances, including commitments, with:

(a) a government that has control or joint control of, or significant influence over, the reporting entity; and

(b) another entity that is a related party because the same government has control or joint control of, or significant influence over, both the reporting entity and the other entity. (paragraph 25 of the Standard)

If a reporting entity applies the exemption in paragraph 25 of the Standard, it shall disclose the following about the transactions and related outstanding balances referred to in paragraph 25 of the Standard:

(a) the name of the government and the nature of its relationship with the reporting entity (ie control, joint control or significant influence);

(b) the following information in sufficient detail to enable users of the entity's financial statements to understand the effect of related party transactions on its financial statements:

  (i) the nature and amount of each individually significant transaction; and

  (ii) for other transactions that are collectively, but not individually, significant, a qualitative or quantitative indication of their extent. Types of transactions include those listed in paragraph 21 of the Standard.

5 MAJOR CHANGES IN IND AS 24 VIS-À-VIS IAS* 24 NOT RESULTING IN CARVE OUTS

1. ***Confidentially:*** In Ind AS 24, disclosures which conflict with confidentiality requirements of statute/regulations are not required to be made since Accounting Standards cannot override legal/regulatory requirements.

2. ***Additional Clarificatory Guidance Regarding Aggregation of Transactions:*** Paragraph 24A (reproduced below) has been included in the Ind AS 24. It provides additional clarificatory guidance regarding aggregation of transactions for disclosure.

   "24A Disclosure of details of particular transactions with individual related parties would frequently be too voluminous to be easily understood. Accordingly, items of a similar nature may be disclosed in aggregate by type of related party. However, this is not done in such a way as to obscure the importance of significant transactions. Hence, purchases or sales of goods are not aggregated with purchases or sales of fixed assets. Nor a material related party transaction with an individual party is clubbed in an aggregated disclosure."

3. ***Modification of Paragraph 14:*** Paragraph 14 of Ind AS 24 has been modified to explain the rationale for disclosing related party relationship when control exists.

* The term 'IFRS' includes not only the International Financial Reporting Standards (IFRSs) issued by the IASB, it also includes the International Accounting Standards (IASs), IFRICs and SICs.

4. ***Management Contracts Including for Deputation or Employees:*** In Ind AS 24, '(k) management contracts including for deputation or employees' has been added in the example of transactions that are disclosed if they are with related party.

5. ***Definition of Close Members of the Family of a Person:*** 'Definition of close members of the family of a person' has been amended to include brother, sister, father and mother in the category of family members who may be expected to influence, or be influenced.

6 MAJOR CHANGES IN IND AS 24 VIS-À-VIS AS 18

(i) ***Definition of Relative:*** AS 18 uses the term "relatives of an individual", whereas Ind AS 24 uses the term "a close member of the family of a person".

AS 18 covers the spouse, son, daughter, brother, sister, father and mother who may be expected to influence, or be influenced by, that individual in his/her dealings with the reporting enterprise.

However, definition of close members of family as per Ind AS 24 includes those family members, who may be expected to influence, or be influenced by, that person in their dealings with the entity, including:

(a) that person's children, spouse or domestic partner, brother, sister, father and mother;

(b) children of that person's spouse or domestic partner; and

(c) dependants of that person or that person's spouse or domestic partner.

Hence, the definition as per Ind AS 24 is much wider.

(ii) ***State Controlled Enterprise:*** AS 18 defines state-controlled enterprise as *"an enterprise which is under the control of the Central Government and/or any State Government(s)*". However, in Ind AS 24, there is extended coverage of Government Enterprises, as it defines a government-related entity as "an entity that is controlled, jointly controlled or significantly influenced by a government." Further, "Government refers to government, government agencies and similar bodies whether local, national or international."

(iii) ***Key Management Personnel:*** AS 18 covers key management personnel (KMP) of the entity only, whereas, Ind AS 24 covers KMP of the parent as well. Ind AS 24 also covers the entity, or any member of a group of which it is a part, providing key management personnel services to the reporting entity or to the parent of the reporting entity

(iv) ***Related Parties in case of Joint Venture:*** Under Ind AS 24 there is extended coverage in case of joint ventures. Two entities are related to each other in both their financial statements, if they are either co-venturers or one is a venturer and the other is an associate. Whereas as per AS 18, co-venturers or co-associates are not related to each other.

(v) ***Effect of influences which do not lead to transactions:*** AS 18 mentions that where there is an inherent difficulty for management to determine the effect of influences which do not lead to transactions, disclosure of such effects is not required whereas Ind AS 24 does not specifically mention this.

(vi) ***Post-employment Benefits:*** AS 18 does not specifically cover entities that are post-employment benefit plans, as related parties. However, Ind AS 24 specifically includes post-employment benefit plans for the benefit of employees of an entity or its related entity as related parties.

(vii) ***Next Most Senior Parent:*** Ind AS 24 requires an additional disclosure as to the name of the next most senior parent which produces consolidated financial statements for public use, whereas AS 18 has no such requirement.

(viii) ***Disclosure for Compensation:*** Ind AS 24 requires extended disclosures for compensation of KMP under different categories, whereas AS 18 does not specifically require.

(ix) ***Disclosure of 'Amount of the Transactions' vs 'Volume of the Transactions:*** Ind AS 24 requires "the amount of the transactions" need to be disclosed, whereas AS 18 gives an option to disclose the "Volume of the transactions either as an amount or as an appropriate proportion".

(x) ***Government Related Entities:*** Ind AS 24 requires disclosures of certain information by the government related entities, whereas AS 18 presently exempts the disclosure of such information.

(xi) ***Clarification of Control, Substantial Interest and Significant Influence:*** AS 18 includes definition and clarificatory text, primarily with regard to control, substantial interest (including 20% threshold), significant influence (including 20% threshold). However, Ind AS 24 neither defines these terms nor it includes such clarificatory text and allows respective standards to deal with the same.

6

IND AS 108 : OPERATING SEGMENTS

1 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.

Accordingly, the objective of segment reporting is to provide financial information on the different business activities that an entity engages in and the different economic environments under which it operates to help users of financial statements to:

(a) better understand the entity's performance;

(b) better assess its prospects for future net cash flows;

(c) make more informed judgments about the entity as a whole.

2 SCOPE

This Accounting Standard shall apply to companies to which Indian Accounting Standards (Ind AS) 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 Indian Accounting Standard as well as the parent's separate financial statements, segment information is required only in the consolidated financial statements.

3 OPERATING SEGMENTS

An operating segment is a component of an entity:

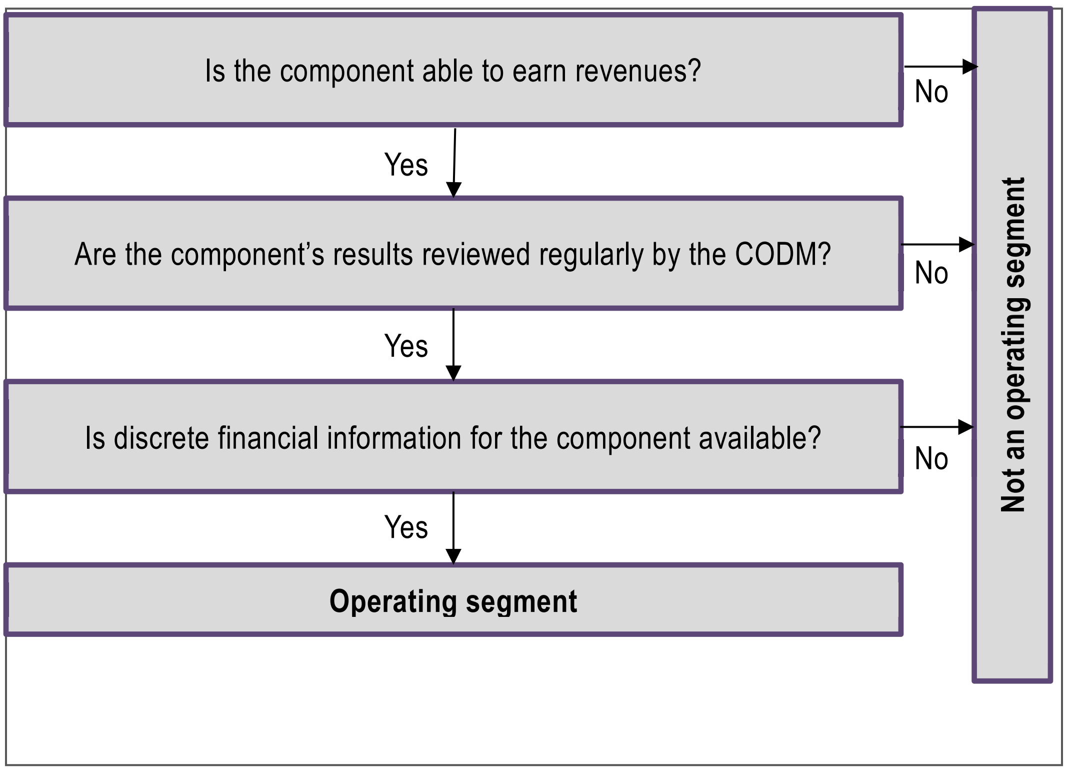
(a) that engages in business activities from which it may earn revenues and incur expenses

(b) whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and

(c) for which discrete financial information is available.

An operating segment may engage in business activities for which it has yet to earn revenues, for example, start-up operations may be operating segments before earning revenues. Not every part of an entity is necessarily an operating segment or part of an operating segment.

For example: A corporate headquarters or some functional departments may not earn revenues or may earn revenues that are only incidental to the activities of the entity and would not be operating segments. For the purposes of this Ind AS, an entity's post-employment benefit plans are not operating segments.

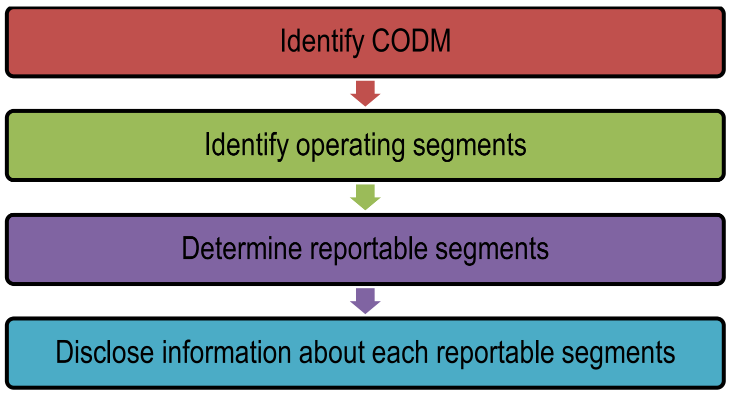


4 REPORTABLE SEGMENTS

An entity shall report separately information about each operating segment that:

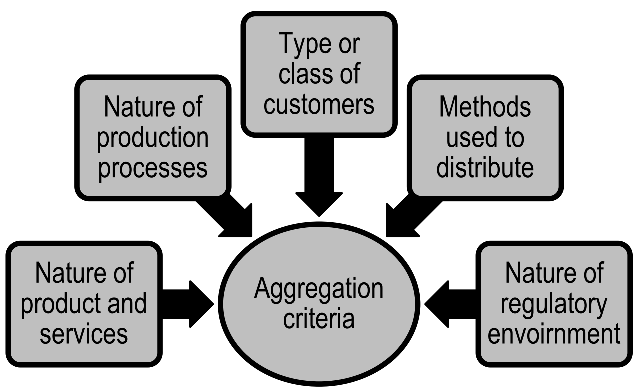
(a) has been identified or results from aggregating two or more of segments, and

(b) exceeds the quantitative thresholds as specified in the standard.



4.1 Aggregation Criteria

Operating segments often exhibit similar long-term financial performance if they have similar economic characteristics.



4.2 Quantitative Thresholds

An entity shall report separately information about an operating segment that meets any of the following quantitative thresholds:

(a) 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.

(b) The absolute amount of its reported profit or loss is 10 per cent or more of the greater, in absolute amount, of

(i) the combined reported profit of all operating segments that did not report a loss and

(ii) the combined reported loss of all operating segments that reported a loss.

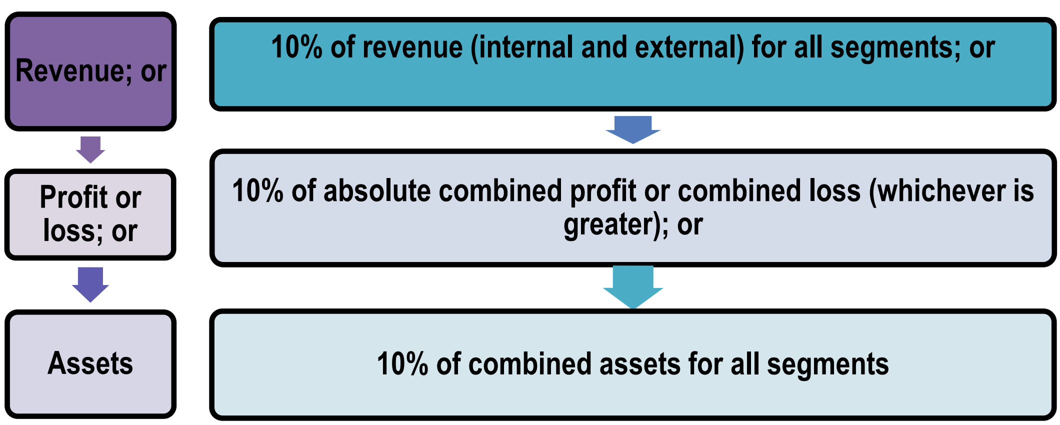
(c) Its assets are 10 per cent or more of the combined assets of all operating segments.

Notes:

1. Operating segments that do not meet any of the quantitative thresholds may be considered reportable, and separately disclosed, if management believes that information about the segment would be useful to users of the financial statements.

2. An entity may combine information about operating segments that do not meet the quantitative thresholds with information about other operating segments that do not meet the quantitative thresholds to produce a reportable segment only if the operating segments have similar economic characteristics and share a majority of the aggregation criteria listed in paragraph 12.

3. If the total external revenue reported by operating segments constitutes less than 75 percent of the entity's revenue, additional operating segments shall be identified as reportable segments (even if they do not meet the criteria in paragraph 13) until at least 75 percent of the entity's revenue is included in reportable segments.

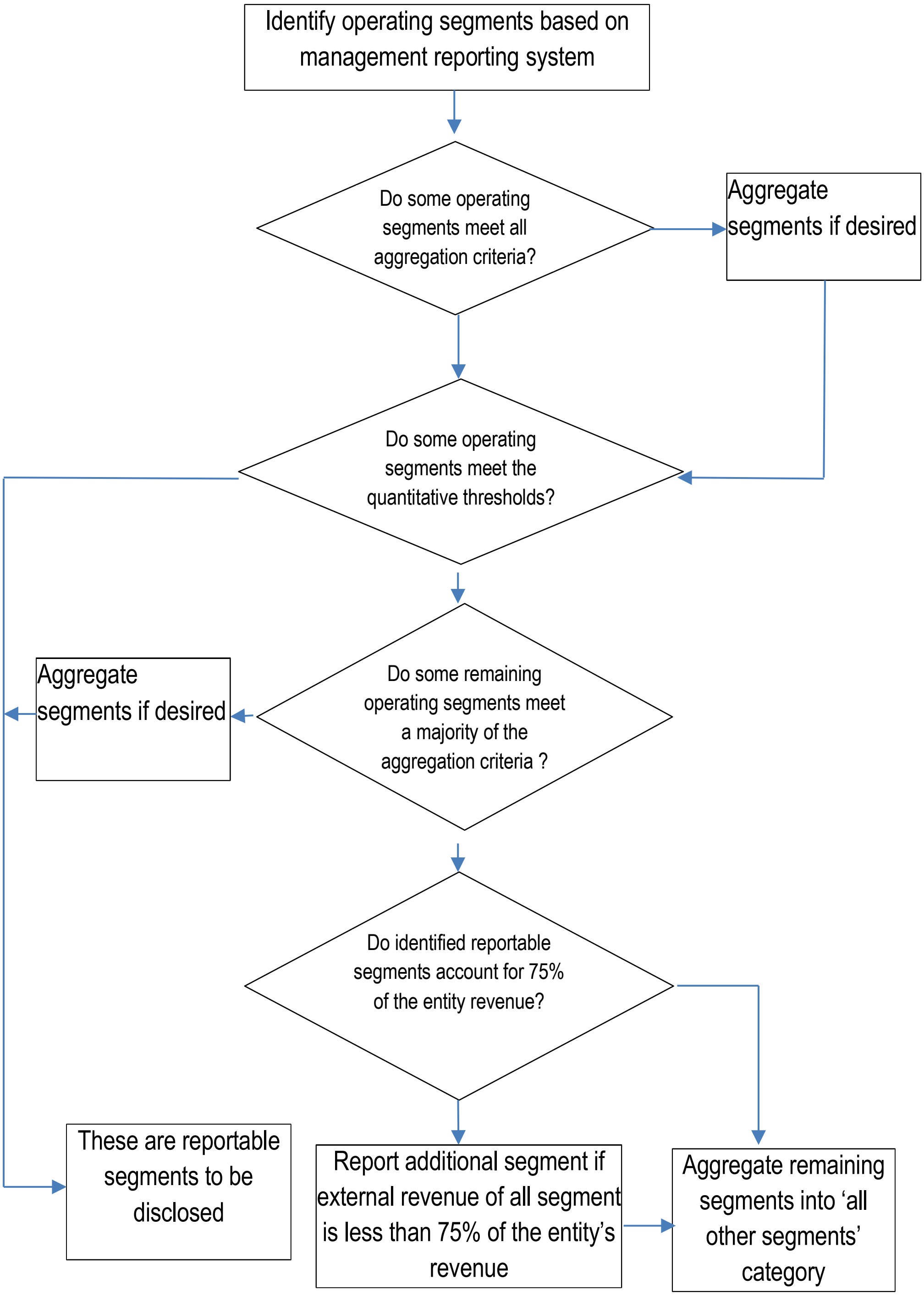


5 GENERAL INFORMATION

The Standard requires an entity to report a measure of operating segment profit or loss and of segment assets. It also requires an entity to report a measure of segment liabilities and particular income and expense items if such measures are regularly provided to the chief operating decision maker. It requires reconciliations of total reportable segment revenues, total profit or loss, total assets, liabilities and other amounts disclosed for reportable segments to corresponding amounts in the entity's financial statements.

The Standard requires an entity to report information about the revenues derived from its products or services (or groups of similar products and services), about the countries in which it earns revenues and holds assets, and about major customers, regardless of whether that information is used by management in making operating decisions. However, the Standard does not require an entity to report information that is not prepared for internal use if the necessary information is not available and the cost to develop it would be excessive.

The Standard also requires an entity to give descriptive information about the way the operating segments were determined, the products and services provided by the segments, differences between the measurements used in reporting segment information and those used in the entity's financial statements, and changes in the measurement of segment amounts from period to period.


Identify operating segments based on management reporting system
Do some operating segments meet all aggregation criteria?
Aggregate segments if desired
Do some operating segments meet the quantitative thresholds?
Do some remaining operating segments meet a majority of the aggregation criteria ?
Aggregate segments if desired
Do identified reportable segments account for 75% of the entity revenue?
These are reportable segments to be disclosed
Report additional segment if external revenue of all segment is less than 75% of the entity's revenue
Aggregate remaining segments into 'all other segments' category

6 MAJOR CHANGE IN IND AS 108 VIS-À-VIS IFRS 8 NOT RESULTING IN CARVE OUT

Paragraph 2 of IFRS 8 requires that the standard shall apply to:

a) the separate or individual financial statements of an entity:

   i. whose debt or equity instruments are traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets), or

   ii. that files, or is in the process of filing, its financial statements with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market; and

b) the consolidated financial statements of a group with a parent:

   i. whose debt or equity instruments are traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets), or

   ii. that files, or is in the process of filing, the consolidated financial statements with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market.

The above have been deleted in the Ind AS 108 as the applicability or exemptions to the Indian Accounting Standards are governed by the Companies Act and the Rules made thereunder.

7 MAJOR CHANGES IN IND AS 108 VIS-A-VIS AS 17

(i) ***Identification of Segments****:* Identification of segments under Ind AS 108 is based on 'management approach' i.e. operating segments are identified based on the internal reports regularly reviewed by the entity's chief operating decision maker. AS 17 requires identification of two sets of segments; one based on related products and services, and the other on geographical areas based on the risks and returns approach. One set is regarded as primary segments and the other as secondary segments.

(ii) ***Basis of Measurement for Amounts to be Reported in Segments****:* Ind AS 108 requires that the amounts reported for each operating segment shall be measured on the same basis as that used by the chief operating decision maker for the purposes of allocating resources to the segments and assessing its performance. AS 17 requires segment information to be prepared in conformity with the accounting policies adopted for preparing and presenting the financial statements. Accordingly, AS 17 also defines segment revenue, segment expense, segment result, segment assets and segment liabilities.

(iii) ***Aggregation Criteria****:* Ind AS 108 specifies aggregation criteria for aggregation of two or more segments and also requires the related disclosures in this regard. AS 17 does not deal specifically with this aspect.

(iv) ***Single Reportable Segment****:* An explanation has been given in AS 17 that in case there is neither more than one business segment nor more than one geographical segment, segment information as per this standard is not required to be disclosed. However, this fact shall be disclosed by way of footnote. Ind AS 108 requires certain disclosures even in case of entities having single reportable segment.

(v) ***Interest Expense****:* An explanation has been given in AS 17 that interest expense relating to overdrafts and other operating liabilities identified to a particular segment should not be included as a part of the segment expense. It also provides that in case interest is included as a part of the cost of inventories and those inventories are part of segment assets of a particular segment, such interest should be considered as a segment expense. These aspects are specifically dealt with keeping in view that the definition of 'segment expense' given in AS 17 excludes interest. Ind AS 108 requires the separate disclosures about interest revenue and interest expense of each reportable segment, therefore, these aspects have not been specifically dealt with.

(vi) ***Disclosures****:* Ind AS 108 requires disclosures of revenues from external customers for each product and service. With regard to geographical information, it requires the disclosure of revenues from customers in the country of domicile and in all foreign countries, non-current assets in the country of domicile and all foreign countries. It also requires disclosure of information about major customers. Disclosures in AS 17 are based on the classification of the segments as primary or secondary segments. Disclosure requirements for primary segments are more detailed as compared to secondary segments.

7

IND AS 16 : PROPERTY, PLANT AND EQUIPMENT

1 OBJECTIVE

The objective of this Standard is to prescribe the **accounting treatment** for property, plant and equipment so that users of the financial statements can discern information about an entity's investment in its property, plant and equipment and the changes in such investment.

The **principal issues** in accounting for property, plant and equipment are:

- The recognition of the assets
- The determination of their carrying amounts
- The depreciation charges
- Impairment losses to be recognised in relation to them

2 SCOPE

This Standard shall be applied in accounting for property, plant and equipment **except** when another Standard requires or permits a different accounting treatment.

This Standard does not apply to:

Property, plant and equipment classified as held for sale	
Ind AS 105	
Biological assets related to agricultural activity	
Ind AS 41	See Note below
Recognition and measurement of exploration and evaluation assets	
Ind AS 106	See Note below
Mineral rights and mineral reserves such as oil, natural gas and similar non-regenerative resources	
No Ind AS	See Note below

This Standard applies to property, plant and equipment used to **develop or maintain the assets** described above.

For example: Ind AS 17 'Leases' requires an entity to evaluate its recognition of an item of leased property, plant and equipment on the basis of the transfer of risks and rewards. However, in such cases other aspects of the accounting treatment for these assets, including depreciation, are prescribed by this Standard.

An entity accounting for investment property in accordance with Ind AS 40 'Investment Property' shall use the cost model in this Standard.

3 PROPERTY, PLANT AND EQUIPMENT

3.1 Definition

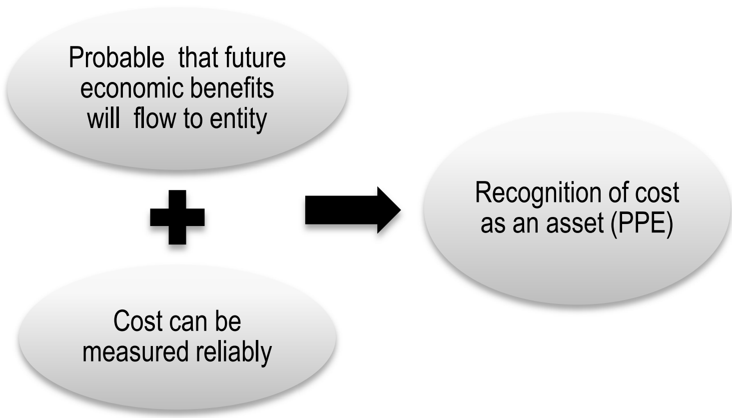
Property, plant and equipment are tangible items that:

(a) are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and

(b) are expected to be used during more than one period.

3.2 Recognition

The cost of an item of property, plant and equipment shall be recognised as an asset if, and only if:



An entity evaluates under this recognition principle all its property, plant and equipment costs at the time they are incurred. These costs include:

(a) **Initial Costs:** Costs incurred initially to acquire or construct an item of property, plant and equipment and

(b) **Subsequent Costs:** Costs incurred subsequently to add to, replace part of, or service it.

Items such as spare parts, stand-by equipment and servicing equipment are recognised in accordance with this Ind AS when they meet the definition of property, plant and equipment. Otherwise, such items are classified as inventory.

4 MEASUREMENT AT RECOGNITION

An item of property, plant and equipment that qualifies for recognition as an asset shall be measured at its cost**.**

The cost of an item of property, plant and equipment is the cash price equivalent at the recognition date. If payment is deferred beyond normal credit terms, the difference between the cash price equivalent and the total payment is recognised as interest over the period of credit unless such interest is capitalised in accordance with Ind AS 23.

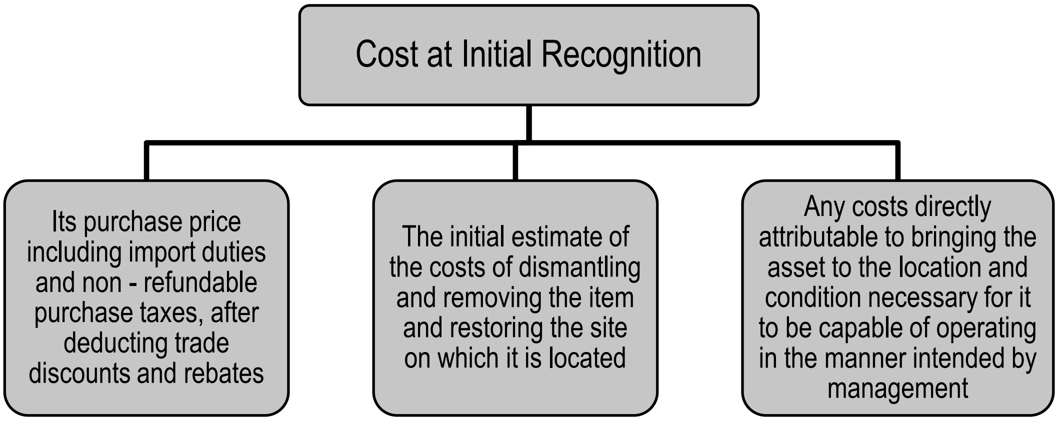
Cost is:

- The amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset

- At the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other Indian Accounting Standards, e.g. Ind AS 102 *'Share-based Payment'*.

4.1 Elements of Cost

The cost of an item of property, plant and equipment comprises:



4.2 Cost of Dismantling, Removal and Restoration

The obligation for which an entity incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

An entity applies Ind AS 2*'Inventories'*to the costs of obligations for dismantling, removing and restoring the site on which an item is located that are incurred during a particular period as a consequence of having used the item to produce inventories during that period.

4.3 Examples of Directly Attributable Costs

costs of employee benefits (as defined in Ind AS 19 *'Employee Benefits'*) arising directly from the construction or acquisition of the item of property, plant and equipment;

- costs of site preparation;
- initial delivery and handling costs;
- installation and assembly costs;

- costs of testing whether the asset is functioning properly, after deducting the net proceeds from selling any items produced while bringing the asset to that location and condition (such as samples produced when testing equipment); and
- professional fee.

4.4 Examples of Costs that are not Costs of an Item of Property, Plant and Equipment

1 • Costs of opening a new facility

2 • Costs of introducing a new product or service (including costs of advertising and promotional activities)

3 • Costs of conducting business in a new location or with a new class of customer (including costs of staff training)

4 • Administration and other general overhead costs

4.5 Costs not Included in the Carrying Amount of an Item of Property, Plant and Equipment

1. • Costs incurred while an item capable of operating in the manner intended by management has yet to be brought into use or is operated at less than full capacity
2. • Initial operating losses, such as those incurred while demand for the item's output builds up
3. • Costs of relocating or reorganising part or all of an entity's operations

4.6 Self-constructed Asset

The cost of a self-constructed asset is determined using the same principles as for an acquired asset. Therefore, any internal profits are eliminated in arriving at such costs.

For Example: A transfer from one division of an organisation to another at a transfer price including profit margin. In such a case we will consider only the cost of transfer and not transfer price.

Similarly, the cost of abnormal amounts of wasted material, labour, or other resources incurred in self-constructing an asset is not included in the cost of the asset.

Ind AS 23 *'Borrowing Costs'* establishes criteria for the recognition of interest as a component of the carrying amount of a self-constructed item of property, plant and equipment.

4.7 Asset Exchange Transaction

One or more items of property, plant and equipment may be acquired in exchange for:

- A non-monetary asset or assets, or
- A combination of monetary and non-monetary assets.

The cost of such an item of property, plant and equipment is measured at fair value unless:

(a) the exchange transaction lacks commercial substance or

(b) the fair value of neither the asset received nor the asset given up is reliably measurable.

5 MEASUREMENT AFTER RECOGNITION

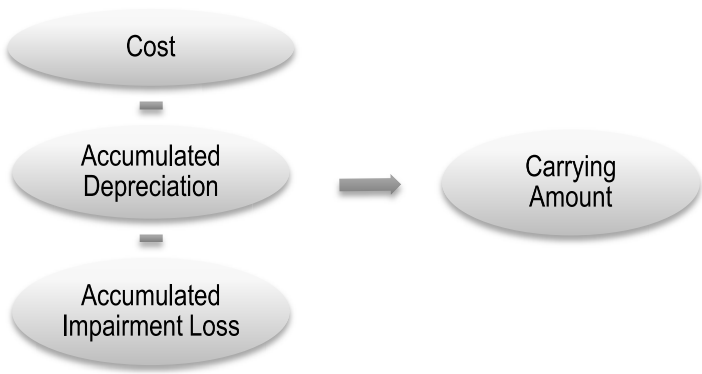
An entity shall choose either:

- The cost model or
- The revaluation model

As its accounting policy and shall apply that policy to an entire class of property, plant and equipment.

5.1 Cost Model

After recognition as an asset, an item of property, plant and equipment shall be carried at



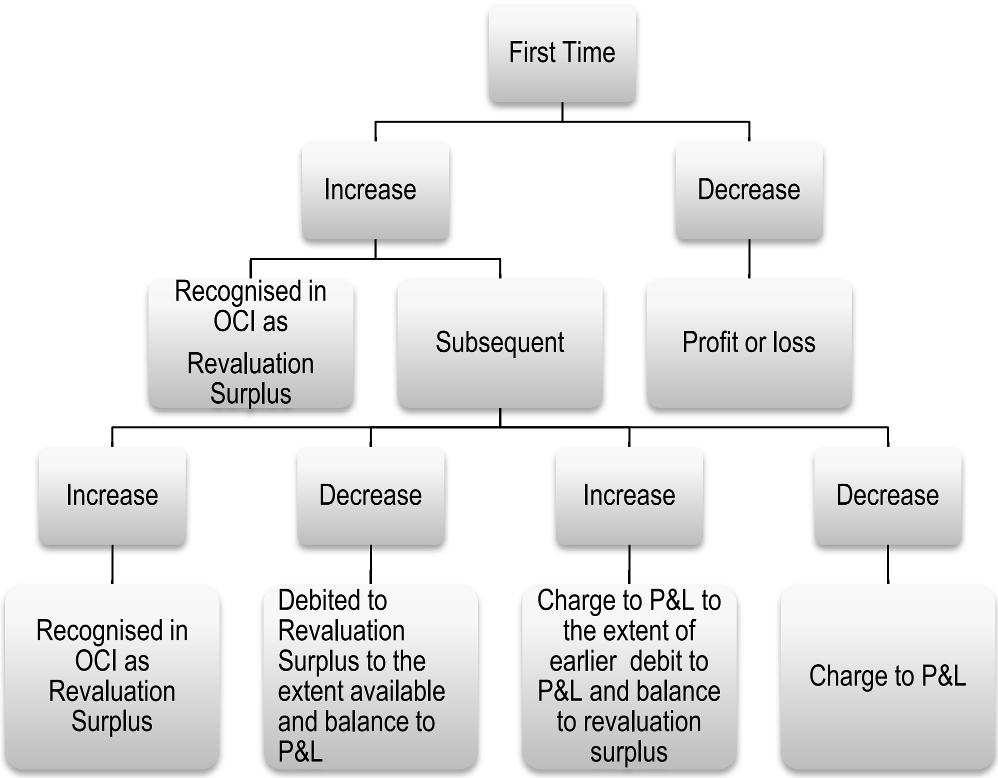
5.2 Revaluation Model

After recognition as an asset, an item of property, plant and equipment whose fair value can be measured reliably shall be carried at

5.2.1 Frequency of Revaluations

Revaluations should be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

5.2.2 Treatment of revaluation gain and loss is summarized in the below diagram



6 DEPRECIATION

Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life. The depreciable amount of an asset should be determined after deducting its residual value.

6.1 Component Cost Approach

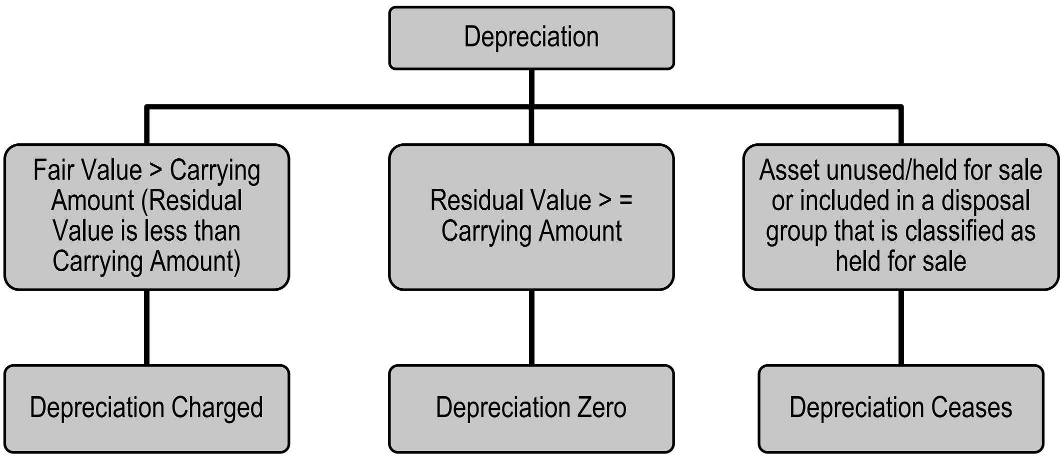
Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately.

An entity allocates the amount initially recognised in respect of an item of property, plant and equipment to its significant parts and depreciates separately each such part.

The depreciation charge for each period shall be recognised in profit or loss unless it is included in the carrying amount of another asset.

The depreciation charge for a period is usually recognised in profit or loss.

However, sometimes, the future economic benefits embodied in an asset are absorbed **in producing other assets.** In this case, the depreciation charge constitutes part of the cost of the other asset and is included in its carrying amount.



Depreciation Begins: Depreciation of an asset begins when it is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management.

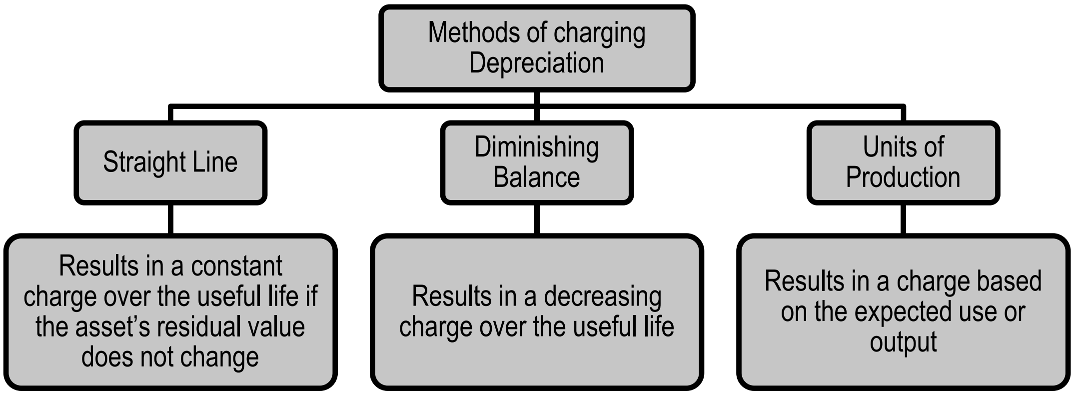
Depreciation Ceases: Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with Ind AS 105 and the date that the asset is derecognised.

Therefore, depreciation does not cease when the asset becomes idle or is retired from active use unless the asset is fully depreciated. However, under usage methods of depreciation the depreciation charge can be zero while there is no production.

6.2 Depreciation Method

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

- The depreciation method applied to an asset shall be reviewed at least at each financial year-end and, if there has been a significant change in the expected pattern of consumption of the future economic benefits embodied in the asset, the method shall be changed to reflect the changed pattern. Such a change shall be accounted for as a change in an accounting estimate in accordance with Ind AS 8.



7 IMPAIRMENT

To determine whether an item of property, plant and equipment is impaired, an entity applies Ind AS 36 'Impairment of Assets'.

8 DERECOGNITION

The carrying amount of an item of property, plant and equipment shall be derecognised:

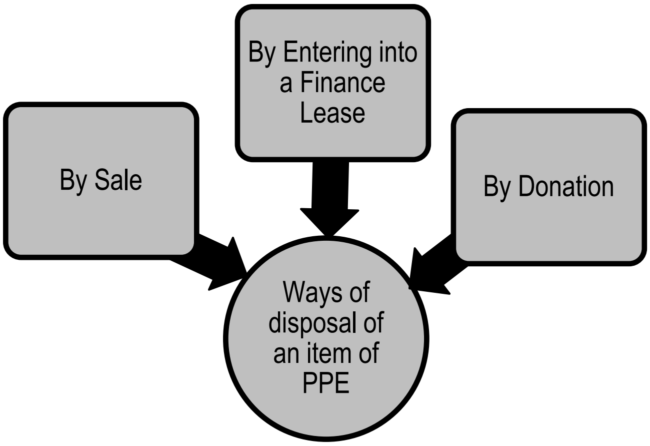
(a) on disposal; or

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

The gain or loss arising from the de-recognition of an item of property, plant and equipment shall be included in profit or loss when the item is derecognised (unless Ind AS 17 requires otherwise on a sale and leaseback). Gains shall not be classified as revenue.

However, an entity that, in the course of its ordinary activities, routinely sells items of property, plant and equipment that it has held for rental to others shall transfer such assets to inventories at their carrying amount when they cease to be rented and become held for sale.

8.1 Ways of Disposal



8.2 Gain or Loss

The gain or loss arising from the de-recognition of an item of property, plant and equipment shall be determined as the difference between

- The net disposal proceeds, if any, and
- The carrying amount of the item.

8.3 Consideration Receivable

- The consideration receivable on disposal of an item of property, plant and equipment is recognised initially at its fair value.
- If payment for the item **is deferred,** the consideration received is recognised initially at the cash price equivalent.

9 MAJOR CHANGES IN IND AS 16 VIS-À-VIS IAS* 16 NOT RESULTING IN CARVE OUTS

1. ***Reduction in the Carrying Amount of PPE:*** Paragraph 28 has been shown as deleted since Ind AS 20 '*Accounting for Government Grants and Disclosure of Government Assistance'* does not permit the option of reducing the carrying amount of an item of property, plant and

* The term 'IFRS' includes not only the International Financial Reporting Standards (IFRSs) issued by the IASB, it also includes the International Accounting Standards (IASs), IFRICs and SICs.

equipment by the amount of government grant received in respect of such an item, as permitted in IAS 20.

2. ***Fair Value Model:*** Paragraph 5 of Ind AS 16 has been modified, since Ind AS 40, '*Investment Property'*, prohibits the use of fair value model.

3. ***Guidance for Allocation Basis:*** Paragraph 12 of Appendix B has been modified by giving example of types of costs that would be included as directly attributable overhead costs of the stripping activity asset. Paragraph 13A has been added in Appendix B to provide guidance on allocation basis.

10 MAJOR CHANGES IN IND AS 16 VIS-À-VIS AS 10

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

(ii) ***Stripping Costs in the Production Phase of a Surface Mine:*** Ind AS 16 provides guidance on measuring 'Stripping Costs in the Production Phase of a Surface Mine'. AS does not contain this guidance.

8

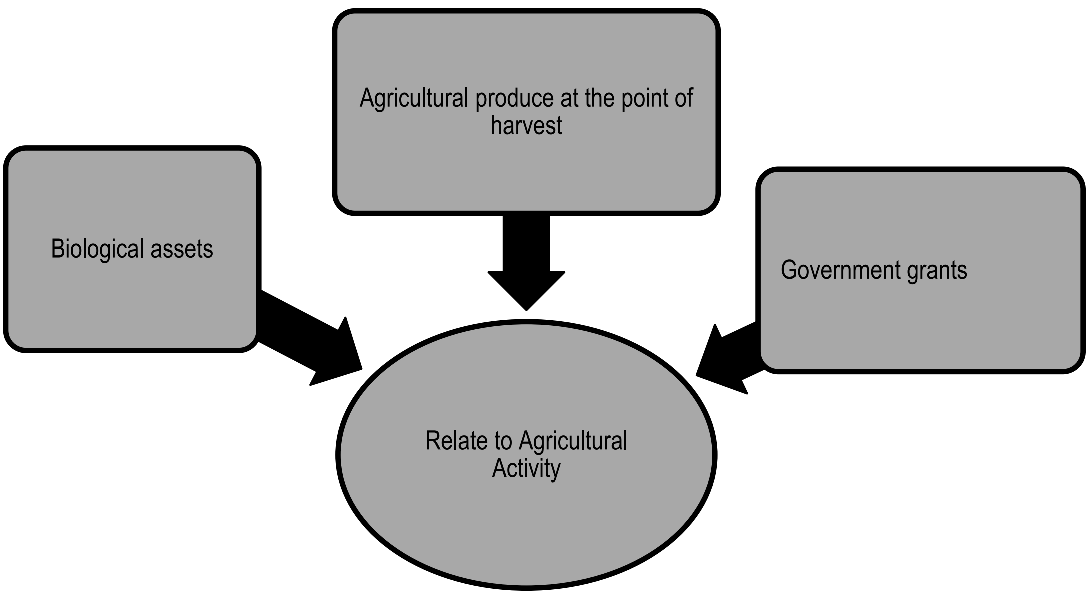
IND AS 41 : AGRICULTURE

1 OBJECTIVE

The objective of Ind AS 41 is to prescribe the accounting treatment and disclosures related to agricultural activity.

2 SCOPE

This Standard shall be applied to account for the following when they relate to agricultural activity:



This Standard does not apply to:

1.
- Land related to agricultural activity
- Ind AS 16 'Property, Plant and Equipment' and Ind AS 40 'Investment Property'

2.
- Bearer plants related to agricultural activity (Ind AS 16)
- However, this Standard applies to the produce on those bearer plants

3.
- Government grants related to bearer plants
- Ind AS 20 'Accounting for Government Grants and Disclosure of Government Assistance'

4.
- Intangible assets related to agricultural activity
- Ind AS 38 'Intangible Assets'

Table below provides examples of biological assets, agricultural produce, and products that are the result of processing after harvest:

Biological assets	Agricultural produce	Products that are the result of processing after harvest
Sheep	Wool	Yarn, carpet
Trees in a timber plantation	Felled Trees	Logs, lumber
Dairy Cattle	Milk	Cheese
Pigs	Carcass	Sausages, cured hams
Cotton plants	Harvested cotton	Thread, clothing
Sugarcane	Harvested cane	Sugar
Tobacco plants	Picked leaves	Cured tobacco
Tea bushes	Picked leaves	Tea
Grape vines	Picked grapes	Wine
Fruit trees	Picked fruit	Processed fruit
Oil palms	Picked fruit	Palm oil
Rubber trees	Harvested latex	Rubber products

Some plants, for example, tea bushes, grape vines, oil palms and rubber trees, usually meet the definition of a bearer plant and are within the scope of Ind AS 16.

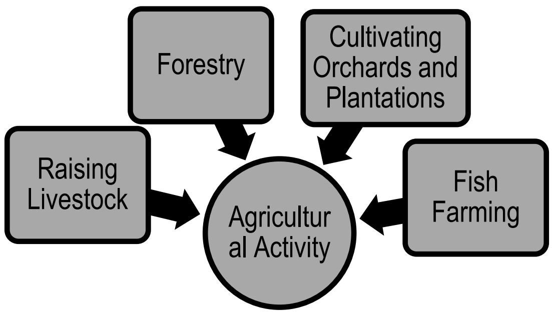
However, the produce growing on bearer plants, for example, tea leaves, grapes, oil palm fruit and latex, is within the scope of Ind AS 41.

3 AGRICULTURE RELATED DEFINITIONS

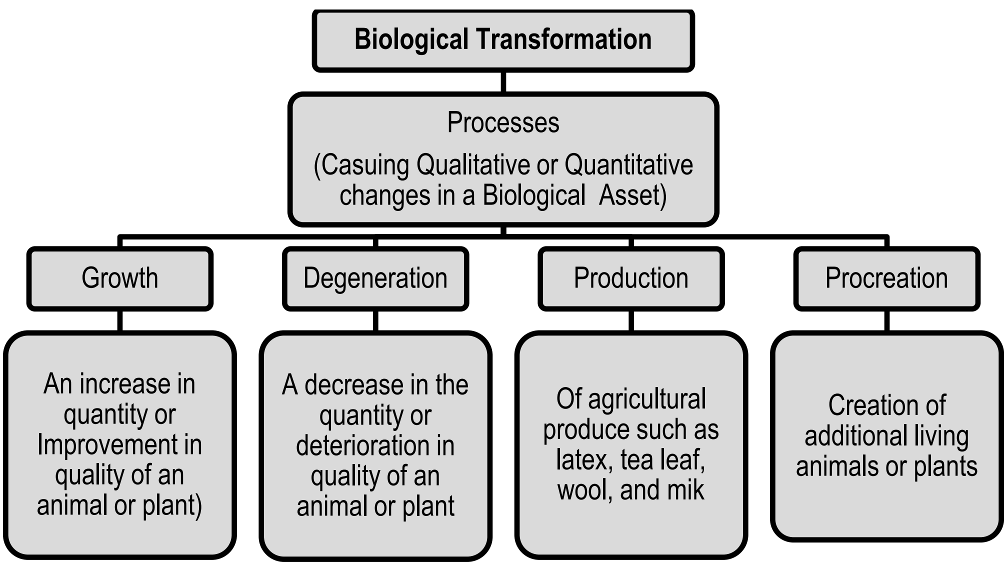
1. **Agricultural activity:**

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

Agricultural activity covers a diverse range of activities.



Biological transformation comprises the processes of:



2. A **biological asset** is a:

   - Living animal; **Or**
   - Plant.

   A group of biological assets is an aggregation of similar living animals or plants.

3. **Agricultural produce** is the <u>harvested product</u> of the entity's biological assets.

4. **Harvest** is the:

   - Detachment of produce from a biological asset; Or
   - The cessation of a biological asset's life processes.

5. A **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 as agricultural produce, except for incidental scrap sales

   The following are **NOT** bearer plants:

   Not Bearer Plant

   - Plants cultivated to be harvested as agricultural produce
     - Example: Trees grown for use as lumber
   - Annual crops
     - Example: Maize and wheat
   - Plants cultivated to produce agricultural produce when there is more than a remote likelihood that the entity will also harvest and sell the plant as agricultural produce, other than as incidental scrap sales
     - Example: Trees that are cultivated both for their fruit and their lumber

When bearer plants are no longer used to bear produce they might be cut down and sold as scrap, for example, for use as firewood. Such incidental scrap sales would not prevent the plant from satisfying the definition of a bearer plant.

Produce growing on bearer plants is a biological asset.

4 RECOGNITION AND MEASUREMENT

An entity shall recognise a biological asset or agricultural produce when, and only when:

- The entity controls the asset as a result of past events
- It is probable that future economic benefits associated with the asset will flow to the entity
- The fair value or cost of the asset can be measured reliably

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. Costs to sell are the incremental costs directly attributable to the disposal of an asset, excluding finance costs and income taxes. Costs to sell exclude transport and other costs necessary to get the asset to a market.

A biological asset shall be measured on initial recognition and at the end of each reporting period at its fair value less costs to sell, except for the case described in paragraph 30 where the fair value cannot be measured reliably.

Agricultural produce harvested from an entity's biological assets shall be measured at its fair value less costs to sell at the point of harvest. Such measurement is the cost at that date when applying Ind AS 2 'Inventories' or another applicable Standard.

4.1 Gains and Losses

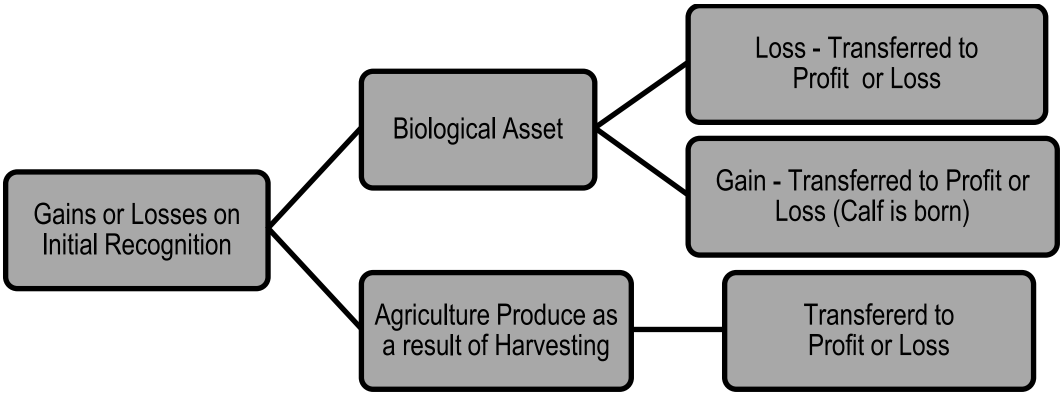
On Biological Asset: A gain or loss arising on initial recognition of a biological asset at fair value less costs to sell and from a change in fair value less costs to sell of a biological asset shall be included in profit or loss for the period in which it arises.

A loss may arise on initial recognition of a biological asset, because costs to sell are deducted in determining fair value less costs to sell of a biological asset.

A gain may arise on initial recognition of a biological asset, such as when a calf is born.

On Agricultural Produce: A gain or loss arising on initial recognition of agricultural produce at fair value less costs to sell shall be included in profit or loss for the period in which it arises.

A gain or loss may arise on initial recognition of agricultural produce as a result of harvesting.



5 GOVERNMENT GRANTS

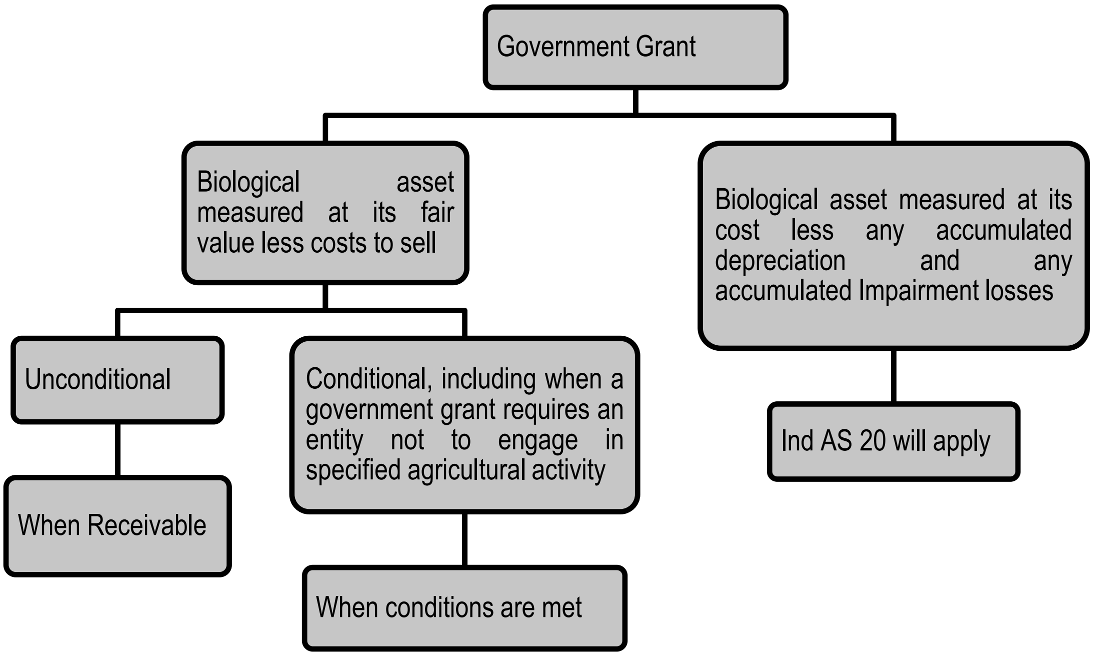
An unconditional government grant related to a biological asset measured at its fair value less costs to sell shall be recognised in profit or loss when, and only when, the government grant becomes receivable.

If a government grant related to a biological asset measured at its fair value less costs to sell is conditional, including when a government grant requires an entity not to engage in specified agricultural activity, an entity shall recognise the government grant in profit or loss when, and only when, the conditions attaching to the government grant are met.

For example: A grant may require an entity to farm in a particular location for five years and require the entity to return all of the grant if it farms for a period shorter than five years. In this case, the grant is not recognised in profit or loss until the five years have passed. However, if the terms of the grant allow part of it to be retained according to the time that has elapsed, the entity recognises that part in profit or loss as time passes.

If a government grant relates to a biological asset measured at its cost less any accumulated depreciation and any accumulated Impairment losses, Ind AS 20 is applied.

This Standard requires a different treatment from Ind AS 20, if a government grant relates to a biological asset measured at its fair value less costs to sell or a government grant requires an entity not to engage in specified agricultural activity. Ind AS 20 is applied only to a government grant related to a biological asset measured at its cost less any accumulated depreciation and any accumulated impairment losses.


Government Grant
Biological asset measured at its fair value less costs to sell
Biological asset measured at its cost less any accumulated depreciation and any accumulated Impairment losses
Unconditional
Conditional, including when a government grant requires an entity not to engage in specified agricultural activity
Ind AS 20 will apply
When Receivable
When conditions are met

9

IND AS 17 : LEASES

1 OBJECTIVE

The objective of this Standard is to prescribe, for lessees and lessors, the appropriate accounting policies and disclosure to apply in relation to leases.

2 SCOPE

This Standard shall be applied in accounting for all leases other than:

- Leases to explore for or use minerals, oil, natural gas and similar non-regenerative resources; and
- Licensing agreements for such items as motion picture films, video recordings, plays, manuscripts, patents and copyrights

However, this Standard shall not be applied as the basis of measurement for:

- Property held by lessees that is accounted for as investment property (Ind AS 40, 'Investment Property')
- Investment property provided by lessors under operating leases (Ind AS 40, 'Investment Property')
- Biological assets within the scope of Ind AS 41, 'Agriculture' held by lessees under finance leases
- Biological assets within the scope of Ind AS 41, provided by lessors under operating leases

3 LEASE

A lease is an 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

3.1 Finance Lease

A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset.

Where, Risks include the possibilities of losses from idle capacity or technological obsolescence and of variations in return because of changing economic conditions.

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

Title may or may not eventually be transferred.

3.2 Operating Lease

An operating lease is a lease other than a finance lease.

3.3 Non-cancellable Lease

A non-cancellable lease is a lease that is cancellable only:

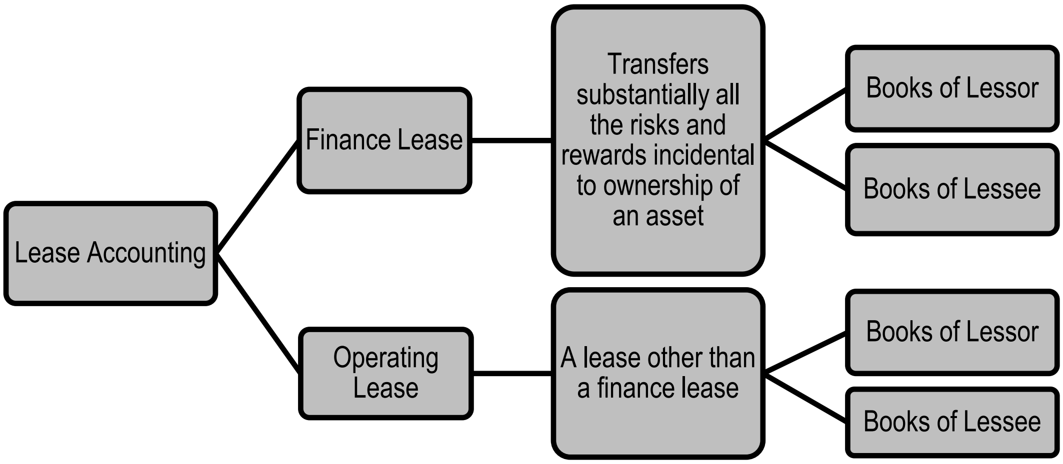
(a) upon the occurrence of some remote contingency;

(b) with the permission of the lessor;

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

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

4 ACCOUNTING TREATMENT OF LEASE



4.1 Leases in the Financial Statements of Lessee

(a) Finance Leases

Initial recognition: At the commencement of the lease term, lessees shall recognise finance leases as assets and liabilities in their balance sheets at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease.

The discount rate to be used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease, if this is practicable to determine; if not, the lessee's incremental borrowing rate shall be used.

Any initial direct costs of the lessee are added to the amount recognised as an asset.

Subsequent measurement

- Minimum lease payments shall be apportioned between the finance charge and the reduction of the outstanding liability.
- The finance charge shall be allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.
- Contingent rents shall be charged as expenses in the periods in which they are incurred.
- A finance lease gives rise to depreciation expense for depreciable assets as well as finance expense for each accounting period.

- The depreciation policy for depreciable leased assets shall be consistent with that for depreciable assets that are owned, and the depreciation recognised shall be calculated in accordance with Ind AS 16, 'Property, Plant and Equipment' and Ind AS 38, 'Intangible Assets'.

(b) Operating Leases: Lease payments under an operating lease shall be recognised as an expense on a straight-line basis over the lease term unless either:

(a) another systematic basis is more representative of the time pattern of the user's benefit even if the payments to the lessors are not on that basis; or

(b) the payments to the lessor are structured to increase in line with expected general inflation to compensate for the lessor's expected inflationary cost increases.

4.2 Leases in the Financial Statements of Lessors

(a) Finance Leases

Initial recognition: Lessors shall recognise assets held under a finance lease in their balance sheets and present them as a receivable at an amount equal to the net investment in the lease.

Subsequent measurement: The recognition of finance income shall be based on a pattern reflecting a constant periodic rate of return on the lessor's net investment in the finance lease.

(b) Operating Leases: Lessors shall present assets subject to operating leases in their balance sheet according to the nature of the asset.

Lease income from operating leases (excluding amounts for services such as insurance and maintenance) shall be recognised in income on a straight-line basis over the lease term, unless either:

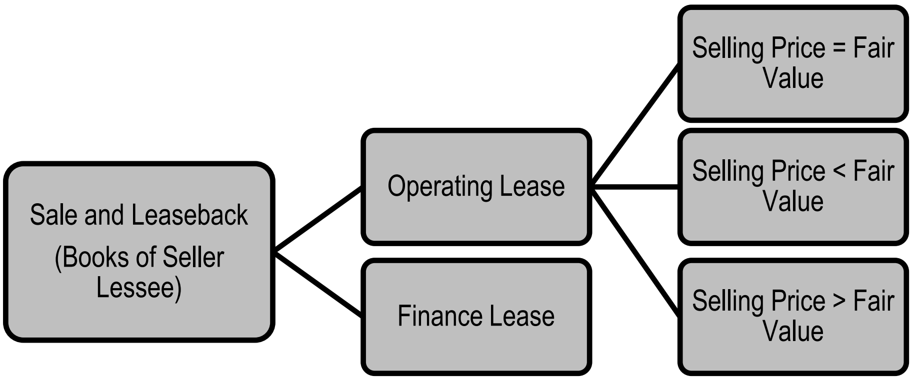
(a) another systematic basis is more representative of the time pattern in which use benefit derived from the leased asset is diminished, even if the payments to the lessors are not on that basis; or

(b) the payments to the lessor are structured to increase in line with expected general inflation to compensate for the lessor's expected inflationary cost increases. If payments to the lessor vary according to factors other than inflation, then this condition is not met

The depreciation policy for depreciable leased assets shall be consistent with the lessor's normal depreciation policy for similar assets, and depreciation shall be calculated in accordance with Ind AS 16 and Ind AS 38.

5 SALE AND LEASEBACK TRANSACTIONS

A sale and leaseback transaction involves the sale of an asset and the leasing back of the same asset. The lease payment and the sale price are usually interdependent because they are negotiated as a package. The accounting treatment of a sale and leaseback transaction depends upon the type of lease involved.



5.1 If a Sale and Leaseback Transaction Results in a Finance Lease

If a sale and leaseback transaction results in a finance lease, any excess of sales proceeds over the carrying amount shall not be immediately recognised as income by a seller-lessee. Instead, it shall be deferred and amortised over the lease term.

5.2 If a Sale and Leaseback Transaction Results in an Operating Lease

CASE I: When Sale Price = Fair Value: If a sale and leaseback transaction results in an operating lease, and it is clear that the transaction is established at fair value, any profit or loss shall be recognised immediately.

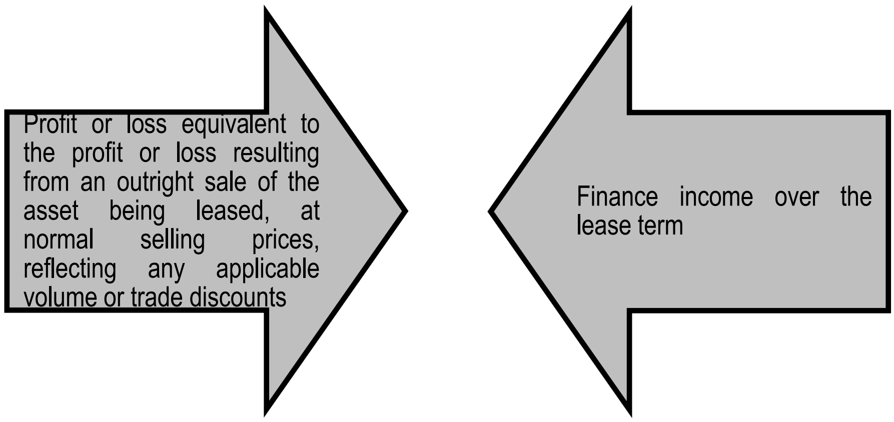
CASE II: When Sale Price < Fair Value: If the sale price is below fair value, any profit or loss shall be recognised immediately except that, if the loss is compensated for by future lease payments at below market price, it shall be deferred and amortised in proportion to the lease payments over the period for which the asset is expected to be used.

CASE III: When Sale Price > Fair Value: If the sale price is above fair value, the excess over fair value shall be deferred and amortised over the period for which the asset is expected to be used.

For operating leases, if the fair value at the time of a sale and leaseback transaction is less than the carrying amount of the asset, a loss equal to the amount of the difference between the carrying amount and fair value shall be recognised immediately.

6 ACCOUNTING TREATMENT IN THE BOOKS OF MANUFACTURER OR DEALER LESSORS

- Manufacturer or dealer lessors shall recognise selling profit or loss in the period, in accordance with the policy followed by the entity for outright sales.
- If artificially low rates of interest are quoted, selling profit shall be restricted to that which would apply if a market rate of interest were charged.
- Costs incurred by manufacturer or dealer lessors in connection with negotiating and arranging a lease shall be recognised as an expense when the selling profit is recognised.
- Manufacturers or dealers often offer to customers the choice of either buying or leasing an asset. A finance lease of an asset by a manufacturer or dealer lessor gives rise to two types of income:



Appendix C of Ind AS 17 provides guidance (a) for determining whether the arrangement is, or contain, leases that should be accounted for in accordance with Ind AS 17; (b) when the assessment or a reassessment of whether an arrangement is, or contains, a lease should be made; and (c) if an arrangement is, or contains, a lease, how the payments for the lease should be separated from payments for any other elements in the arrangement.

Appendix A of Ind AS 17 provides guidance on recognition of incentives in an operating lease in the financial statements of lessor and lessee. The Appendix prescribes that the lessor shall recognise the aggregate cost of incentives as a reduction of rental income over the lease term, on a straight-line basis unless another systematic basis is representative of the time pattern over which the benefit of the leased asset is diminished. The lessee shall recognise the aggregate benefit of incentives as a reduction of rental expense over the lease term, on a straight-line basis unless another systematic basis is representative of the time pattern of the lessee’s benefit from the use of the leased asset.

7 MAJOR CHANGES IN IND AS 17 VIS-À-VIS IAS* 17

7.1 Resulting in Carve Out

As per IFRS: IAS 17 requires all leases rentals to be charged to statement of profit and loss on straight-line basis in case of operating leases unless another systematic basis is more representative of the time pattern of the user's benefit even if the payments to the lessor are not on that basis.

Carve out: A carve-out has been made to provide that lease rentals, in case of operating leases, shall be charged to the statement of profit and loss in accordance with the lease agreement unless the payments to the lessor are structured to increase in line with expected general inflation to compensate for the lessor's expected inflationary cost increases. If payments to the lessor vary because of factors other than general inflation, then this condition is not met.

Reason: Companies enter into various kinds of lease agreements to get the right to use an asset of the lessor. Considering the Indian inflationary situation, lease agreements contain periodic rent escalation. Accordingly, where there is periodic rent escalation in line with the expected inflation so as to compensate the lessor for expected inflationary cost increases, the rentals shall not be straight-lined.

7.2 Not Resulting in Carve Out

Investment Property: IAS 17 provides that separate measurement of land and buildings elements is not required when the lessee's interest in both land and buildings is classified as an investment property in accordance with Ind AS 40, '*Investment Property',* and fair value model is adopted. IAS 17 also permits property interest held under an operating lease as an investment property, if the definition of investment property is otherwise met and fair value model is applied. Since Ind AS 40 '*Investment Property'* prohibits the use of fair value model, these provisions of IAS 17 have not been included in Ind AS 17.

8 MAJOR CHANGES IN IND AS 17 VIS-À-VIS AS 19

(i) ***Land:*** AS 19 excludes leases of land from its scope. Ind AS 17 does not have such scope exclusion. It has specific provisions dealing with leases of land and building applicable. Further, Ind AS 17 is not applicable as the basis of measurement for

* The term 'IFRS' includes not only the International Financial Reporting Standards (IFRSs) issued by the IASB, it also includes the International Accounting Standards (IASs), IFRICs and SICs.

- property held by lessees/provided by lessors under operating leases but treated as investment property and
- biological assets held by lessees/provided by lessors under operating leases that are covered in the Standard on Agriculture.

AS 19 does not contain such provisions.

(ii) ***Definition of Residual Value:*** The definition of residual value appearing in AS 19 has been deleted in Ind AS 17.

(iii) ***Initial Direct Costs:*** Consequent upon the difference between the existing standard and Ind AS 17 in respect of treatment of initial direct costs incurred by a non-manufacturer/non-dealer-lessor in respect of a finance lease (see point 5 below), the term 'initial direct costs' has been specifically defined in Ind AS 17 and definition of the term 'interest rate implicit in the lease' as per AS 19 has been modified in Ind AS 17.

(iv) ***Inception of Lease and Commencement of Lease:*** Ind AS 17 makes a distinction between inception of lease and commencement of lease. In the existing standard, though both the terms are used at some places, these terms have not been defined and distinguished. Further, Ind AS 17 deals with adjustment of lease payments during the period between inception of the lease and the commencement of the lease term. This aspect is not dealt with in the existing standard. Also, as per Ind AS 17, the lessee shall recognise finance leases as assets and liabilities in balance sheet at the commencement of the lease term whereas as per AS 19 such recognition is at the inception of the lease.

(v) ***Treatment of Initial Direct Costs:*** Treatment of initial direct costs under Ind AS 17 differs from the treatment prescribed under AS 19. This is tabulated below:

Subject	**AS 19**	**Ind AS 17**
Finance lease-lessee accounting	Added to the amount recognised as asset.	Same as per the existing standard.
Finance lease-lessor accounting		
Non- manufacturer/ Non-dealer	Either recognised as expense immediately or allocated against the finance income over the lease term.	Interest rate implicit in the lease is defined in such a way that the initial direct costs included automatically in the finance lease receivable; there is no need to add them separately.
Manufacturer/dealer:	Recognised as expense at the commencement of the	Same as per the existing standard.

Subject	AS 19	Ind AS 17
	lease term.	
Operating lease - Lessee accounting	No discussion	No discussion
Operating lease - Lessor accounting	Either deferred and allocated to income over the lease term in proportion to the recognition of rent income, or recognized as expense in the period in which incurred.	Added to the carrying amount of the leased asset and recognized as expense over the lease term on the same basis as lease income

(vi) Current/Non-current Classification of Lease Liabilities: Ind AS 17 requires current/non-current classification of lease Liabilities if such classification is made for other liabilities. Also, it makes reference to Ind AS 105, '*Non-current Assets Held for Sale and Discontinued Operations'*. These matters are not addressed in the existing standard.

(vii) Sale and Leaseback Transaction: As per AS 19, if a sale and leaseback transaction results in a finance lease, excess, if any, of the sale proceeds over the carrying amount shall be deferred and amortised by the seller-lessee over the lease term in proportion to depreciation of the leased asset. While Ind AS 17 retains the deferral and amortisation principle, it does not specify any method of amortisation.

(viii) Accounting for Incentives in the Case of Operating Leases: Ind AS 17 provides guidance on accounting for incentives in the case of operating leases, evaluating the substance of transactions involving the legal form of a lease and determining whether an arrangement contains a lease. AS 19 does not contain such guidance.

(ix) Recognition of Lease Payments: Ind AS 17 requires that in case of operating lease, where escalation of lease rentals is in line with the expected general inflation so as to compensate the lessor for expected inflationary cost increases shall not be straight lined. AS 19 does not provide for the same.

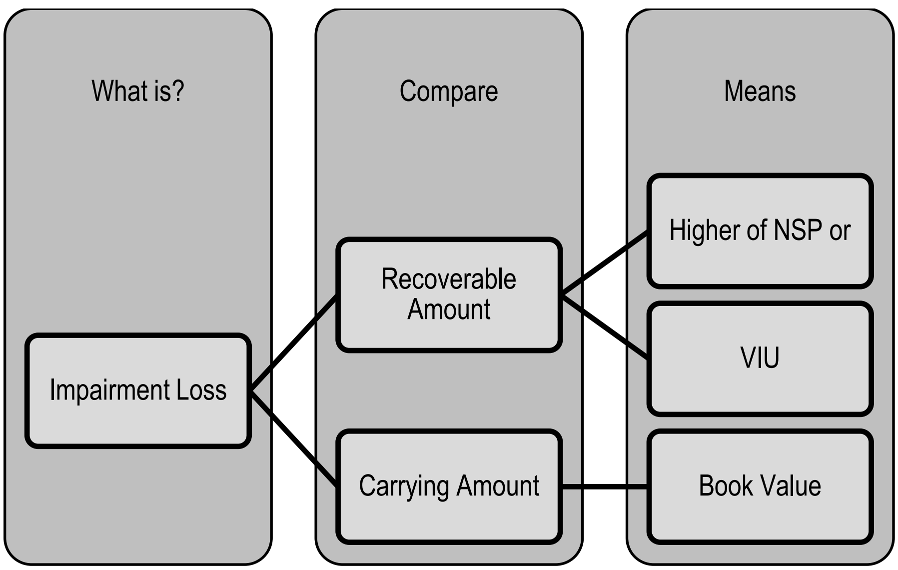
***(x) Disclosure Requirements**:* There are some differences in disclosure requirements as per AS 19 and disclosure requirements as per Ind AS 17.

10

IND AS 36 : IMPAIRMENT OF ASSETS

1 OBJECTIVE

The objective of this Standard is to prescribe the procedures that an entity applies to ensure that its assets are carried at no more than their recoverable amount. An asset is carried at more than its recoverable amount if its carrying amount exceeds the amount to be recovered through use or sale of the asset. If this is the case, the asset is described as impaired and the Standard requires the entity to recognise an impairment loss. The Standard also specifies when an entity should reverse an impairment loss and prescribes disclosures.



2 SCOPE

This Standard shall be applied in accounting for the impairment of all assets, other than:

1. Inventories: Ind AS 2
2. Assets arising from construction contracts; Ind AS 11
3. Deferred Tax Assets; Ind AS 12
4. Assets arising from Employee Benefits; Ind AS 19
5. Financial assets that are within the scope of Ind AS 109
6. Biological assets related to agricultural activity that are measured at fair value less costs to sell; Ind AS 41
7. Deferred acquisition costs, and intangible assets, arising from an insurer's contractual rights under insurance contracts within the scope of Ind AS 104
8. Non-current assets (or disposal groups) classified as held for sale in accordance with Ind AS 105

This Standard applies to financial assets classified as:

- Subsidiaries, as defined in Ind AS 110 Consolidated Financial Statements
- Associates, as defined in Ind AS 28 Investments in Associates and Joint Ventures
- Joint ventures, as defined in Ind AS 111 Joint Arrangements.

3 IDENTIFYING AN ASSET THAT MAY BE IMPAIRED

An entity shall assess at the end of each reporting period whether there is any indication that an asset may be impaired. If any such indication exists, the entity shall estimate the recoverable amount of the asset.

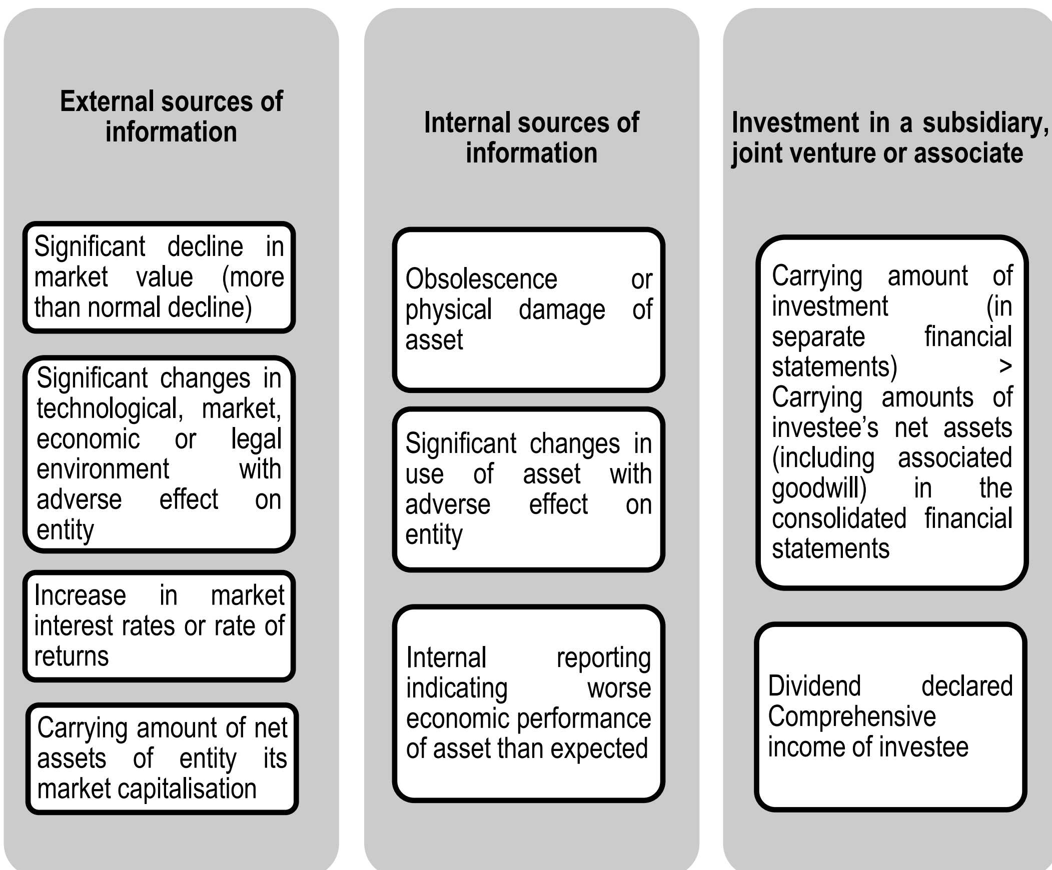
Irrespective of whether there is any indication of impairment, an entity shall also:

(a) test an intangible asset with an indefinite useful life or an intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test may be performed at any time during an annual period, provided it is performed at the same time every year. Different intangible assets may be tested for impairment at different times.

However, if such an intangible asset was initially recognised during the current annual period, that intangible asset shall be tested for impairment before the end of the current annual period.

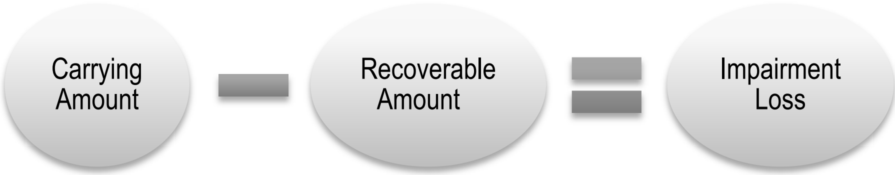
(b) test goodwill acquired in a business combination for impairment annually.

In assessing whether there is any indication that an asset may be impaired, an entity shall consider, as a minimum, the following indications:



4 RECOGNISING AND MEASURING AN IMPAIRMENT LOSS

If, and only if, the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset shall be reduced to its recoverable amount. That reduction is an impairment loss.



An impairment loss shall be recognised immediately in profit or loss, unless the asset is carried at revalued amount in accordance with another Standard (for example, in accordance with the revaluation model in Ind AS 16). Any impairment loss of a revalued asset shall be treated as a revaluation decrease in accordance with that other Standard.

When the amount estimated for an impairment loss is greater than the carrying amount of the asset to which it relates, an entity shall recognise a liability if, and only if, that is required by another Standard.

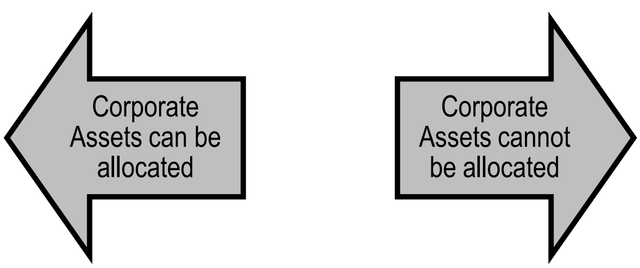
After the recognition of an impairment loss, the depreciation (amortisation) charge for the asset shall be adjusted in future periods to allocate the asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

If there is an indication that an asset may be impaired, recoverable amount shall be estimated for individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the entity shall determine the recoverable amount of the cash generating unit to which the asset belongs (the asset's cash generating unit).

5 CASH GENERATING UNIT

A *cash-generating unit* is 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.

Corporate Assets



Corporate assets include group or divisional assets such as the building of a headquarters or a division of the entity, EDP equipment or a research centre.

Because corporate assets do not generate separate cash inflows, the recoverable amount of an individual corporate asset cannot be determined unless management has decided to dispose of the asset. As a consequence, if there is an indication that a corporate asset may be impaired, recoverable amount is determined for the cash-generating unit or group of cash-generating units to which the corporate asset belongs, and is compared with the carrying amount of this cash-generating unit or group of cash-generating units.

In testing a cash-generating unit for impairment, an entity shall identify all the corporate assets that relate to the cash-generating unit under review. If a portion of the carrying amount of a corporate asset:

(a) can be allocated on a reasonable and consistent basis to that unit, the entity shall compare the carrying amount of the unit, including the portion of the carrying amount of the corporate asset allocated to the unit, with its recoverable amount. Any impairment loss shall be recognised.

(b) cannot be allocated on a reasonable and consistent basis to that unit, the entity shall:

  (i) compare the carrying amount of the unit, excluding the corporate asset, with its recoverable amount and recognise any impairment loss;

  (ii) identify the smallest group of cash-generating units that includes the cash-generating unit under review and to which a portion of the carrying amount of the corporate asset can be allocated on a reasonable and consistent basis; and

  (iii) compare the carrying amount of that group of cash-generating units, including the portion of the carrying amount of the corporate asset allocated to that group of units, with the recoverable amount of the group of units. Any impairment loss shall be recognised.

5.1 Measuring Cash Generating Unit

The *recoverable amount* of an asset or a cash-generating unit is the higher of its fair value less costs of disposal and its value in use.

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

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.

Costs of disposal are incremental costs directly attributable to the disposal of an asset or cash-generating unit, excluding finance costs and income tax expense.

Value in use is the present value of the future cash flows expected to be derived from an asset or cash-generating unit.

The following elements shall be reflected in the calculation of an asset's value in use:

(a) an estimate of the future cash flows the entity expects to derive from the asset;

(b) expectations about possible variations in the amount or timing of those future cash flows;

(c) the time value of money, represented by the current market risk-free rate of interest;

(d) the price for bearing the uncertainty inherent in the asset; and

(e) other factors, such as illiquidity, that market participants would reflect in pricing the future cash flows the entity expects to derive from the asset.

Estimates of future cash flows shall include:

(a) projections of cash inflows from the continuing use of the asset;

(b) projections of cash outflows that are necessarily incurred to generate the cash inflows from continuing use of the asset (including cash outflows to prepare the asset for use) and can be directly attributed, or allocated on a reasonable and consistent basis, to the asset; and

(c) net cash flows, if any, to be received (or paid) for the disposal of the asset at the end of its useful life.

Future cash flows shall be estimated for the asset in its current condition. Estimates of future cash flows shall not include estimated future cash inflows or outflows that are expected to arise from:

(a) a future restructuring to which an entity is not yet committed; or

(b) improving or enhancing the asset's performance.

Estimates of future cash flows shall not include:

(a) cash inflows or outflows from financing activities; or

(b) income tax receipts or payments.

5.2 Impairment Loss for a Cash Generating Unit

An impairment loss shall be recognised for a cash-generating unit (the smallest group of cash-generating units to which goodwill or a corporate asset has been allocated) if, and only if, the recoverable amount of the unit (group of units) is less than the carrying amount of the unit (group of units). The impairment loss shall be allocated to reduce the carrying amount of the assets of the unit (group of units) in the following order:

(a) first, to reduce the carrying amount of any goodwill allocated to the cash-generating unit (group of units); and

(b) then, to the other assets of the unit (group of units) pro rata on the basis of the carrying amount of each asset in the unit (group of units).

These reductions in carrying amounts shall be treated as impairment losses on individual assets.

In allocating an impairment loss, an entity shall not reduce the carrying amount of an asset below the highest of:

(a) its fair value less costs of disposal (if measurable);

(b) its value in use (if determinable); and

(c) zero.

The amount of the impairment loss that would otherwise have been allocated to the asset shall be allocated pro rata to the other assets of the unit (group of units).

5.3 Allocating goodwill to cash generating units

For the purpose of impairment testing, goodwill acquired in a business combination shall, from the acquisition date, be allocated to each of the acquirer's cash-generating units, or groups of cash-generating units, that is expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units or groups of units. Each **<u>unit or group of units to which the goodwill is so allocated</u>** shall:

(a) represent the lowest level within the entity at which the goodwill is monitored for internal management purposes; and

(b) not be larger than an operating segment as defined by Ind AS 108, 'Operating Segments', before aggregation.

If goodwill has been allocated to a cash-generating unit and the entity disposes of an operation within that unit, the goodwill associated with the operation disposed of shall be:

(a) included in the carrying amount of the operation when determining the gain or loss on disposal; and

(b) measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit retained, unless the entity can demonstrate that some other method better reflects the goodwill associated with the operation disposed of.

When, goodwill relates to a cash-generating unit but **<u>has not been allocated to that unit</u>**, the unit shall be tested for impairment, whenever there is an indication that the unit may be impaired, by comparing the unit's carrying amount, excluding any goodwill, with its recoverable amount.

6 REVERSING AN IMPAIRMENT LOSS

An entity shall assess at the end of each reporting period whether there is any indication that an impairment loss recognised in prior periods for an asset other than goodwill may no longer exist or may have decreased. If any such indication exists, the entity shall estimate the recoverable amount of that asset.

In assessing whether there is any indication that an impairment loss recognised in prior periods for an asset other than goodwill may no longer exist or may have decreased, an entity shall consider, as a minimum, the following indications:

External Sources of Information

(a) there are observable indications that the asset's value has increased significantly during the period.

(b) significant changes with a favourable effect on the entity have taken place during the period, or will take place in the near future, in the technological, market, economic or legal environment in which the entity operates or in the market to which the asset is dedicated.

(c) market interest rates or other market rates of return on investments have decreased during the period, and those decreases are likely to affect the discount rate used in calculating the asset's value in use and increase the asset's recoverable amount materially.

Internal Sources of Information

(a) significant changes with a favourable effect on the entity have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, the asset is used or is expected to be used. These changes include costs incurred during the period to improve or enhance the asset's performance or restructure the operation to which the asset belongs.

(b) evidence is available from internal reporting that indicates that the economic performance of the asset is, or will be, better than expected.

6.1 Reversing an Impairment Loss for an Individual Asset

The increased carrying amount of an asset other than goodwill attributable to a reversal of an impairment loss shall not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior years.

A reversal of an impairment loss for an asset other than goodwill shall be recognised immediately in profit or loss, unless the asset is carried at revalued amount in accordance with another Indian Accounting Standard (for example, the revaluation model in Ind AS 16). Any reversal of an impairment loss of a revalued asset shall be treated as a revaluation increase in accordance with that other Indian Accounting Standard.

NOTE: After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the asset shall be adjusted in future periods to allocate the asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

6.2 Reversing an Impairment Loss for a Cash-generating Unit

A reversal of an impairment loss for a cash-generating unit shall be allocated to the assets of the unit, except for goodwill, pro rata with the carrying amounts of those assets. These increases in carrying amounts shall be treated as reversals of impairment losses for individual assets.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset shall not be increased above the lower of:

(a) its recoverable amount (if determinable); and

(b) the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset shall be allocated pro rata to the other assets of the unit, except for goodwill.

6.3 Reversing an impairment loss for goodwill

An impairment loss recognised for goodwill shall not be reversed in a subsequent period.

7 MAJOR CHANGE IN IND AS 36 VIS-À-VIS IAS* 36 NOT RESULTING IN CARVE OUT

Impairment of Investment Property: Paragraph 2(f) of IAS 36 provides that this standard is not applied to the accounting for impairment of investment property that is measured at fair value. Paragraph 2(f) is deleted in Ind AS 36 as Ind AS 40 requires cost model for measurement of investment property.

* The term 'IFRS' includes not only the International Financial Reporting Standards (IFRSs) issued by the IASB, it also includes the International Accounting Standards (IASs), IFRICs and SICs.

8 MAJOR DIFFERENCES BETWEEN IND AS 36 VIS A VIS AS 28

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

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

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

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

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

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

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

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

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

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

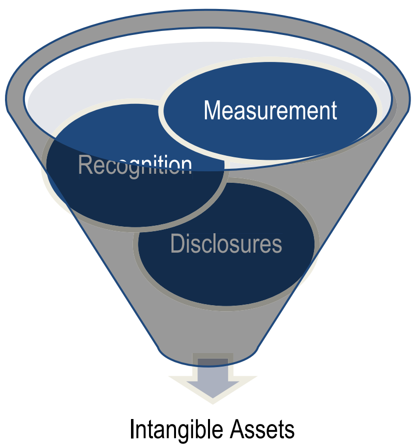
(viii) ***Disclosures:*** Ind AS 36 requires certain extra disclosures as compared to AS 28.

11

IND AS 38 : INTANGIBLE ASSETS

1 OBJECTIVE

The objective of this Standard is to prescribe the accounting treatment for intangible assets that are not dealt with specifically in another Standard. This Standard requires an entity to recognise an intangible asset if, and only if, specified criteria are met. The Standard also specifies how to measure the carrying amount of intangible assets and requires specified disclosures about intangible assets.



2 SCOPE

This Standard shall be applied in accounting for intangible assets, **except**

1. Intangible assets that are within the scope of another Standard (See below)
2. Financial assets, as defined in Ind AS 32 'Financial Instruments: Presentation'
3. The recognition and measurement of exploration and evaluation assets (Ind AS 106 'Exploration for and Evaluation of Mineral Resources')
4. Expenditure on the development and extraction of minerals, oil, natural gas and similar non-regenerative resources

If another Standard prescribes the accounting for a specific type of intangible asset, an entity applies that Standard instead of this Standard. For example, this Standard **does not apply to:**

1. Intangibles held for sale in ordinary course of business (Ind AS 2 and Ind AS 11)
2. Deferred Tax Assets (Ind AS 12)
3. Leases (Ind AS 17)
4. Assets arsing from Employee Benefits (Ind AS 19)
5. Financial Assets (Ind AS 32)
6. Goodwill acquired in business combination (Ind AS 103)
7. Insurance Contracts (Ind AS 104)
8. Non-current Assets held for sale (Ind AS 105)

Caution: In determining whether an asset that incorporates both intangible and tangible elements should be treated under Ind AS 16 'Property, Plant and Equipment' or as an intangible asset under this Standard, an entity uses judgement to assess which element is more significant.

For example, computer software for a computer-controlled machine tool that cannot operate without that specific software is an integral part of the related hardware and it is treated as property, plant and equipment. The same applies to the operating system of a computer. When the software is not an integral part of the related hardware, computer software is treated as an intangible asset.

1. This Standard applies to, among other things;
   - expenditure on advertising,
   - training,
   - start-up,
   - research and development activities.

   Research and development activities are directed to the development of knowledge. Therefore, although these activities may result in an asset with physical substance (e.g. a prototype), the physical element of the asset is secondary to its intangible component, i.e. the knowledge embodied in it.

2. In the case of a **finance lease**, the underlying asset may be either tangible or intangible. After initial recognition, a lessee accounts for an intangible asset held under a finance lease in accordance with this Standard. Rights under licensing agreements for items such as motion picture films, video recordings, plays, manuscripts, patents and copyrights are excluded from the scope of Ind AS 17 and are within the scope of this Standard.

3. Exclusions from the scope of a Standard may occur if activities or transactions are so specialised that they give rise to accounting issues that may need to be dealt with in a different way. Such issues arise in the accounting for expenditure on the exploration for, or development and extraction of, oil, gas and mineral deposits in extractive industries and in the case of insurance contracts. Therefore, this Standard does not apply to expenditure on such activities and contracts. However, this Standard applies to other intangible assets used (such as computer software), and other expenditure incurred (such as start-up costs), in extractive industries or by insurers.

3 INTANGIBLE ASSET

Intangible asset is an:

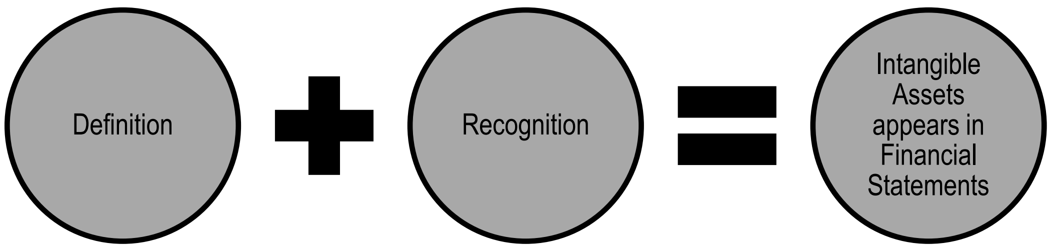
- Identifiable
- Non-monetary
- Asset
- Without physical substance.

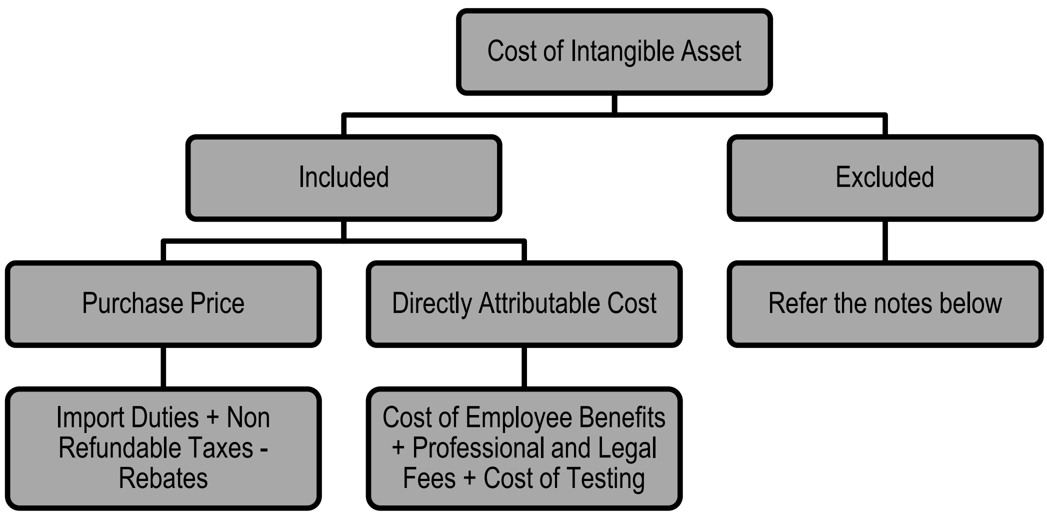
4 RECOGNITION AND MEASUREMENT

The recognition of an item as an intangible asset requires an entity to demonstrate that the item meets:

(a) the **definition** of an intangible asset; and

(b) the **recognition** criteria.





Examples of expenditures that are **not part** of the cost of an intangible asset are:

(a) costs of introducing a new product or service (including costs of advertising and promotional activities);

(b) costs of conducting business in a new location or with a new class of customer (including costs of staff training); and

(c) administration and other general overhead costs.

Deferred Payment

- If payment for an intangible asset is deferred beyond normal credit terms, its cost is the cash price equivalent.
- The difference between this amount and the total payments is recognised as interest expense over the period of credit unless it is capitalised in accordance with Ind AS 23 Borrowing Costs.

4.1 Separate Acquisition

The cost of a separately acquired intangible asset would comprise:

(a) its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates; and

(b) any directly attributable cost of preparing the asset for its intended use.

4.2 Acquisition as part of a Business Combination

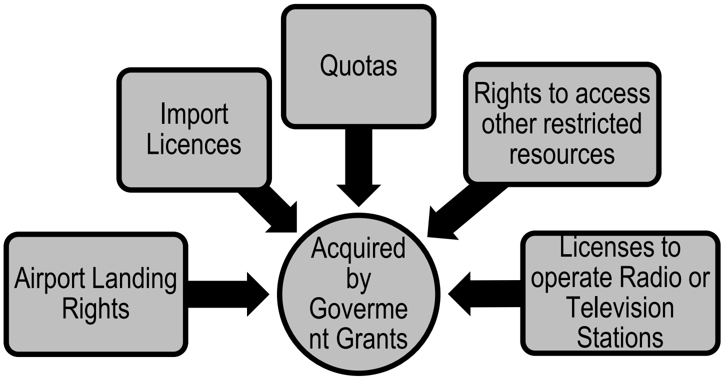
In accordance with Ind AS 103, '*Business Combinations'*, if an intangible asset is acquired in a business combination, the cost of that intangible asset is its fair value at the acquisition date. If an asset acquired in a business combination is separable or arises from contractual or other legal rights, sufficient information would exist to measure reliably the fair value of the asset.

In accordance with this Standard and Ind AS 103, an acquirer should recognise at the acquisition date, separately from goodwill, an intangible asset of the acquiree, if it meets the definition and recognition criteria for an intangible asset irrespective of whether the asset had been recognised by the acquiree before the business combination. This means that the acquirer recognises as an asset separately from goodwill an in-process research and development project of the acquiree if the project meets the definition of an intangible asset.

4.3 Acquisition by way of a Government Grant

In some cases, an intangible asset may be acquired free of charge, or for nominal consideration by way of a government grant.

This may happen when a government transfers or allocates to an entity intangible assets such as:



Note: In accordance with Ind AS 20 *'Accounting for Government Grants and Disclosure of Government Assistance'*, an entity recognises both the intangible asset and the grant **initially at fair value.**

4.4 Exchange of Assets

One or more intangible assets may be acquired in exchange for:

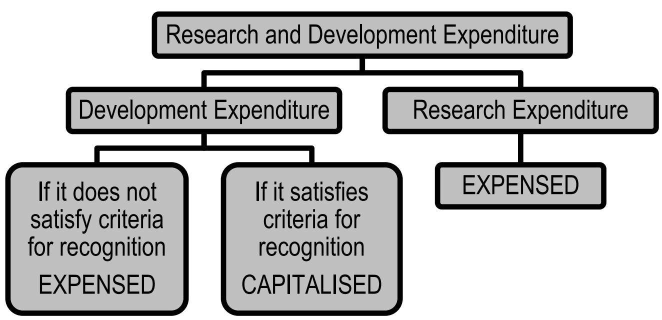
- A non-monetary asset or assets, or
- A combination of monetary and non-monetary assets.

The cost of such an intangible asset is measured at fair value unless:

(a) the exchange transaction lacks commercial substance or

(b) the fair value of neither the asset received nor the asset given up is reliably measurable.

5 SUBSEQUENT EXPENDITURE ON AN ACQUIRED IN-PROCESS RESEARCH AND DEVELOPMENT PROJECT



6 INTERNALLY GENERATED GOODWILL

Internally generated goodwill shall **not be** recognised as an asset.

Internally generated goodwill is not recognised as an asset because it is not an identifiable resource (i.e. it is neither separable nor does it arise from contractual or other legal rights) controlled by the entity that can be measured reliably at cost.

In some cases, expenditure is incurred to generate future economic benefits, but it does not result in the creation of an intangible asset that meets the recognition criteria in this Standard. Such expenditure is often described as contributing to internally generated goodwill.

Differences between the fair value of an entity and the carrying amount of its identifiable net assets at any time may capture a range of factors that affect the fair value of the entity. However, such differences do not represent the cost of intangible assets controlled by the entity.

6.1 Internally Generated Intangible Assets -Requirements and Guidance

To assess whether an internally generated intangible asset meets the criteria for recognition, an entity classifies the generation of the asset into:

(a) a research phase; and

(b) a development phase.

If an entity cannot distinguish the research phase from the development phase of an internal project to create an intangible asset, the entity treats the expenditure on that project as if it were incurred in the research phase only.

1. **Research Phase:** No intangible asset arising from research (or from the research phase of an internal project) shall be recognised.

   Expenditure on research (or on the research phase of an internal project) shall be recognised as an expense when it is incurred.

2. **Development Phase:** An intangible asset arising from development (or from the development phase of an internal project) shall be recognised if, and only if, an entity can **demonstrate all** of the following:

   (a) the technical feasibility of completing the intangible asset so that it will be available for use or sale.

   (b) its intention to complete the intangible asset and use or sell it.

   (c) its ability to use or sell the intangible asset.

(d) how the intangible asset will generate probable future economic benefits. Among other things, the entity can demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset.

(e) the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset.

(f) its ability to measure reliably the expenditure attributable to the intangible asset during its development.

6.2 Cost of an Internally Generated Intangible Asset

The cost of an internally generated intangible asset is the sum of expenditure incurred from the date when the intangible asset first meets the recognition criteria and the condition relating to development phase.

Ind AS 38 prohibits reinstatement of expenditure previously recognised as an expense.

The cost of an internally generated intangible asset comprises **all directly attributable costs** necessary to create, produce, and prepare the asset to be capable of operating in the manner intended by management.

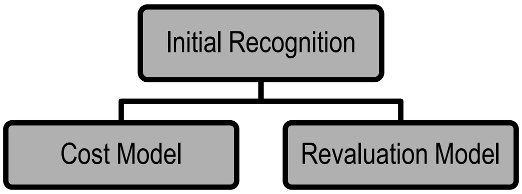
Examples of directly attributable costs are:

- Costs of materials and services used or consumed in generating the intangible asset
- Costs of employee benefits (as defined in Ind AS 19) arising from the generation of the intangible asset
- Fees to register a legal right
- Amortisation of patents and licences that are used to generate the intangible asset

Ind AS 23 specifies criteria for the recognition of interest as an element of the cost of an internally generated intangible asset.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance should not be recognised as intangible assets.

7 MEASUREMENT AFTER RECOGNITION



An entity shall choose either the cost model or the revaluation model as its accounting policy.

If an intangible asset is accounted for using the revaluation model, all the other assets in its class shall also be accounted for using the same model, unless there is no active market for those assets.

1. **Cost Model:** After initial recognition, an intangible asset shall be carried at cost less any accumulated amortisation less any accumulated impairment losses
2. **Revaluation Model:** After initial recognition, an intangible asset shall be carried at a revalued amount, being fair value at the date of the revaluation less any subsequent accumulated amortisation less any subsequent accumulated impairment losses

Treatment of Revaluation Gains and Losses: If an intangible asset's carrying amount is increased as a result of a revaluation, the increase should be recognised in other comprehensive income and accumulated in equity under the heading of revaluation surplus. However, the increase should be recognised in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss.

If an intangible asset's carrying amount is decreased as a result of a revaluation, the decrease should be recognised in profit or loss. However, the decrease should be recognised in other comprehensive income to the extent of any credit balance in the revaluation surplus in respect of that asset.

8 USEFUL LIFE

An entity shall assess whether the useful life of an intangible asset is:

- Finite {If finite, the length of, or number of production or similar units constituting, that useful life} OR
- Indefinite {An intangible asset shall be regarded by the entity as having an indefinite useful life when, based on an analysis of all of the relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the entity}

The accounting for an intangible asset is based on its useful life.

- An intangible asset with a finite useful life is amortised.
- An intangible asset with an indefinite useful life is not.

8.1 Intangible Assets with Finite Useful Lives

Amortisation

- The **depreciable amount** of an intangible asset with a finite useful life shall be allocated on a systematic basis over its useful life.
- Amortisation **shall begin** when the asset is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management.
- Amortisation **shall cease** at the earlier of the date that the asset is classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with Ind AS 105 and the date that the asset is derecognised.
- The **amortisation method** used shall reflect the pattern in which the asset's future economic benefits are expected to be consumed by the entity. If that pattern cannot be determined reliably, the straight-line method shall be used.
- The amortisation charge for each period shall be recognised in **profit or loss** unless this or another Standard permits or requires it to be included in the carrying amount of another asset.

Residual Value: The residual value of an intangible asset with a finite useful life shall be **assumed to be zero unless:**

- there is a commitment by a third party to purchase the asset at the end of its useful life; or
- there is an active market (as defined in Ind AS 113) for the asset and:
  I. residual value can be determined by reference to that market; and
  II. it is probable that such a market will exist at the end of the asset's useful life.

Review of Amortisation Period and Amortisation Method

- The amortisation period and the amortisation method for an intangible asset with a finite useful life shall be <u>reviewed at least at each financial year-end</u>.
- If the expected useful life of the asset is different from previous estimates, the amortisation period shall be changed accordingly. If there has been a change in the expected pattern of consumption of the future economic benefits embodied in the asset, the amortisation method

shall be changed to reflect the changed pattern. Such changes shall be accounted for as changes in accounting estimates in accordance with Ind AS 8.

- During the life of an intangible asset, it may become apparent that the estimate of its useful life is inappropriate. For example, the recognition of an impairment loss may indicate that the amortisation period needs to be changed.
- Over time, the pattern of future economic benefits expected to flow to an entity from an intangible asset may change.

8.2 Intangible Assets with Indefinite Useful Lives

An intangible asset with an indefinite useful life shall not be amortised.

In accordance with Ind AS 36, an entity is required to test an intangible asset with an indefinite useful life for impairment by comparing its recoverable amount with its carrying amount:

- Annually AND
- Whenever there is an indication that the intangible asset may be impaired

8.3 Review of Useful Life Assessment

The useful life of an intangible asset that is not being amortised should be reviewed each period to determine whether events and circumstances continue to support an indefinite useful life assessment for that asset. If they do not, the change in the useful life assessment from indefinite to finite should be accounted for as a change in an accounting estimate in accordance with Ind AS 8.

9 RETIREMENTS AND DISPOSALS

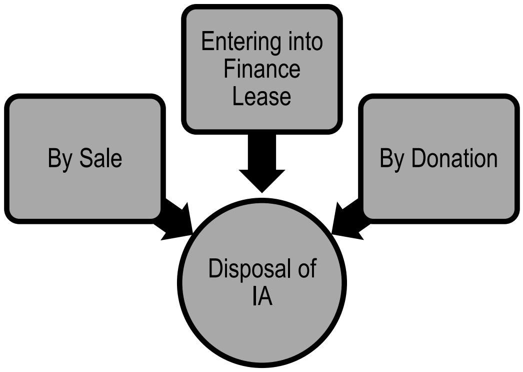
An intangible asset shall be derecognised:

- On Disposal OR
- When no future economic benefits are expected from its use or disposal

- The gain or loss arising from derecognition of an intangible asset shall be determined as the difference between the net disposal proceeds, if any, and the carrying amount of the asset.

- It shall be recognised in profit or loss when the asset is derecognised (unless Ind AS 17 requires otherwise on a sale and leaseback).
- Gains shall not be classified as revenue.

The disposal of an intangible asset may occur in a variety of ways:



In determining the date of disposal of such an asset, an entity applies the criteria in Ind AS 18, Revenue, for recognising revenue from the sale of goods. Ind AS 17 applies to disposal by a sale and leaseback.

Appendix A of Ind AS 38 provides guidance on whether the web site is an internally generated intangible asset that is subject to the requirements of Ind AS 38; and the appropriate accounting treatment of such expenditure. The Appendix prescribes that an entity's own web site that arises from development and is for internal or external access is an internally generated intangible asset that is subject to the requirements of Ind AS 38. Any internal expenditure on the development and operation of an entity's own web site shall be accounted for in accordance with Ind AS 38. The nature of each activity for which expenditure is incurred (eg training employees and maintaining the web site) and the web site's stage of development or post-development shall be evaluated to determine the appropriate accounting treatment. A web site that is recognised as an intangible asset under this Appendix shall be measured after initial recognition by applying the requirements of paragraphs 72-87 of Ind AS 38. The best estimate of a web site's useful life should be short.

10 MAJOR CHANGE IN IND AS 38 VIS-À-VIS IAS* 38 NOT RESULTING IN CARVE OUT

Intangible Assets acquired by way of Government Grant: With regard to the acquisition of an intangible asset by way of a government grant, IAS 38, Intangible Assets, provides the option to an

* The term 'IFRS' includes not only the International Financial Reporting Standards (IFRSs) issued by the IASB, it also includes the International Accounting Standards (IASs), IFRICs and SICs.

entity to recognise both asset and grant initially at fair value or at a nominal amount plus any expenditure that is directly attributable to preparing the asset for its intended use. Ind AS 38 allows only fair value for recognising the intangible asset and grant in accordance with Ind AS 20.

11 MAJOR CHANGES IN IND AS 38 VIS-A-VIS AS 26

(i) ***Exclusions:*** Paragraph 5 of AS 26 does not apply to accounting issues of specialised nature that arise in respect of accounting for discount or premium relating to borrowings and ancillary costs incurred in connection with the arrangement of borrowings, share issue expenses and discount allowed on the issue of shares. Ind AS 38 does not include any such exclusion specifically as these are covered by other accounting standards.

Ind AS 38 contains a scope exclusion with regard to the amortisation method for intangible assets arising from service concession arrangements in respect of toll roads recognised in the financial statements before the beginning of the first Ind AS financial reporting period as per the previous GAAP, i.e., Schedule II to the Companies Act, 2013.

(ii) ***Definition of Intangible Assets:*** AS 26 defines an intangible asset as an identifiable non-monetary asset without physical substance held for use in the production or supply of goods or services, for rental to others, or for administrative purposes whereas in Ind AS 38, the requirement for the asset to be held for use in the production or supply of goods or services, for rental to others, or for administrative purposes has been removed from the definition of an intangible asset.

(iii) ***Identifiability:*** AS 26 does not define 'identifiability', but states that an intangible asset could be distinguished clearly from goodwill if the asset was separable, but that separability was not a necessary condition for identifiability. Ind AS 38 provides detailed guidance in respect of identifiability.

(iv) ***Separately Acquired Intangible Assets:*** As per Ind AS 38, in the case of separately acquired intangibles, the criterion of probable inflow of expected future economic benefits is always considered satisfied, even if there is uncertainty about the timing or the amount of the inflow. However, there is no such provision in the existing standard.

(v) ***Revenue Based Amortisation Method:*** In Ind AS 38 there is a rebuttable presumption that an amortisation method that is based on the revenue generated by an activity that includes the use of an intangible asset is inappropriate. Ind AS 38 allows use of revenue based method of amortisation of intangible asset, in a limited way. AS 26 does not specifically deal with revenue based amortisation method.

(vi) ***Payment Deferred beyond Normal Credit Terms:*** Under Ind AS 38, if payment for an intangible asset is deferred beyond normal credit terms, the difference between this amount and the total payments is recognised as interest expense over the period of credit unless it is capitalised as per Ind AS 23. However, there is no such provision in the existing standard.

(vii) ***Intangible Assets acquired in Business Combination:*** Ind AS 38 deals in detail in respect of intangible assets acquired in a business combination. On the other hand, AS 26 refers only to intangible assets acquired in an amalgamation in the nature of purchase and does not refer to business combinations as a whole.

(viii) ***Subsequent Expenditure on in Process Research and Development Project:*** AS 26 is silent regarding the treatment of subsequent expenditure on an in-process research and development project acquired in a business combination whereas Ind AS 38 gives guidance for the treatment of such expenditure

(ix) ***Intangible Assets Acquired in Exchange:*** Ind AS 38 requires that if an intangible asset is acquired in exchange of a non-monetary asset, it should be recognised at the fair value of the asset given up unless (a) the exchange transaction lacks commercial substance or (b) the fair value of neither the asset received nor the asset given up is reliably measurable. However, AS 26 requires the principles of AS 10 to be followed which require that when an asset is acquired in exchange for another asset, its cost is usually determined by reference to the fair market value of the consideration given. It may be appropriate to consider also the fair market value of the asset acquired if this is more clearly evident. An alternative accounting treatment to record the asset acquired at the net book value of the asset given up; in each case an adjustment is made for any balancing receipt or payment of cash or other consideration also.

(x) ***Intangible Assets acquired Free of Charge or for a Nominal Consideration by way of Government Grant:*** As per Ind AS 38, when intangible assets are acquired free of charge or for nominal consideration by way of government grant, an entity should, in accordance with Ind AS 20, record both the grant and the intangible asset at fair value. As per AS 26, intangible assets acquired free of charge or for nominal consideration by way of government grant is recognised at nominal value or at acquisition cost, as appropriate plus any expenditure that is attributable to making the asset ready for intended use.

(xi) ***Useful Life of an Intangible Asset:*** AS 26 is based on the assumption that the useful life of an intangible asset is always finite, and includes a rebuttable presumption that the useful life cannot exceed ten years from the date the asset is available for use. That rebuttable presumption is not there in Ind AS 38. Ind AS 38 recognizes that the useful life of an intangible asset can even be indefinite subject to fulfillment of certain conditions, in which case it should not be amortised but should be tested for impairment.

(xii) ***Guidance on Certain Issues:*** In Ind AS 38, guidance is available on cessation of capitalisation of expenditure, de-recognition of a part of an intangible asset and useful life of

a reacquired right in a business combination. There is no such guidance in the existing standard on these aspects.

(xiii) Valuation Model as Accounting Policy: Ind AS 38 permits an entity to choose either the cost model or the revaluation model as its accounting policy, whereas in the existing standard, revaluation model is not permitted.

(xiv) Intangible Assets recognised as an Expense: Ind AS 38 provides more guidance on recognition of intangible items recognised as expense. Ind AS 38 clarifies that in respect of prepaid expenses, recognition of an asset would be permitted only upto the point at which the entity has the right to access the goods or upto the receipt of services. Further, unlike AS 26, mail order catalogues have been specifically identified as a form of advertising and promotional activities which are required to be expensed.

(xv) Contractual or Legal Rights may be Shorter than Legal Life: Ind AS 38 acknowledges that the useful life of an intangible asset arising from contractual or legal rights maybe shorter than the legal life. AS 26 does not include such a provision.

(xvi) Amortisation Lower than under SLM: As per AS 26, there will rarely, if ever, be persuasive evidence to support an amortisation method for intangible assets that results in a lower amount of accumulated amortisation than under straight-line method. Ind AS 38 does not contain any such provision.

(xvii) Subsequent Increase of Residual Value for Changes in Prices or Value: Under Ind AS 38, the residual value is reviewed at least at each financial year-end. If it increases to an amount equal to or greater than the asset's carrying amount, amortisation charge is zero unless the residual value subsequently decreases to an amount below the asset's carrying amount. However, AS 26 specifically requires that the residual value is not subsequently increased for changes in prices or value.

(xviii) Change in Method of Amortization: As per AS 26, change in the method of amortisation is a change in accounting policy whereas as per Ind AS 38, this would be a change in accounting estimate.

(xix) Annual Impairment Testing: AS 26 also requires annual impairment testing of an intangible asset not yet available for use. There is no such requirement in Ind AS 38.

(xx) Disclosures: Ind AS 38 also requires certain additional disclosures as compared to AS 26.

(xxi) Intangible Assets Retired from Use and Held for Sale: Intangible assets retired from use and held for sale are covered by AS 26. However, Ind AS 38 does not include such intangible assets since they would be covered by Ind AS 105.

12

IND AS 19 : EMPLOYEE BENEFITS

1 OBJECTIVE

The objective of this Standard is to prescribe the accounting and disclosure for employee benefits. The Standard requires an entity to recognise:

- A liability - When an employee has provided service in exchange for employee benefits to be paid in the future
- An expense - When the entity consumes the economic benefit arising from service provided by an employee in exchange for employee benefits

2 SCOPE

This Standard shall be applied by an employer in accounting for all employee benefits, except those to which Ind AS 102, *'Share-based Payment'*, applies.

This Standard does not deal with reporting by employee benefit plans.

The employee benefits to which this Standard applies include those provided:

(a) under formal plans or other formal agreements between an entity and individual employees, groups of employees or their representatives;

(b) under legislative requirements, or through industry arrangements, whereby entities are required to contribute to national, state, industry or other multi-employer plans; or

(c) by those informal practices that give rise to a constructive obligation. Informal practices give rise to a constructive obligation where the entity has no realistic alternative but to pay employee benefits.

3 EMPLOYEE BENEFITS

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees or for the termination of employment.

3.1 Types of Employee Benefits

Employee benefits include:

(a) **Short-term Employee Benefits:** Short-term employee benefits are employee benefits (other than termination benefits) that are expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related services. It includes:

(i) wages, salaries and social security contributions;

(ii) paid annual leave and paid sick leave;

(iii) profit-sharing and bonuses; and

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

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

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

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

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

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

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

(iii) long-term disability benefits; and

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

3.2 Settlement of Employee Benefits

Employee benefits include benefits provided:

- To employees or
- To their dependants or beneficiaries

And may be settled by payments (or the provision of goods or services) made either directly:

- To the employees; or
- To their spouses; or
- Children; or
- Other dependants; or
- To others, such as insurance companies.

An employee may provide services to an entity on:

- A full-time
- Part-time
- Permanent

- Casual or
- Temporary basis

For the purpose of this Standard, employees include directors and other management personnel.

4 SHORT-TERM EMPLOYEE BENEFITS

When an employee has rendered service to an entity during an accounting period, the entity shall recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

(a) **as a liability** (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, an entity shall recognise that excess as an **asset** (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund.

(b) **as an expense**, unless another Ind AS requires or permits the inclusion of the benefits in the cost of an asset (For example, Ind AS 2, *'Inventories'*, and Ind AS 16*, 'Property, Plant and Equipment'*).

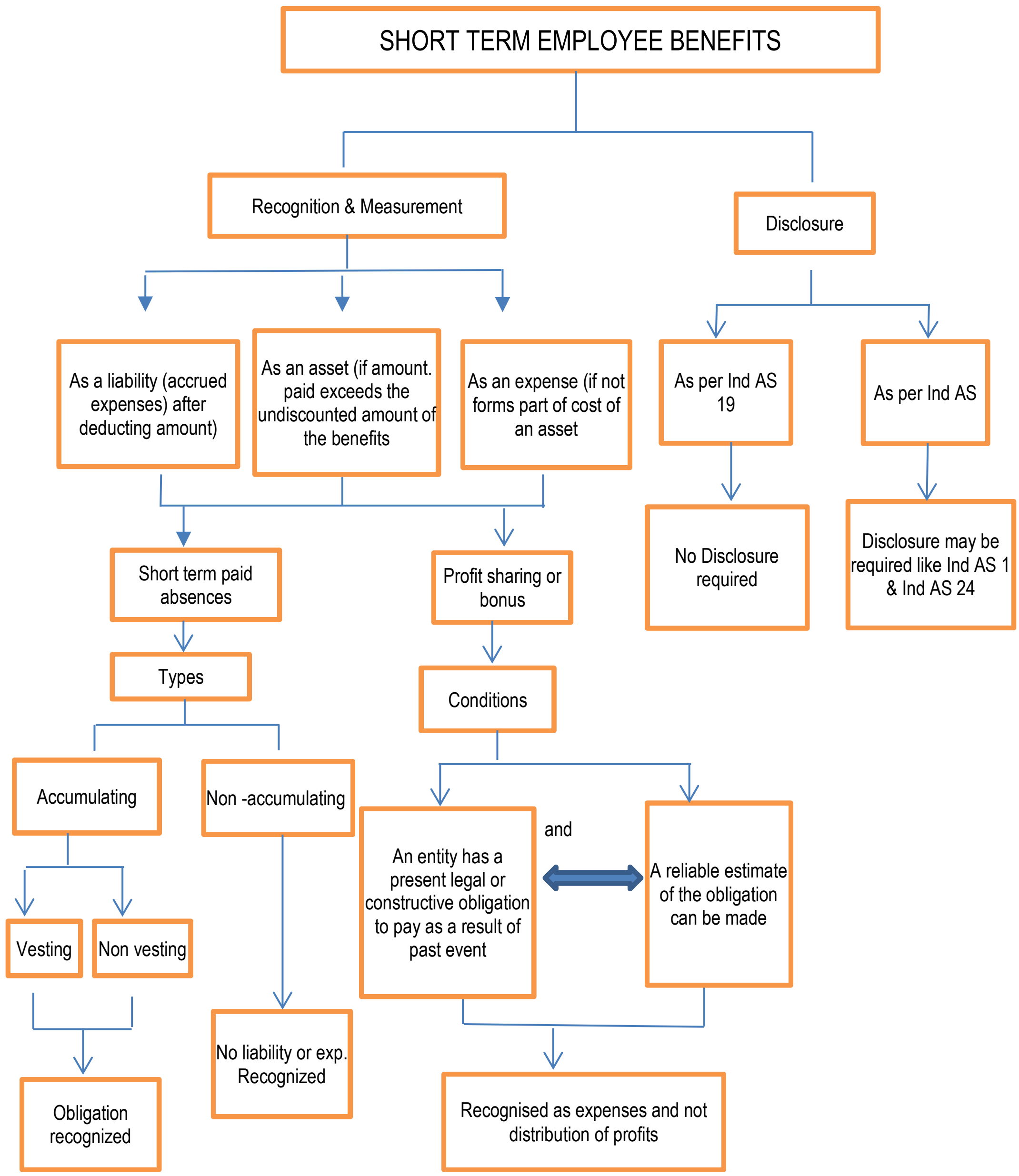
Short-term paid absences: An entity shall recognise the expected cost of short-term employee benefits in the form of paid absences as follows:

Profit-sharing and bonus plans: An entity shall recognise the expected cost of profit-sharing and bonus payments, only when:

(i) the entity has a present legal or constructive obligation to make such payments as a result of past events; and

(ii) a reliable estimate of the obligation can be made.

A present obligation exists when, and only when, the entity has no realistic alternative but to make the payments.



5 POST-EMPLOYMENT BENEFITS

Post-employment benefit plans are classified as either defined contribution plans or defined benefit plans, depending on the economic substance of the plan as derived from its principal terms and conditions.

5.1 Defined Contribution Plans

The entity's legal or constructive obligation is limited to the amount that it agrees to contribute to the fund. Thus, the amount of the post-employment benefits received by the employee is determined by the amount of contributions paid by an entity (and perhaps also the employee) to a post-employment benefit plan or to an insurance company, together with investment returns arising from the contributions.

In consequence, actuarial risk (that benefits will be less than expected) and investment risk (that assets invested will be insufficient to meet expected benefits) fall, in substance, on the employee.

Recognition and measurement: When an employee has rendered service to an entity during a period, the entity shall recognise the contribution payable to a defined contribution plan in exchange for that service:

(a) as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the end of the reporting period, an entity shall recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund.

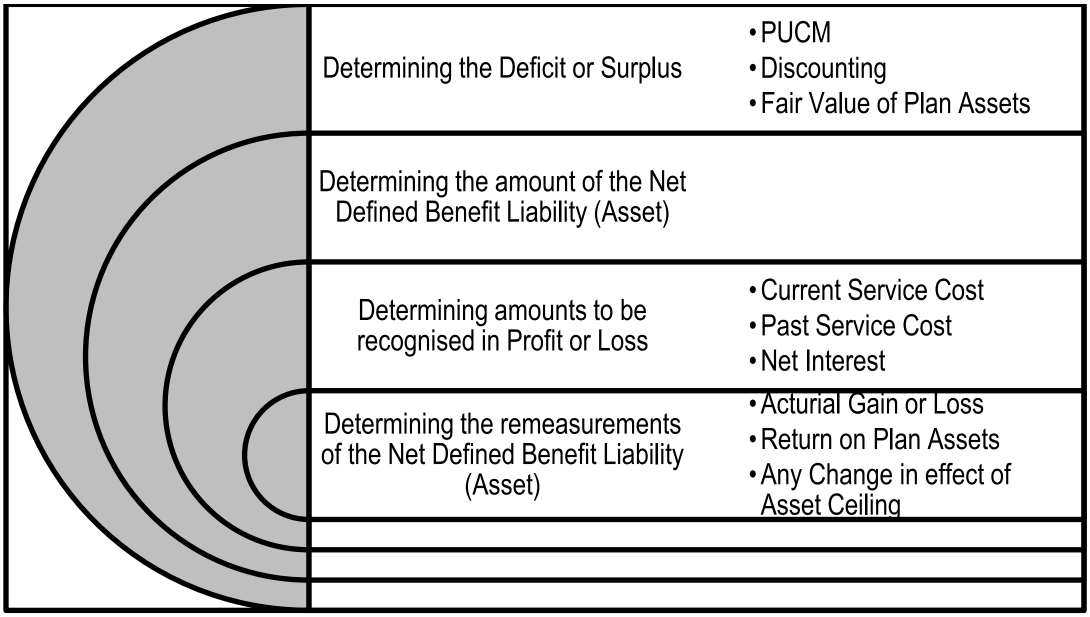
(b) as an expense, unless another Ind AS requires or permits the inclusion of the contribution in the cost of an asset (For example, Ind AS 2 and Ind AS 16).

Note: When contributions to a defined contribution plan are not expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related service, they shall be discounted using discount rate.

5.2 Defined Benefit Plans

- The entity's obligation is to provide the agreed benefits to current and former employees; and
- Actuarial risk (that benefits will cost more than expected) and investment risk fall, in substance, on the entity. If actuarial or investment experience are worse than expected, the entity's obligation may be increased.

Recognition and Measurement:



Accounting by an entity for defined benefit plans involves the following steps:

(A) Determining the deficit or surplus. This involves:

(i) using an actuarial technique, the projected unit credit method, to make a reliable estimate of the ultimate cost to the entity of the benefit that employees have earned in return for their service in the current and prior periods.

(ii) discounting that benefit in order to determine the present value of the defined benefit obligation and the current service cost.

(iii) deducting the fair value of any plan assets from the present value of the defined benefit obligation.

(B) Determining the amount of the net defined benefit liability (asset) as the amount of the deficit or surplus determined in (A), adjusted for any effect of limiting a net defined benefit asset to the asset ceiling.

(C) Determining amounts to be recognised in profit or loss:

(i) current service cost.

(ii) any past service cost and gain or loss on settlement.

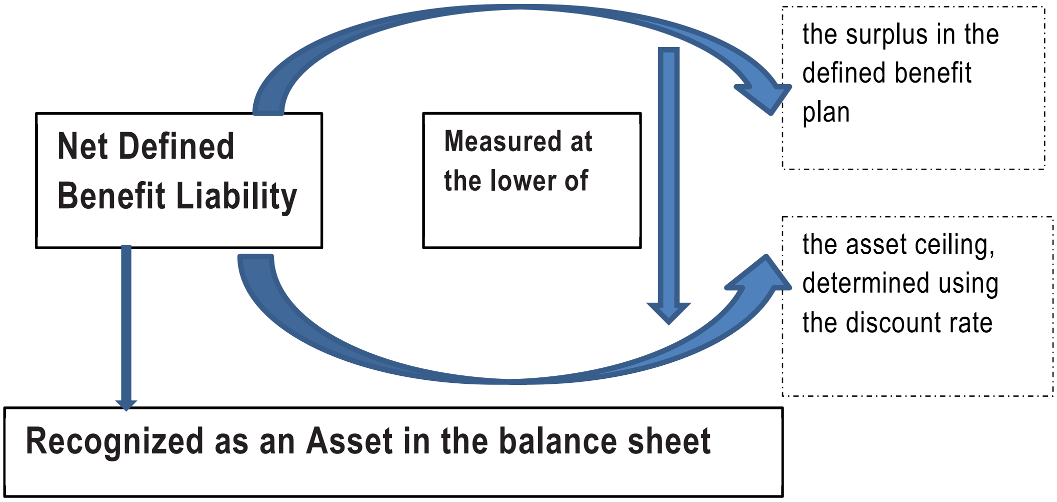
(iii) net interest on the net defined benefit liability (asset).

(D) Determining the remeasurements of the net defined benefit liability (asset), to be recognised in other comprehensive income, comprising:

(i) actuarial gains and losses;

(ii) return on plan assets, excluding amounts included in net interest on the net defined benefit liability (asset); and

(iii) any change in the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit liability (asset).



6 OTHER LONG-TERM EMPLOYEE BENEFITS

Other long-term employee benefits are all employee benefits other than short-term employee benefits, post-employment benefits and termination benefits.

Recognition and Measurement

The Standard does not require the measurement of other long-term employee benefits to the same degree of uncertainty as the measurement of post-employment benefits. The Standard requires a simplified method of accounting for other long-term employee benefits. Unlike the accounting required for post-employment benefits, this method does not recognise re-measurements in other comprehensive income.

For other long-term employee benefits, an entity shall recognise the net total of the following amounts in profit or loss, except to the extent that another Ind AS requires or permits their inclusion in the cost of an asset:

- Service cost;
- Net interest on the net defined benefit liability (asset); and
- Remeasurements of the net defined benefit liability (asset).

7 TERMINATION BENEFITS

Termination benefits are employee benefits provided in exchange for the termination of an employee's employment 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 an offer of benefits in exchange for the termination of employment.

Recognition and Measurement

An entity shall recognise a liability and expense for termination benefits at the earlier of the following dates:

(a) when the entity can no longer withdraw the offer of those benefits; and

(b) when the entity recognises costs for a restructuring that is within the scope of Ind AS 37 and involves the payment of termination benefits.

An entity shall measure termination benefits on initial recognition, and shall measure and recognise subsequent changes, in accordance with the nature of the employee benefit, provided that if the termination benefits are an enhancement to post-employment benefits, the entity shall apply the requirements for post-employment benefits. Otherwise:

(i) if the termination benefits are expected to be settled wholly before twelve months after the end of the annual reporting period in which the termination benefit is recognised, the entity shall apply the requirements for short-term employee benefits.

(ii) if the termination benefits are not expected to be settled wholly before twelve months after the end of the annual reporting period, the entity shall apply the requirements for other long-term employee benefits.

8 MAJOR CHANGES IN IND AS 19 VIS-À-VIS IAS* 19 NOT RESULTING IN CARVE OUTS

1. ***Discount Rate*: According to Ind AS 19, the rate to be used to discount postemployment benefit obligations (both funded and unfunded) shall be determined by reference to the market yields on government bonds whereas under IAS 19, the government bonds can be used only where there is no deep market of high quality corporate bonds. However, requirements given in IAS

* The term 'IFRS' includes not only the International Financial Reporting Standards (IFRSs) issued by the IASB, it also includes the International Accounting Standards (IASs), IFRICs and SICs.

19 in this regard have been retained with appropriate modifications for currencies other than Indian rupee.

2. ***Example on Gratuity:*** To illustrate treatment of gratuity subject to ceiling under Indian Gratuity Rules, an example has been added in Ind AS 19.

3. ***Appendix B of Ind AS 19:*** In Appendix B of Ind AS 19, paragraph of IFRIC 14 dealing with reason for amending IFRIC 14 has not been included.

9 MAJOR CHANGES IN IND AS 19 VIS-À-VIS NOTIFIED AS 15

(i) Constructive Obligations: In Ind AS 19, employee benefits arising from constructive obligations are also covered whereas AS 15 does not deal with the same.

(ii) Definition of Employee: As per the existing standard, the term 'employee' includes whole-time directors whereas under Ind AS 19 the term includes directors.

(iii) Other Definitions: Definitions of short-term employee benefits, other long-term employee benefits, and past service cost as per AS 15 have been changed in Ind AS 19.

(iv) Contractual Agreement between a Multi-employer Plan and its Participants: Ind AS 19 deals with situations where there is a contractual agreement between a multi-employer plan and its participants that determines how the surplus in the plan will be distributed to the participants (or the deficit funded). AS 15 does not deal with it.

(v) Participation in a Defined Benefit Plan Sharing Risks Between Various Entities under Common Control: As per Ind AS 19, participation in a defined benefit plan sharing risks between various entities under common control is a related party transaction for each group entity and some disclosures are required in the separate or individual financial statements of an entity whereas AS 15 does not contain similar provisions.

(vi) Qualified Actuary: Ind AS 19 encourages, but does not require, an entity to involve a qualified actuary in the measurement of all material post-employment benefit obligations whereas AS 15, though does not require involvement of a qualified actuary, does not specifically encourage the same.

(vii) Recognition of Actuarial Gains and Losses: Actuarial valuation is based on certain assumptions. Changes in these assumptions give rise to actuarial gains and losses, for example, changes in estimates of salary or medical cost. AS 15 requires recognition of actuarial gains and losses immediately in the profit and loss but Ind AS 19 requires that the same shall be recognised in other comprehensive income and should not be recognised in profit or loss.

(viii) ***Financial Assumptions:*** Ind AS 19 makes it clear that financial assumptions shall be based on market expectations, at the end of the reporting period, for the period over which the obligations are to be settled whereas AS 15 does not clarify the same.

(ix) ***Discounting of Post-employment Benefit Obligations:*** As per Ind AS 19, subsidiaries, associates, joint ventures and branches domiciled outside India shall discount post-employment benefit obligations arising on account of post-employment benefit plans using the rate determined by reference to market yields at the end of the reporting period on high quality corporate bonds. In case, such subsidiaries, associates, joint ventures and branches are domiciled in countries where there is no deep market in such bonds, the market yields (at the end of the reporting period) on government bonds of that country shall be used.

As per AS 15, the rate used to discount post-employment benefit obligations should always be determined by reference to market yields at the balance sheet date on government bond.

(x) ***Timing of Recognition of Termination Benefits:*** Under Ind AS 19, more guidance has been given for timing of recognition of termination benefits. Recognition criteria for termination benefits under the revised standard differ from the criteria prescribed in the existing standard.

(xi) ***Guidance on Interaction of Ceiling of Asset Recognition and Minimum Funding Requirement:*** Ind AS 19 gives guidance on the interaction of ceiling of asset recognition and minimum funding requirement in the case of defined benefit obligations, whereas this guidance is not available in the existing standard.

13

IND AS 102 : SHARE BASED PAYMENT

1 OBJECTIVE

The objective of this Standard is to specify the financial reporting by an entity when it undertakes a share-based payment transaction. In particular, it requires an entity to reflect in its profit or loss and financial position the effects of share-based payment transactions, including expenses associated with transactions in which share options are granted to employees.

2 SCOPE

An entity shall apply this Standard in accounting for all share-based payment transactions, whether or not the entity can identify specifically some or all of the goods or services received, including:

- Equity-settled share-based payment transactions
- Cash-settled share-based payment transactions
- Transactions in which the entity receives or acquires goods or services and the terms of the arrangement provide either the entity or the supplier of those goods or services with a choice of whether the entity settles the transaction in cash (or other assets) or by issuing equity instruments

Not applicable to:

- Transactions in which the entity acquires goods as part of the net assets acquired in a business combination as defined by Ind AS 103, *'Business Combinations'*.
- This Standard does not apply to 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'*, Ind AS 109, *'Financial Instruments'*.

For the purposes of this Standard, a transaction with an employee (or other party) in his/her capacity as a holder of equity instruments of the entity is not a share-based payment transaction.

3 SHARE-BASED PAYMENT TRANSACTION

A transaction in which the entity:

(a) receives goods or services from the supplier of those goods or services (including an employee) in a share-based payment arrangement, or

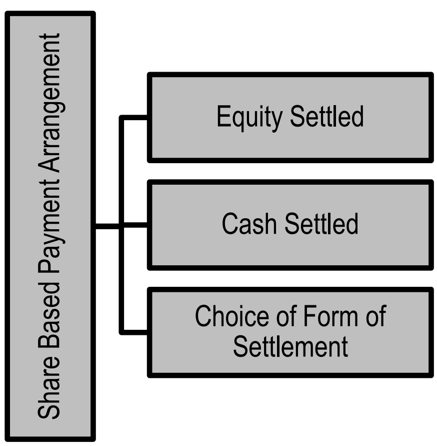
(b) incurs an obligation to settle the transaction with the supplier in a share-based payment arrangement when another group entity receives those goods or services.

Share-based Payment Arrangement

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

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

(b) equity instruments (including shares or share options) of the entity or another group entity, provided the specified vesting conditions, if any, are met.



1. **Equity-settled Share-based Payment Transaction:** A share-based payment transaction in which the entity:

    (a) receives goods or services as consideration for its own equity instruments (including shares or share options), or

    (b) receives goods or services but has no obligation to settle the transaction with the supplier.

2. **Cash-settled Share-based Payment Transaction:** A share-based payment transaction in which the entity acquires goods or services by incurring a liability to transfer cash or other assets to the supplier of those goods or services for amounts that are based on the price (or value) of equity instruments (including shares or share options) of the entity or another group entity.

4 RECOGNITION

- An entity shall recognise the goods or services received or acquired in a share-based payment transaction when it obtains the goods or as the services are received.
- The entity shall recognise a corresponding increase in equity if the goods or services were received in an equity-settled share-based payment transaction, or a liability if the goods or services were acquired in a cash-settled share-based payment transaction.
- When the goods or services received or acquired in a share-based payment transaction do not qualify for recognition as assets, they shall be recognised as expenses.

5 EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS

For equity-settled share-based payment transactions, the entity shall measure the goods or services received, and the corresponding increase in equity, directly, at the fair value of the goods or services received, unless that fair value cannot be estimated reliably. If the entity cannot estimate reliably the fair value of the goods or services received, the entity shall measure their value, and the corresponding increase in equity, indirectly, by reference to the fair value of the equity instruments granted.

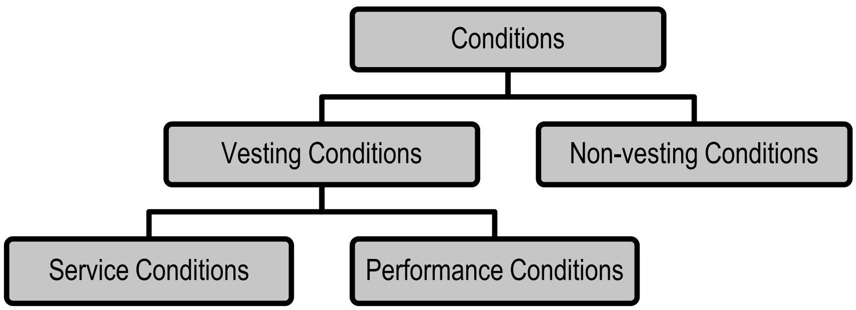
5.1 Transactions with Employees and Others providing similar Services

- The entity shall measure the fair value of the services received by reference to the fair value of the equity instruments granted, because typically it is not possible to estimate reliably the fair value of the services received.
- The fair value of those equity instruments shall be measured at grant date.

5.2 Transactions with Non-employees

- For equity-settled share-based payment transactions, the entity shall measure the goods or services received, and the corresponding increase in equity, directly, at the fair value of the goods or services received, unless that fair value cannot be estimated reliably. In other words, there shall be a rebuttable presumption that the fair value of the goods or services received can be estimated reliably.
- If the entity cannot estimate reliably the fair value of the goods or services received, the entity shall measure their value, and the corresponding increase in equity, indirectly, by reference to the fair value of the equity instruments granted.

6 TREATMENT OF VESTING CONDITIONS



6.1 Treatment of Vesting Conditions

- Vesting conditions, other than market conditions, shall not be taken into account when estimating the fair value of the shares or share options at the measurement date.
- Instead, vesting conditions shall be taken into account by adjusting the number of equity instruments included in the measurement of the transaction amount so that, ultimately, the amount recognised for goods or services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest.

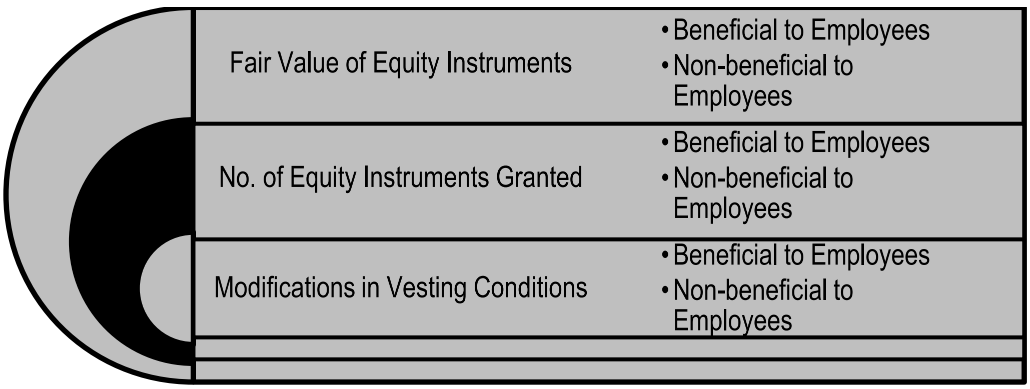
6.2 Treatment of Non-vesting Conditions

Similarly, an entity shall take into account all non-vesting conditions when estimating the fair value of the equity instruments granted.

Therefore, for grants of equity instruments with non-vesting conditions, the entity shall recognise the goods or services received from a counterparty that satisfies all vesting conditions that are not market conditions (e.g. services received from an employee who remains in service for the specified period of service), irrespective of whether those non-vesting conditions are satisfied.

7 MODIFICATIONS TO THE TERMS AND CONDITIONS ON WHICH EQUITY INSTRUMENTS WERE GRANTED, INCLUDING CANCELLATIONS AND SETTLEMENTS

An entity might modify the terms and conditions on which the equity instruments were granted. For example, it might reduce the exercise price of options granted to employees (i.e. reprice the options), which increases the fair value of those options.



7.1 Fair Value

1. **Increases (Beneficial to Employees):** If the modification increases the fair value of the equity instruments granted (e.g. by reducing the exercise price), measured immediately before and after the modification, the entity shall include the incremental fair value granted in the measurement of the amount recognised for services received as consideration for the equity instruments granted. The incremental fair value granted is the difference between the fair value of the modified equity instrument and that of the original equity instrument, both estimated as at the date of the modification.

2. **Decreases (Non-beneficial to Employees):** If the modification reduces the fair value of the equity instruments granted, measured immediately before and after the modification, the entity shall not take into account that decrease in fair value and shall continue to measure the amount recognised for services received as consideration for the equity instruments based on the grant date fair value of the equity instruments granted.

7.2 Number of Equity Instruments Granted

1. **Increases (Beneficial to Employees):** If the modification increases the number of equity instruments granted, the entity shall include the fair value of the additional equity instruments granted, measured at the date of the modification, in the measurement of the amount recognised for services received as consideration for the equity instruments granted.
2. **Decreases (Non-beneficial to Employees):** If the modification reduces the number of equity instruments granted to an employee, that reduction shall be accounted for as a cancellation of that portion of the grant.

7.3 Vesting Conditions

1. **Increases (Beneficial to Employees):** If the entity modifies the vesting conditions in a manner that is beneficial to the employee, for example, by reducing the vesting period or by modifying or eliminating a performance condition (other than a market condition), the entity shall take the modified vesting conditions into account.
2. **Decreases (Non-beneficial to Employees):** If the entity modifies the vesting conditions in a manner that is not beneficial to the employee, for example, by increasing the vesting period or by modifying or adding a performance condition (other than a market condition), the entity shall not take the modified vesting conditions into account.

7.4 Cancellation/Settlement

If a grant of equity instruments is cancelled or settled during the vesting period (other than a grant cancelled by forfeiture when the vesting conditions are not satisfied):

(a) the entity shall account for the cancellation or settlement as an acceleration of vesting, and shall therefore recognise immediately the amount that otherwise would have been recognised for services received over the remainder of the vesting period.

(b) any payment made to the employee on the cancellation or settlement of the grant shall be accounted for as the repurchase of an equity interest, i.e. as a deduction from equity, except to the extent that the payment exceeds the fair value of the equity instruments granted, measured at the repurchase date. Any such excess shall be recognised as an expense. However, if the share-based payment arrangement included liability components, the entity shall re-measure the fair value of the liability at the date of cancellation or settlement. Any payment made to settle the liability component shall be accounted for as an extinguishment of the liability.

(c) if new equity instruments are granted to the employee and, on the date when those new equity instruments are granted, the entity identifies the new equity instruments granted as replacement equity instruments for the cancelled equity instruments, the entity shall account for the granting of replacement equity instruments in the same way as a modification of the original grant of equity instruments.

The incremental fair value granted is the difference between the fair value of the replacement equity instruments and the net fair value of the cancelled equity instruments, at the date the replacement equity instruments are granted.

The net fair value of the cancelled equity instruments is their fair value, immediately before the cancellation, less the amount of any payment made to the employee on cancellation of the equity instruments that is accounted for as a deduction from equity. If the entity does not identify new equity instruments granted as replacement equity instruments for the cancelled equity instruments, the entity shall account for those new equity instruments as a new grant of equity instruments.

8 CASH-SETTLED SHARE-BASED PAYMENT TRANSACTIONS

For cash-settled share-based payment transactions, the entity shall measure the goods or services acquired and the liability incurred at the fair value of the liability. Until the liability is settled, the entity shall re-measure the fair value of the liability at the end of each reporting period and at the date of settlement, with any changes in fair value recognised in profit or loss for the period.

9 SHARE-BASED PAYMENT TRANSACTIONS WITH CASH ALTERNATIVES

For share-based payment transactions in which the terms of the arrangement provide either the entity or the counterparty with the choice of whether the entity settles the transaction in cash (or other assets) or by issuing equity instruments, the entity shall account for that transaction, or the components of that transaction, as a cash-settled share-based payment transaction if, and to the extent that, the entity has incurred a liability to settle in cash or other assets, or as an equity-settled share-based payment transaction if, and to the extent that, no such liability has been incurred.

14

IND AS 21 : THE EFFECTS OF CHANGES IN FOREIGN EXCHANGE RATES

1 OBJECTIVE

An entity may carry on foreign activities in two ways:

1. It may have transactions in foreign currencies or
2. It may have foreign operations.

In addition, an entity may present its financial statements in a foreign currency.

The objective of this Standard is to prescribe how to:

- Include foreign currency transactions and foreign operations in the financial statements of an entity
- How to translate financial statements into a presentation currency

The principal issues are which exchange rate(s) to use and how to report the effects of changes in exchange rates in the financial statements.

2 SCOPE

This Standard shall be applied:

(a) in accounting for transactions and balances in foreign currencies

(b) in translating the results and financial position of foreign operations that are included in the financial statements of the entity by consolidation or the equity method; and

(c) in translating an entity's results and financial position into a presentation currency.

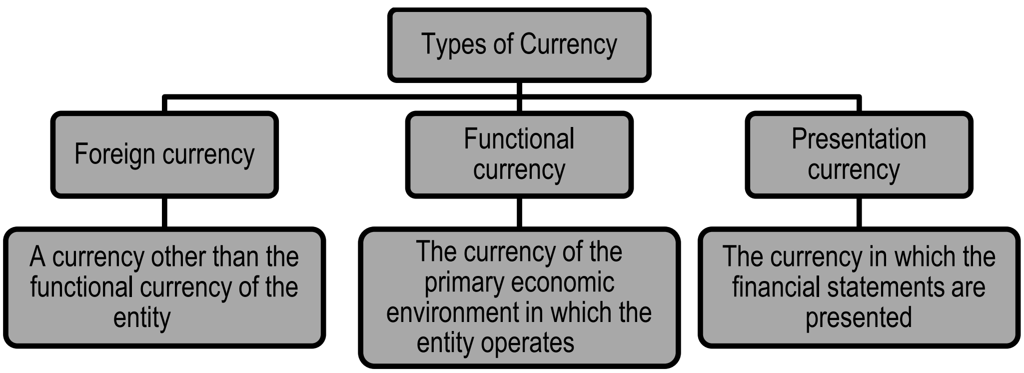
This Standard does not apply to

(a) hedge accounting for foreign currency items, including the hedging of a net investment in a foreign operation. Ind AS 109 applies to hedge accounting.

(b) the presentation in a statement of cash flows of the cash flows arising from transactions in a foreign currency, or to the translation of cash flows of a foreign operation

(c) long-term foreign currency monetary items for which an entity has opted for the exemption.

3 TYPES OF CURRENCY



4 FUNCTIONAL CURRENCY

Functional currency is the currency of the primary economic environment in which the entity operates. The primary economic environment in which an entity operates is normally the one in which it primarily generates and expends cash. An entity considers the following factors in determining its functional currency:

(a) the currency:

(i) that mainly influences sales prices for goods and services (this will often be the currency in which sales prices for its goods and services are denominated and settled); and

(ii) of the country whose competitive forces and regulations mainly determine the sales prices of its goods and services.

(b) the currency that mainly influences labour, material and other costs of providing goods or services (this will often be the currency in which such costs are denominated and settled).

The following factors may also provide evidence of an entity's functional currency:

(a) the currency in which funds from financing activities (i.e. issuing debt and equity instruments) are generated.

(b) the currency in which receipts from operating activities are usually retained.

Change in Functional Currency: When there is a change in an entity's functional currency, the entity shall apply the translation procedures applicable to the new functional currency **prospectively** from the date of the change.

5 REPORTING FOREIGN CURRENCY TRANSACTIONS IN THE FUNCTIONAL CURRENCY

5.1 Initial Recognition

A foreign currency transaction shall be recorded, on initial recognition in the functional currency, by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction.

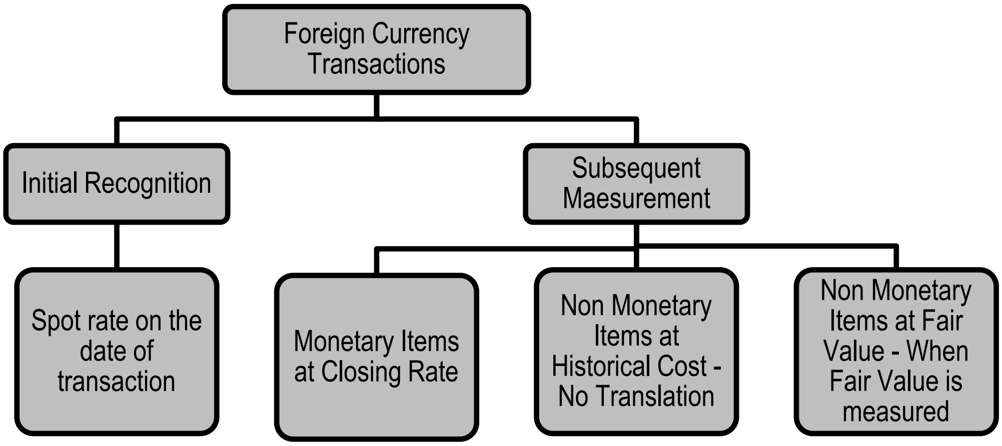
5.2 Reporting at the End of Subsequent Reporting Periods

At the end of each reporting period:

(a) foreign currency monetary items shall be translated using the closing rate;

(b) non-monetary items that are measured in terms of historical cost in a foreign currency shall be translated using the exchange rate at the date of the transaction; and

(c) non-monetary items that are measured at fair value in a foreign currency shall be translated using the exchange rates at the date when the fair value was measured.



5.3 Recognition of Exchange Differences

Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the period or in previous financial statements shall be recognised in profit or loss in the period in which they arise.

When a gain or loss on a non-monetary item is recognised in other comprehensive income, any exchange component of that gain or loss shall be recognised in other comprehensive income. Conversely, when a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss shall be recognised in profit or loss.

Exchange differences arising on a monetary item that forms part of a reporting entity's net investment in a foreign operation shall be recognised in profit or loss in the separate financial statements of the reporting entity or the individual financial statements of the foreign operation, as appropriate. In the financial statements that include the foreign operation and the reporting entity (e.g. consolidated financial statements when the foreign operation is a subsidiary), such exchange differences shall be recognised initially in other comprehensive income and reclassified from equity to profit or loss on disposal of the net investment.

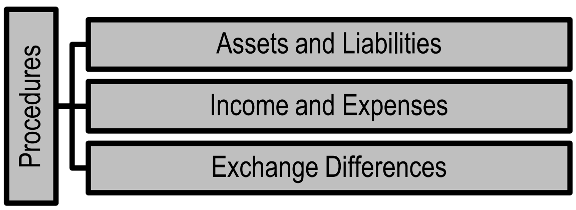
6 TRANSLATION TO THE PRESENTATION CURRENCY FROM/OTHER THAN THE FUNCTIONAL CURRENCY

An entity may present its financial statements in any currency (or currencies). If the presentation currency differs from the entity's functional currency, it translates its results and financial position into the presentation currency.

For example, when a group contains individual entities with different functional currencies, the results and financial position of each entity are expressed in a common currency so that consolidated financial statements may be presented.

6.1 The Results and Financial Position of an Entity whose Functional Currency is <u>NOT</u> the Currency of a Hyperinflationary Economy

The results and financial position of an entity whose functional currency is **<u>NOT</u>** the currency of a hyperinflationary economy shall be translated into a different presentation currency using the following procedures:



1. ***Assets and liabilities for each balance sheet presented (i.e. including comparatives):*** Translated at the closing rate at the date of that balance sheet
2. ***Income and expenses for each statement of profit and loss presented (i.e. including comparatives):*** Translated at exchange rates at the dates of the transactions.
3. ***All resulting exchange differences:*** Recognised in other comprehensive income

6.2 The Results and Financial Position of an Entity whose Functional Currency is the Currency of a Hyperinflationary Economy

The results and financial position of an entity whose functional currency is the currency of a hyperinflationary economy shall be translated into a different presentation currency using the following procedures:

(a) all amounts (i.e. assets, liabilities, equity items, income and expenses, including comparatives) shall be translated at the closing rate at the date of the most recent balance sheet, except that

(b) when amounts are translated into the currency of a non-hyperinflationary economy, comparative amounts shall be those that were presented as current year amounts in the relevant prior year financial statements (i.e. not adjusted for subsequent changes in the price level or subsequent changes in exchange rates).

7 FOREIGN OPERATION

Foreign operation is an entity that is a Subsidiary, Associate, Joint arrangement or Branch of a reporting entity the activities of which are based or conducted in a country or currency other than those of the reporting entity.

7.1 Approach required by this Standard

- In preparing financial statements, each entity—whether a stand-alone entity, an entity with foreign operations (such as a parent) or a foreign operation (such as a subsidiary or branch)—determines its functional currency.
- Many reporting entities comprise a number of individual entities (e.g. A group is made up of a parent and one or more subsidiaries). It is necessary for the results and financial position of each individual entity included in the reporting entity to be translated into the currency in which the reporting entity presents its financial statements. This Standard permits the presentation currency of a reporting entity to be any currency (or currencies). The results and financial position of any individual entity within the reporting entity whose functional currency differs from the presentation currency are translated in accordance with this AS.
- This Standard also permits a stand-alone entity preparing financial statements or an entity preparing separate financial statements in accordance with Ind AS 27, 'Separate Financial Statements', to present its financial statements in any currency (or currencies). If the entity's presentation currency differs from its functional currency, its results and financial position are also translated into the presentation currency.

7.2 Translation of a Foreign Operation

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of that foreign operation shall be treated as assets and liabilities of the foreign operation. Thus they shall be expressed in the functional currency of the foreign operation and shall be translated at the closing rate.

7.3 Disposal or Partial Disposal of a Foreign Operation

On the disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation, recognised in other comprehensive income and accumulated in the separate component of equity, shall be reclassified from equity to profit or loss (as a reclassification adjustment) when the gain or loss on disposal is recognised (Ind AS 1, Presentation of Financial Statements).

On the partial disposal of a subsidiary that includes a foreign operation, the entity shall re-attribute the proportionate share of the cumulative amount of the exchange differences recognised in other comprehensive income to the non-controlling interests in that foreign operation. In any other partial disposal of a foreign operation the entity shall reclassify to profit or loss only the proportionate share of the cumulative amount of the exchange differences recognised in other comprehensive income.

8 MAJOR CHANGE IN IND AS 21 VIS-À-VIS IAS* 21 NOT RESULTING IN CARVE OUT

In case of Change in Functional Currency: When there is a change in functional currency, IAS 21 requires disclosure of that fact and the reason for the change in functional currency. Ind AS 21 requires an additional disclosure of the date of change in functional currency.

9 MAJOR CHANGES IN IND AS 21 VIS-À-VIS AS 11

(i) ***Forward Exchange Contracts and other similar Financial Instruments:*** Ind AS 21 excludes from its scope forward exchange contracts and other similar financial instruments, which are treated in accordance with Ind AS 109. AS 11 does not such exclude accounting for such contracts.

(ii) ***Exchange Differences arising on Translation of Certain Long-term Monetary Items from Foreign Currency to Functional Currency:*** AS 11, gives an option to recognise exchange differences arising on translation of certain long-term monetary items from foreign currency to functional currency directly in equity, to be transferred to profit or loss over the life of the relevant liability/asset if such items are not related to acquisition of fixed assets. Where such items are related to acquisition of fixed assets, the foreign exchange differences can be recognised as part of the cost of the asset.

Ind AS 21 does not give the above option. However, Ind AS 21 does not apply to long-term foreign currency monetary items recognised in the financial statements before the beginning of the first Ind AS financial reporting period as per the previous GAAP, i.e. AS 11. However, as provided in Ind AS 101, such an entity may continue to apply the accounting policy so opted for such long-term foreign currency monetary items as per the previous GAAP.

(iii) ***Approach for Translation:*** AS 11 is based on integral foreign operations and non-integral foreign operations approach for accounting for a foreign operation, whereas Ind AS 21 is based on the functional currency approach. However, in Ind AS 21 the factors to be considered in determining an entity's functional currency are similar to the indicators in AS 11 to determine the foreign operations as non-integral foreign operations. As a result, despite

* The term 'IFRS' includes not only the International Financial Reporting Standards (IFRSs) issued by the IASB, it also includes the International Accounting Standards (IASs), IFRICs and SICs.

the difference in the term, there are no substantive differences in respect of accounting of a foreign operation.

(iv) ***Presentation Currency:*** As per Ind AS 21, presentation currency can be different from local currency and it gives detailed guidance in this regard, whereas AS 11 does not explicitly state so.

15

IND AS 12 : INCOME TAXES

1 OBJECTIVE

The objective of this Standard is to prescribe the accounting treatment for income taxes.

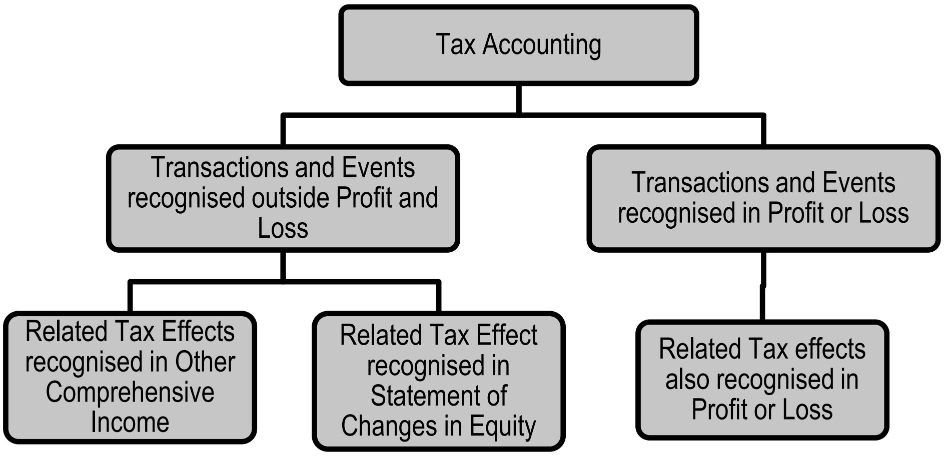
The principal issue in accounting for income taxes is how to account for the current and future tax consequences of:

(a) the future recovery (settlement) of the carrying amount of assets (liabilities) that are recognised in an entity's balance sheet; and

(b) transactions and other events of the current period that are recognised in an entity's financial statements.

It is inherent in the recognition of an asset or liability that the reporting entity expects to recover or settle the carrying amount of that asset or liability. If it is probable that recovery or settlement of that carrying amount will make future tax payments larger (smaller) than they would be if such recovery or settlement were to have no tax consequences, this Standard requires an entity to recognise a deferred tax liability (deferred tax asset), with certain limited exceptions.

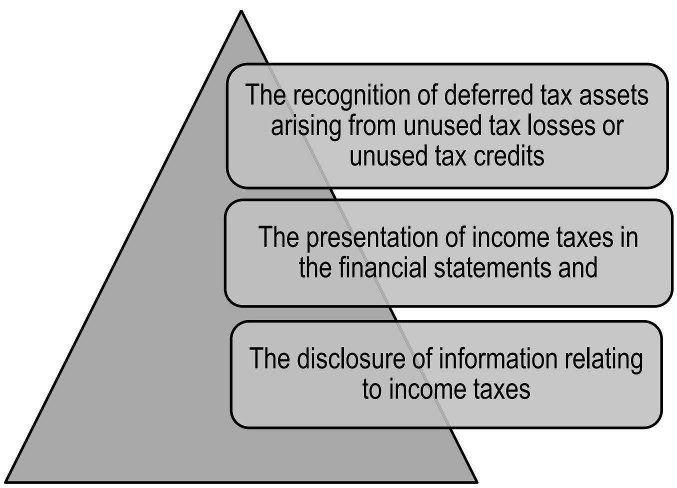
This Standard requires an entity to account for the tax consequences of transactions and other events in the same waythat it accounts for the transactions and other events themselves.



- Thus, for transactions and other events recognised in profit or loss, any related tax effects are also recognised in profit or loss.
- For transactions and other events recognised outside profit or loss (either in other comprehensive income or directly in equity), any related tax effects are also recognised outside profit or loss (either in other comprehensive income or directly in equity, respectively.

Similarly, the recognition of deferred tax assets and liabilities in a business combination affects the amount of goodwill arising in that business combination or the amount of the bargain purchase gain recognised.

This Standard also deals with:



2 SCOPE

This Standard **shall be applied** in accounting for income taxes.

For the purposes of this Standard, income taxes include:

- All domestic and foreign taxes which are based on taxable profits.
- Taxes, such as withholding taxes, which are payable by a subsidiary, associate or joint arrangement on distributions to the reporting entity.

This Standard **does not deal** with the methods of accounting for government grants (Ind AS 20, Accounting for Government Grants and Disclosure of Government Assistance) or investment tax credits.

However, this Standard does deal with the accounting for temporary differences that may arise from such grants or investment tax credits.

+	−
Domestic and Foreign Taxes; Including withholding taxes which are payable by a subsidiary, Associate or Joint Arrangements on distributions to the Reporting Entity	Methods of Accounting for Government Grants or Investment tax credits (But it deals with accounting for temporary differences arising from such grants and investment tax credits)

3 CONCEPT OF CURRENT TAX, DEFERRED TAX ASSETS/LIABILITIES, TEMPORARY DIFFERENCES AND TAX BASE

Accounting Profit is profit or loss for a period before deducting ***tax expense.***

Tax expense (tax income) is the aggregate amount included in the determination of profit or loss for the period in respect of ***current tax and deferred tax.*** In other words, tax expense (tax income) comprises current tax expense (current tax income) and deferred tax expense (deferred tax income).

Taxable Profit is the profit (loss) for a period, determined in accordance with the rules established by the taxation authorities, upon which income taxes are payable (recoverable).

Current tax is the amount of income taxes payable (recoverable) in respect of the taxable profit (tax loss) for a period.

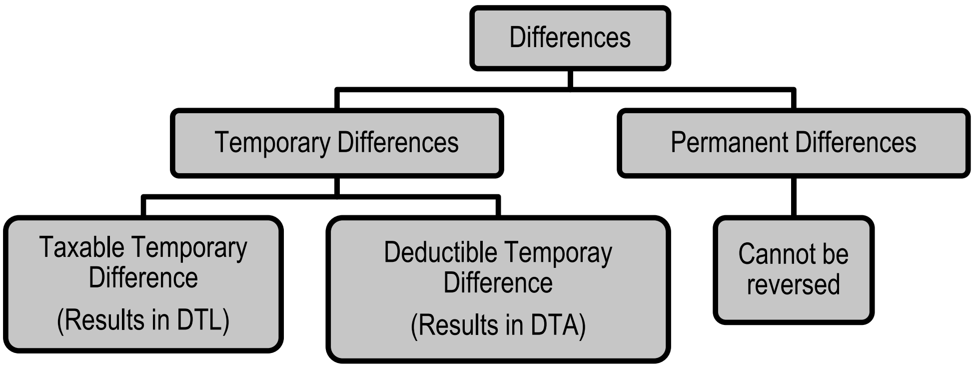
Deferred tax liabilities are the amounts of income taxes payable in future periods in respect of taxable temporary differences.

Deferred tax assets are the amounts of income taxes recoverable in future periods in respect of:

(a) deductible temporary differences;

(b) the carry forward of unused tax losses; and

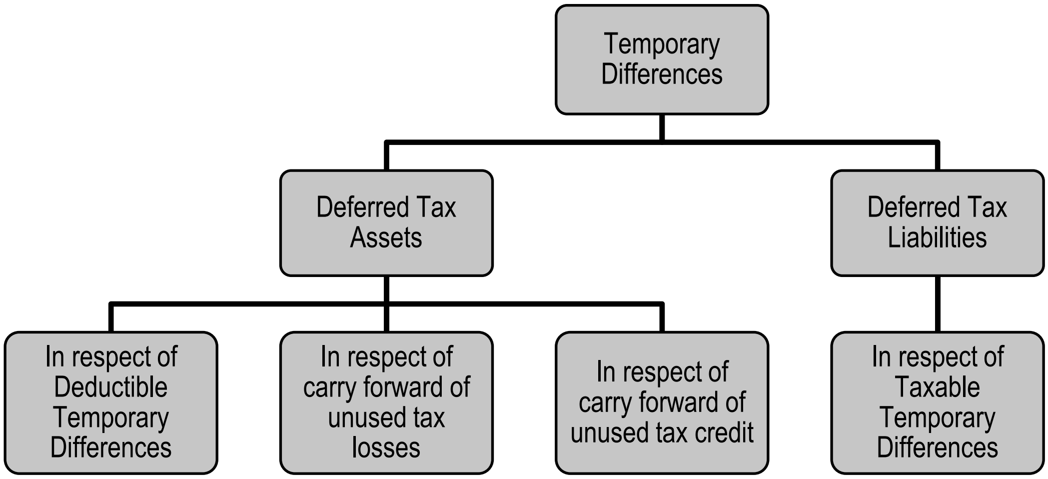
(c) the carry forward of unused tax credits.



Temporary differences are differences between the carrying amount of an asset or liability in the balance sheet and its tax base. Temporary differences may be either:

(a) taxable temporary differences, which are temporary differences that will result in taxable amounts in determining taxable profit (tax loss) of future periods when the carrying amount of the asset or liability is recovered or settled; or

(b) deductible temporary differences, which are temporary differences that will result in amounts that are deductible in determining taxable profit (tax loss) of future periods when the carrying amount of the asset or liability is recovered or settled.



4 TAX BASE

The tax base of an **asset or liability** is the amount attributed to that asset or liability for tax purposes.

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

Examples of Tax Base of an Asset:

S.No.	Particulars	Tax Base of an Asset
1.	A machine cost ₹ 100. For tax purposes, depreciation of ₹ 30 has already been deducted in the current and prior periods and the remaining cost will be deductible in future periods, either as depreciation or through a deduction on disposal.	Revenue generated by using the machine is taxable, any gain on disposal of the machine will be taxable and any loss on disposal will be deductible for tax purposes. The tax base of the machine is ₹ 70.
2.	Interest receivable has a carrying amount of ₹ 100. The related interest revenue will be taxed on cash basis.	The tax base of the interest receivable is nil.
3.	Trade receivables have a carrying amount of ₹ 100. The related revenue has already been included in taxable profit (tax loss).	The tax base of trade receivable is ₹ 100.

4.	Dividends receivable from a subsidiary have a carrying amount of ₹ 100. The dividends are not taxable. In substance, the entire carrying amount of the asset is deductible against the economic benefits.	Consequently, the tax base of the dividends receivable is ₹ 100. {Under this analysis, there is no taxable temporary difference. An alternative analysis is that the accrued dividends receivable has a tax base of nil and that a tax rate of nil is applied to the resulting taxable temporary difference of ₹ 100. Under both analyses, there is no deferred tax liability.}
5.	A loan receivable has a carrying amount of ₹ 100. The repayment of the loan will have no tax consequences.	The tax base of the loan is ₹ 100.

The tax base of a liability is its carrying amount, less any amount that will be deductible for tax purposes in respect of that liability in future periods. In the case of revenue which is received in advance, the tax base of the resulting liability is its carrying amount, less any amount of the revenue that will not be taxable in future periods.

Examples of Tax Base of a Liability:

S. No.	Particulars	Tax Base of Liability
1.	Current liabilities include accrued expenses with a carrying amount of ₹ 100. The related expense will be deducted for tax purposes on a cash basis.	The tax base of the accrued expenses is nil.
2.	Current liabilities include interest revenue received in advance, with a carrying amount of ₹ 100. The related interest revenue was taxed on a cash basis.	The tax base of the interest received in advance is nil.
3.	Current liabilities include accrued expenses with a carrying amount of ₹ 100. The related expense has already been deducted for tax purposes.	The tax base of the accrued expenses is ₹ 100.

S. No.	Particulars	Tax Base of Liability
4.	Current liabilities include accrued fines and penalties with a carrying amount of ₹ 100. Fines and penalties are not deductible for tax purposes.	The tax base of the accrued fines and penalties is ₹ 100. {Under this analysis, there is no deductible temporary difference. An alternative analysis is that the accrued fines and penalties payable have a tax base of nil and that a tax rate of nil is applied to the resulting deductible temporary difference of ₹ 100. Under both analyses, there is no deferred tax asset.}
5.	A loan payable has a carrying amount of ₹ 100. The repayment of the loan will have no tax consequences.	The tax base of the loan is ₹ 100.

5 RECOGNITION OF CURRENT TAX LIABILITIES AND CURRENT TAX ASSETS

- Current tax for current and prior periods shall, to the extent unpaid, be recognised as a liability**.**
- If the amount already paid in respect of current and prior periods exceeds the amount due for those periods, the excess shall be recognised as an asset**.**
- The benefit relating to a tax loss that can be carried back to recover current tax of a previous period shall be recognised as an asset**.**
- When a tax loss is used to recover current tax of a previous period, an entity recognises the benefit as an asset in the period in which the tax loss occurs because it is probable that the benefit will flow to the entity and the benefit can be reliably measured.

Example: A company had a loss of ₹ 1,00,000 in the current year. It had a profit of ₹ 60,000 and ₹ 50,000 in last 2 years.

The tax authorities allowed the company to offset the loss of current year against the profit of last 2 years and claim a tax refund for the tax paid in last 2 years.

Thus, if the company uses its tax loss of current year to recover current tax of the prior years, it can record the tax refund (which if probable) as an asset.

6 RECOGNITION OF DEFERRED TAX LIABILITIES AND DEFERRED TAX ASSETS

Taxable Temporary Differences: A deferred tax liability shall be recognised for all taxable temporary differences, except to the extent that the deferred tax liability arises from:

(a) the initial recognition of goodwill; or

(b) the initial recognition of an asset or liability in a transaction which:

 (i) is not a business combination; and

 (ii) at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).

However, for taxable temporary differences associated with investments in subsidiaries, branches and associates, and interests in joint ventures, a deferred tax liability shall be recognised.

It is inherent in the recognition of an asset that its carrying amount will be recovered in the form of economic benefits that flow to the entity in future periods.

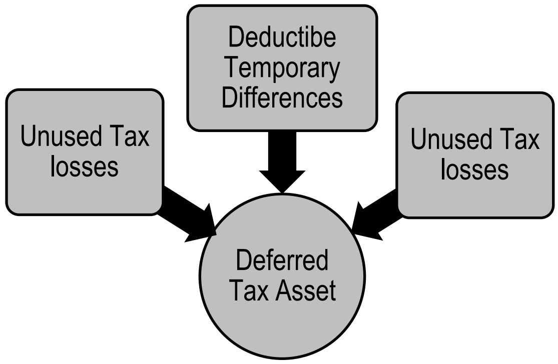
When the **carrying amount of the asset exceeds its tax base**, the amount of taxable economic benefits will exceed the amount that will be allowed as a deduction for tax purposes. This difference is a **taxable temporary difference** and the obligation to pay the resulting income taxes in future periods is a deferred tax liability.

As the entity recovers the carrying amount of the asset, the taxable temporary difference will reverse and the entity will have taxable profit. This makes it probable that economic benefits will flow from the entity in the form of tax payments. Therefore, this Standard requires the recognition of all deferred tax liabilities, except in certain circumstances described in paragraphs 15 and 39 of Ind AS 12.

Example: An asset which cost ₹ 150 has a carrying amount of ₹ 100. Cumulative depreciation for tax purposes is ₹ 90 and the tax rate is 25%.

The tax base of the asset is ₹ 60 (cost of ₹ 150 less cumulative tax depreciation of ₹ 90). To recover the carrying amount of ₹ 100, the entity must earn taxable income of ₹ 100, but will only be able to deduct tax depreciation of ₹ 60. Consequently, the entity will pay income taxes of ₹ 10 (₹ 40 at 25%) when it recovers the carrying amount of the asset. The difference between the carrying amount of ₹ 100 and the tax base of ₹ 60 is a taxable temporary difference of ₹ 40. Therefore, the entity recognises a deferred tax liability of ₹ 10 (₹ 40 at 25%) representing the income taxes that it will pay when it recovers the carrying amount of the asset.

Unused Tax Losses and Unused Tax Credits



A deferred tax asset shall be recognised for the carry forward of unused tax losses and unused tax credits to the extent that it is probable that future taxable profit will be available against which the unused tax losses and unused tax credits can be utilised.

The criteria for recognising deferred tax assets arising from the carry forward of unused tax losses and tax credits are the same as the criteria for recognising deferred tax assets arising from deductible temporary differences.

However, the existence of unused tax losses is strong evidence that future taxable profit may not be available. Therefore, when an entity has a **history of recent losses**, the entity recognises a deferred tax asset arising from unused tax losses or tax credits only to the extent that the entity has sufficient taxable temporary differences or there is convincing other evidence that sufficient taxable profit will be available against which the unused tax losses or unused tax credits can be utilised by the entity. In such circumstances, paragraph 82 requires disclosure of the amount of the deferred tax asset and the nature of the evidence supporting its recognition.

Reassessment of unrecognised deferred tax assets: At the end of each reporting period, an entity reassesses unrecognised deferred tax assets. The entity recognises a previously unrecognised deferred tax asset to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Measurement

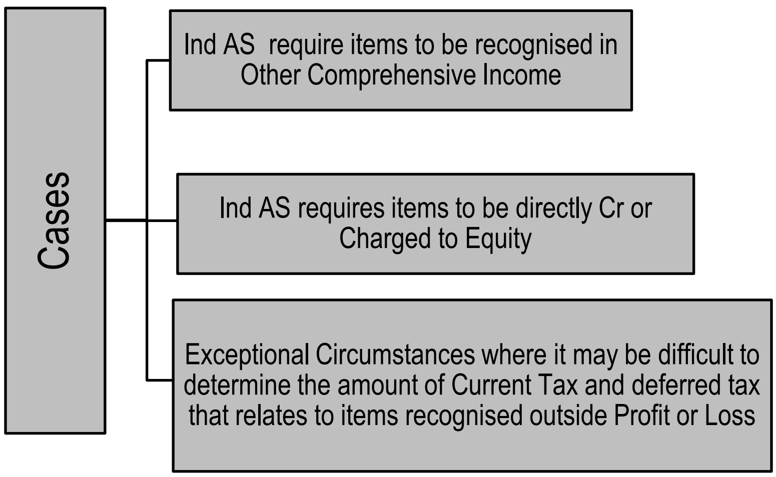
- Current tax liabilities (assets) for the current and prior periods shall be measured at the amount expected to be paid to (recovered from) the taxation authorities, using the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.
- Deferred tax assets and liabilities shall be measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates

(and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Items recognised outside profit or loss: Current tax and deferred tax shall be recognised outside profit or loss if the tax relates to items that are recognised, in the same or a different period, outside profit or loss. Therefore, current tax and deferred tax that relates to items that are recognised, in the same or a different period:

(a) in other comprehensive income, shall be recognised in other comprehensive income.

(b) directly in equity, shall be recognised directly in equity.



CASE I: Indian Accounting Standards require or permit particular items to be recognised in other comprehensive income.

Examples of such items are:

(a) a change in carrying amount arising from the revaluation of property, plant and equipment (Ind AS 16); and

(b) exchange differences arising on the translation of the financial statements of a foreign operation (Ind AS 21).

CASE II: Indian Accounting Standards require or permit particular items to be credited or charged directly to equity.

Examples of such items are:

(a) an adjustment to the opening balance of retained earnings resulting from either a change in accounting policy that is applied retrospectively or the correction of an error (Ind AS 8 Accounting Policies, Changes in Accounting Estimates and Errors); and

(b) amounts arising on initial recognition of the equity component of a compound financial instrument.

CASE III: In exceptional circumstances it may be difficult to determine the amount of current and deferred tax that relates to items recognised outside profit or loss (either in other comprehensive income or directly in equity).

This may be the case**, for example,** when:

(a) there are graduated rates of income tax and it is impossible to determine the rate at which a specific component of taxable profit (tax loss) has been taxed;

(b) a change in the tax rate or other tax rules affects a deferred tax asset or liability relating (in whole or in part) to an item that was previously recognised outside profit or loss; or

(c) an entity determines that a deferred tax asset should be recognised, or should no longer be recognised in full, and the deferred tax asset relates (in whole or in part) to an item that was previously recognised outside profit or loss.

7 PRESENTATION - OFFSET

An entity shall offset **current tax assets and current tax liabilities** if, and only if, the entity:

(a) has a legally enforceable right to set off the recognised amounts; and

(b) intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

An entity shall offset **deferred tax assets and deferred tax liabilities** if, and only if:

(a) the entity has a legally enforceable right to set off current tax assets against current tax liabilities; and

(b) the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either:

   (i) the same taxable entity; or

   (ii) different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

8 DEFERRED TAX ASSETS AND LIABILITIES SHALL NOT BE DISCOUNTED

The carrying amount of a deferred tax asset shall be reviewed at the end of each reporting period. An entity shall reduce the carrying amount of a deferred tax asset to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be utilised. Any such reduction shall be reversed to the extent that it becomes probable that sufficient taxable profit will be available.

9 MAJOR CHANGES IN IND AS 12 VIS-À-VIS IAS* 12 NOT RESULTING IN CARVE OUTS

(i) Presentation of Tax Expense: IAS 12 requires presentation of tax expense (income) in the separate income statement, where separate income statement is presented. Ind AS 12 does not require such presentation since in Ind AS 1 option regarding the two statement approach has been removed.

(ii) Fair Value Model: Since fair value model is not allowed in Ind AS 40, paragraph 20 of Ind AS 12 has been modified by not giving reference of Ind AS 40 and consequently paragraphs 51C-51D have been deleted.

(iii) Deferred Tax Benefits Related to Business Combinations: IAS 12 provides that acquired deferred tax benefits recognised within the measurement period that results from new information about facts and circumstances existed at the acquisition date shall be applied to reduce the carrying amount of goodwill related to that acquisition. If the carrying amount of that goodwill is zero, any remaining deferred tax benefits shall be recognised in profit and loss. As a consequence of different accounting treatment of bargain purchase gain prescribed in Ind AS 103, in comparison to IFRS 3, Ind AS 12 provides that if the carrying amount of such goodwill is zero, any remaining deferred tax benefits shall be recognised in other comprehensive income and accumulated in equity as capital reserve or recognised directly in capital reserve.

(iv) Specified Grant Related to Asset (Para 33): As against IAS 12, Ind AS 12 does not allow the option of deducting specified grant from the cost of the related asset as this option is not

* The term 'IFRS' includes not only the International Financial Reporting Standards (IFRSs) issued by the IASB, it also includes the International Accounting Standards (IASs), IFRICs and SICs.

permitted in Ind AS 20 'Accounting for Government Grants and Disclosure of Government Assistance'.

10 MAJOR CHANGES IN IND AS 12 VIS-À-VIS AS 22

(i) Approach for creating Deferred Tax: Ind AS 12 is based on balance sheet approach. It requires recognition of tax consequences of differences between the carrying amounts of assets and liabilities and their tax base. AS 22 is based on income statement approach. It requires recognition of tax consequences of differences between taxable income and accounting income. For this purpose, differences between taxable income.

(ii) Limited Exceptions for Recognition of Deferred Tax Asset: As per Ind AS 12, subject to limited exceptions, deferred tax asset is recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised. The criteria for recognising deferred tax assets arising from the carry forward of unused tax losses and tax credits are the same that for recognising deferred tax assets arising from deductible temporary differences. However, the existence of unused tax losses is strong evidence that future taxable profit may not be available. Therefore, when an entity has a history of recent losses, the entity recognises a deferred tax asset arising from unused tax losses or tax credits only to the extent that the entity has sufficient taxable temporary differences or there is convincing other evidence that sufficient taxable profit will be available against which the unused tax losses or unused tax credits can be utilised by the entity

(iii) Recognition of Current and Deferred Tax: As per AS 22, deferred tax assets are recognised and carried forward only to the extent that there is a reasonable certainty that sufficient future taxable income will be available against which such deferred tax assets can be realised. Where deferred tax asset is recognised against unabsorbed depreciation or carry forward of losses under tax laws, it is recognised only to the extent that there is virtual certainty supported by convincing evidence that sufficient future taxable income will be available against which such deferred tax assets can be realised.

As per Ind AS 12, current and deferred tax are 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 outside profit or loss, either in other comprehensive income or directly in equity, in those cases tax is also recognised in other comprehensive income or in equity, as appropriate. AS 22 does not specifically deal with this aspect.

(iv) Disclosure of DTA and DTL in Balance Sheet: AS 22 deals with disclosure of deferred tax assets and deferred tax liabilities in the balance sheet. Ind AS 12 does not deal with this aspect except that it requires that income tax relating to each component of other comprehensive income shall be disclosed as current or non-current asset/liability in accordance with the requirements of Ind AS 1.

(v) Disclosure Requirements: Disclosure requirements given in the Ind AS 12 are more detailed as compared to AS 22.

(vi) DTA/DTL arising out of Revaluation of Assets: Ind AS 12 requires that deferred tax asset/liability arising from revaluation of non-depreciable assets shall be measured on the basis of tax consequences from the sale of asset rather than through use. AS 22 does not deal with this aspect.

(vii) Changes in Entities Tax Status or that of its Shareholders: Ind AS 12 provides guidance as to how an entity should account for the tax consequences of a change in its tax status or that of its shareholders. AS 22 does not deal with this aspect.

(viii) Virtual Certainty: AS 22 explains virtual certainty supported by convincing evidence. Since the concept of virtual certainty does not exist in Ind AS 12, this explanation is not included.

(ix) Guidance for Recognition of Deferred Tax in a Tax Holiday Period: AS 22 specifically provides guidance regarding recognition of deferred tax in the situations of Tax Holiday under Sections 80-IA and 80-IB and Tax Holiday under Sections 10A and 10B of the Income Tax Act, 1961. Similarly, AS 22 provides guidance regarding recognition of deferred tax asset in case of loss under the head 'capital gains'. Ind AS 12 does not specifically deal with these situations.

(x) Guidance on Certain Issues: AS 22 specifically provides guidance regarding tax rates to be applied in measuring deferred tax assets/liabilities in a situation where a company pays tax under section 115JB. Ind AS 12 does not specifically deal with this aspect.

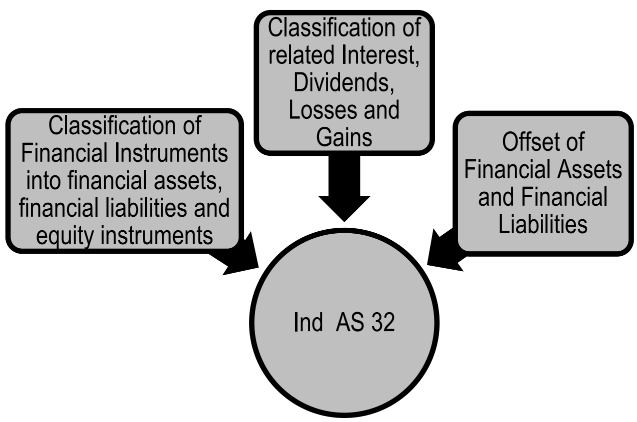
16

IND AS 32 : FINANCIAL INSTRUMENTS: PRESENTATION

1 OBJECTIVE

The objective of this Standard is to establish principles for presenting financial instruments as liabilities or equity and for offsetting financial assets and financial liabilities.

It applies to



2 SCOPE

This Standard shall be applied by all entities to all types of financial instruments except:

(a) interests in subsidiaries, associates or joint ventures that are accounted for in accordance with:

- Ind AS 110 *"Consolidated Financial Statements"*

- Ind AS 27 *"Separate Financial Statements"* or
- Ind AS 28 *"Investments in Associates and Joint Ventures"*.

Entities shall also apply this Standard to all derivatives linked to interests in subsidiaries, associates or joint ventures.

(b) employers' rights and obligations under employee benefit plans, to which Ind AS 19, *'Employee Benefits'*, applies.

(c) insurance contracts as defined in Ind AS 104, *'Insurance Contracts'*.

However, this Standard applies to derivatives that are embedded in insurance contracts if Ind AS 109 requires the entity to account for them separately. Moreover, an issuer shall apply this Standard to financial guarantee contracts if the issuer applies Ind AS 109 in recognising and measuring the contracts.

(d) financial instruments that are within the scope of Ind AS 104 because they contain a discretionary participation feature. Furthermore, this Standard applies to derivatives that are embedded in these instruments (Ind AS 109).

(e) financial instruments, contracts and obligations under share-based payment transactions to which Ind AS 102*, 'Share-based Payment'*, applies, except for:

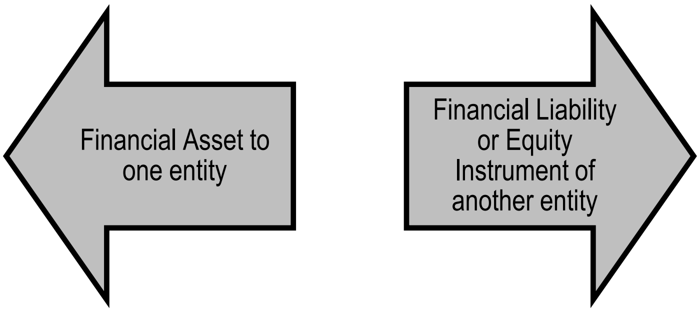
(i) contracts within the scope of this Standard, to which this Standard applies,

(ii) to treasury shares purchased, sold, issued or cancelled in connection with employee share option plans, employee share purchase plans, and all other share-based payment arrangements.

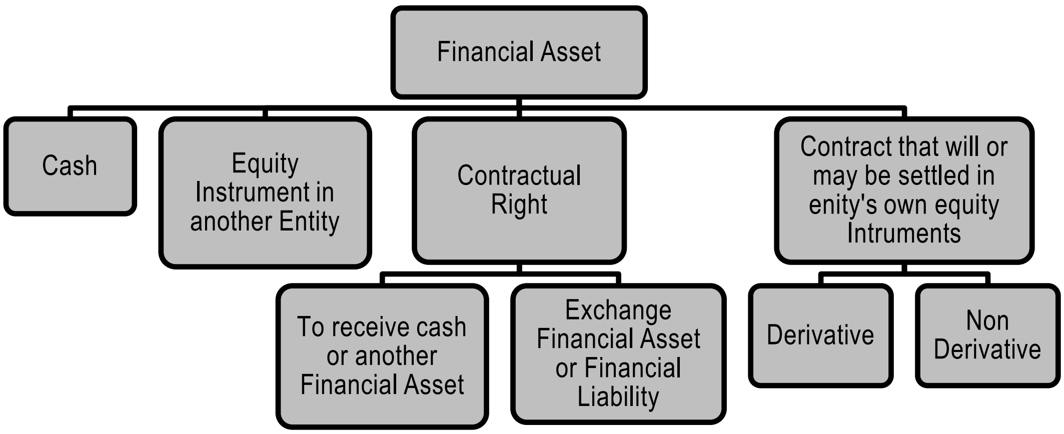
This Standard shall be applied to those contracts to buy or sell a non-financial item that can be settled net in cash or another financial instrument, or by exchanging financial instruments, as if the contracts were financial instruments, with the exception of contracts that were entered into and continue to be held for the purpose of the receipt or delivery of a non-financial item in accordance with the entity's expected purchase, sale or usage requirements. However, this Standard shall be applied to those contracts that an entity designates as measured at fair value through profit or loss in accordance with Ind AS 109, *'Financial Instruments'*.

3 FINANCIAL INSTRUMENT

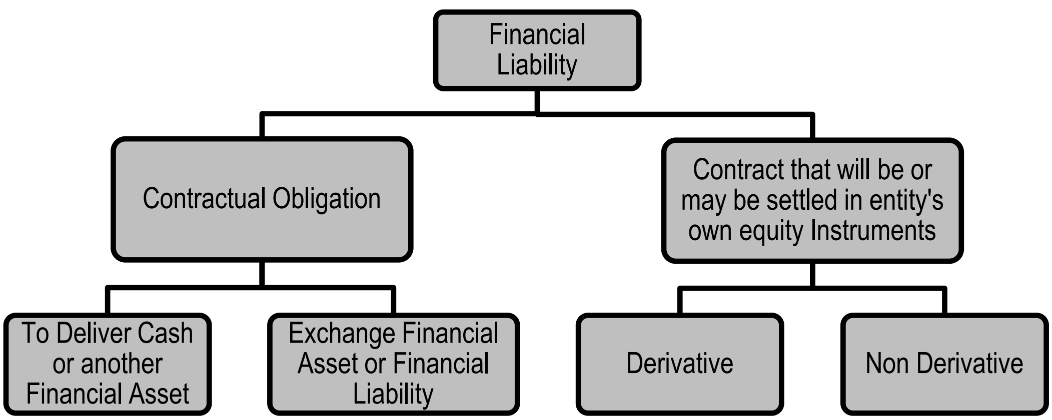
A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.



3.1 Financial Asset



3.2 Financial Liability:



The equity conversion option embedded in a convertible bond denominated in foreign currency to acquire a fixed number of the entity's own equity instruments is an equity instrument if the exercise price is fixed in any currency.

3.3 Equity Instrument

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

3.4 Puttable Financial Instruments

As an exception, puttable instruments are classified as an equity instrument even if they meet the definition of financial liability. A puttable instrument is a financial instrument that gives the holder of the instrument the right to put the instrument back to the issuer for cash or another financial asset or is automatically put back to the issuer on the occurrence of an uncertain future event or the death or retirement of the instrument holder.

4 PRESENTATION

Liabilities and equity: The issuer of a financial instrument shall classify the instrument, or its component parts, on initial recognition as a financial liability, a financial asset or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial liability, a financial asset and an equity instrument.

The instrument is an equity instrument if, and only if, **both conditions (a) and (b) below are met.**

(a) The instrument includes no contractual obligation:

    (i) to deliver cash or another financial asset to another entity; or

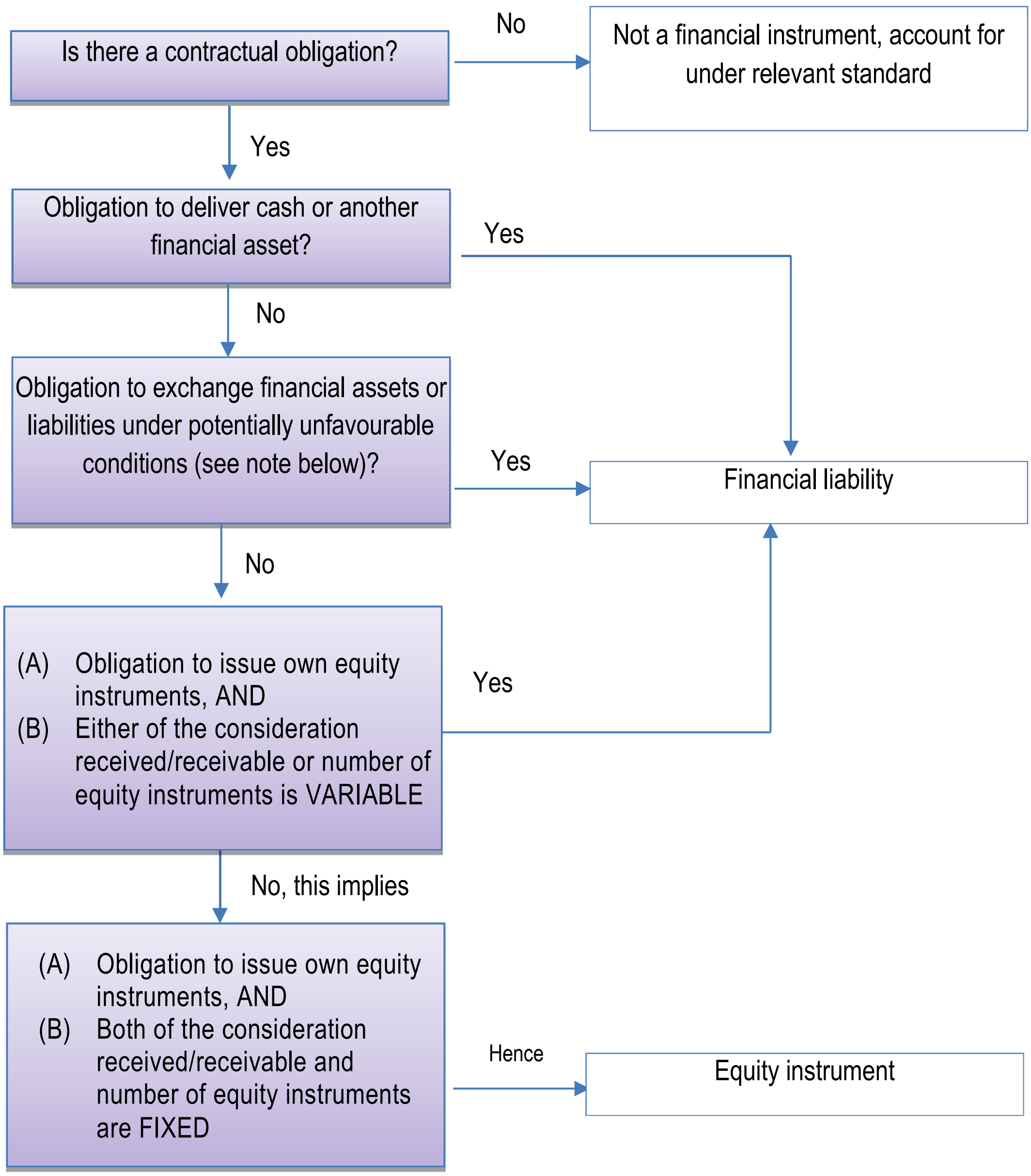
    (ii) to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the issuer.

(b) In case of settlement by the issuer's own equity instruments, it should be fixed to fixed contracts (no. of equity instruments and the price per unit of equity instruments is fixed).

Apart from the aforesaid, the equity conversion option embedded in a convertible bond denominated in foreign currency to acquire a fixed number of the entity's own equity instruments is an equity instrument if the exercise price is fixed in any currency.

A contractual obligation, including one arising from a derivative financial instrument, that will or may result in the future receipt or delivery of the issuer's own equity instruments, but does not meet conditions (a) and (b) above, is not an equity instrument. As an exception, an instrument that meets the definition of a financial liability is classified as an equity instrument if it has all the features and meets the conditions in paragraphs 16A and 16B or paragraphs 16C and 16D.

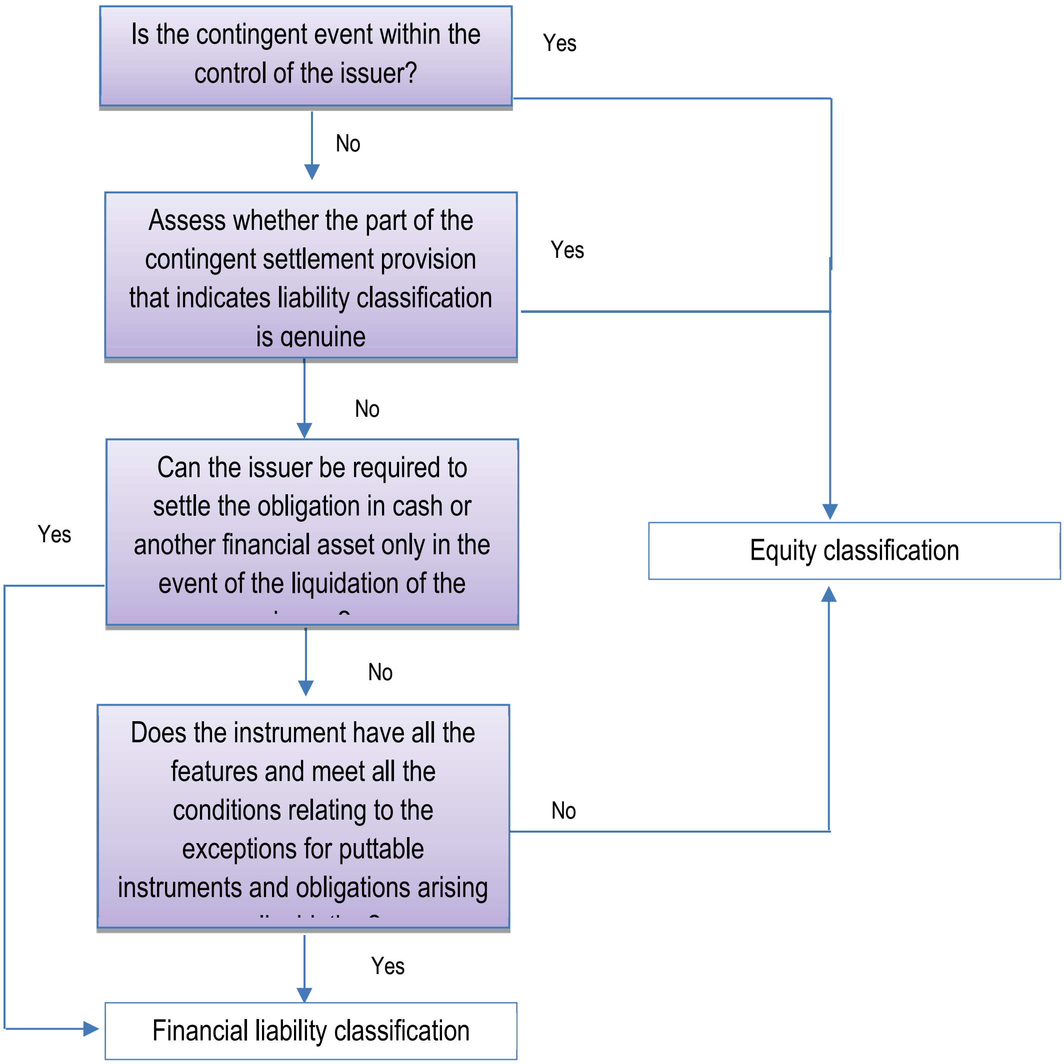
There is a thin line of difference between equity and financial liability, which can be understood with the help of following diagrammatic presentation



5 SPECIFIC SITUATIONS

5.1 Contingent settlement provisions

A financial instrument may require the entity to deliver cash or another financial asset, or otherwise to settle it in such a way that it would be a financial liability, in the event of the occurrence or non-occurrence of uncertain future events (or on the outcome of uncertain circumstances) that are beyond the control of both the issuer and the holder of the instrument, such as a change in a stock market index, consumer price index, interest rate or taxation requirements, or the issuer's future revenues, net income or debt-to-equity ratio.



5.2 Settlement options

In case a derivative financial instruments provides an option to one party to choose between various modes of settlement (settlement net in cash or by exchanging shares for cash), such derivative instrument should be a financial asset or a financial liability unless all of the settlement alternatives would result in it being an equity instrument.

5.3 Compound Financial Instruments

It may be possible that a non-derivative financial instrument may contain both component of liability and component of equity as well. Such components shall be classified separately as financial liabilities or equity instruments. Example, bonds with a option to convert into equity.

The sum of the carrying amounts assigned to the liability and equity components on initial recognition is always equal to the fair value that would be ascribed to the instrument as a whole.

No gain or loss arises from initially recognising the components of the instrument separately.

5.4 Treasury Shares

If an entity reacquires its own equity instruments, those instruments ('treasury shares') shall be deducted from equity. No gain or loss shall be recognised in profit or loss on the purchase, sale, issue or cancellation of an entity's own equity instruments. Such treasury shares may be acquired and held by the entity or by other members of the consolidated group. Consideration paid or received shall be recognised directly in equity.

5.5 Interest, Dividends, Losses and Gains

Interest, dividends, losses and gains relating to a financial instrument or a component that is a financial liability shall be recognised as income or expense in profit or loss. Distributions to holders of an equity instrument shall be recognised by the entity directly in equity.

Transaction costs of an equity transaction shall be accounted for as a deduction from equity. Income tax relating to distributions to holders of an equity instrument and to transaction costs of an equity transaction shall be accounted for in accordance with Ind AS 12, *'Income Taxes'*.

Changes in the fair value of an equity instrument are not recognised in the financial statements.

5.6 Offsetting a Financial Asset and a Financial Liability

A financial asset and a financial liability shall be offset and the net amount presented in the balance sheet when, and only when, an entity:

(i) currently has a legally enforceable right to set off the recognised amounts; and

(ii) intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

In accounting for a transfer of a financial asset that does not qualify for derecognition, the entity shall not offset the transferred asset and the associated liability.

An entity that undertakes a number of financial instrument transactions with a single counterparty may enter into a 'master netting arrangement' with that counterparty. Such an agreement provides for a single net settlement of all financial instruments covered by the agreement in the event of default on, or termination of, any one contract.

5.7 Consolidated Financial Statements

An entity in its consolidated financial statements, when classifying a financial instrument (or a component of it) should consider all terms and conditions agreed between members of the group and the holders of the instrument in determining whether the group as a whole has an obligation to deliver cash or another financial asset in respect of the instrument or to settle it in a manner that results in liability classification.

6 MAJOR CHANGES IN IND AS 32 VIS-À-VIS IAS* 32

6.1 Resulting in Carve out/carve in

As per IFRS: As per accounting treatment prescribed under IAS 32, equity conversion option in case of foreign currency denominated convertible bonds is considered a derivative liability which is embedded in the bond. Gains or losses arising on account of change in fair value of the derivative need to be recognised in the statement of profit and loss as per IAS 32.

Carve out: In Ind AS 32, an exception has been included to the definition of 'financial liability' in paragraph 11 (b) (ii), whereby conversion option in a convertible bond denominated in foreign currency to acquire a fixed number of entity's own equity instruments is classified as an equity instrument if the exercise price is fixed in any currency.

Reasons: This treatment as per IAS 32 is not appropriate in instruments, such as, FCCBs since the number of shares convertible on the exercise of the option remains fixed and the amount at which the option is to be exercised in terms of foreign currency is also fixed; merely the difference in the currency should not affect the nature of derivative, i.e., the option. Further, the fair value of the option is based on the fair value of the share prices of the company. If there is decrease in the

* The term 'IFRS' includes not only the International Financial Reporting Standards (IFRSs) issued by the IASB, it also includes the International Accounting Standards (IASs), IFRS Interpretations and SICs.

share price, the fair value of derivative liability would also decrease which would result in recognition of gain in the statement of profit and loss. This would bring unintended volatility in the statement of profit and loss due to volatility in share prices. This will also not give a true and fair view of the liability as in this situation, when the share prices fall, the option will not be exercised. However, it has been considered that if such option is classified as equity, fair value changes would not be required to be recognised. Accordingly, the exception has been made in definition of financial liability in Ind AS 32.

6.2 Not Resulting in Carve out

Presentation of Dividends: IAS 32 requires presentation of dividends classified as an expense in the separate income statement, where separate income statement is presented. This requirement is not provided in Ind AS 32 consequential to the removal of option regarding two statement approach in Ind AS 1. Ind AS 1 requires that the components of profit or loss and components of other comprehensive income shall be presented as a part of the statement of profit and loss.

17

IND AS 109 : FINANCIAL INSTRUMENTS

1. OBJECTIVE

The objective of this Standard is to establish principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows.

2 SCOPE

This Standard shall be applied by all entities to all types of financial instruments except:

(a) those interests in subsidiaries, associates and joint ventures that are accounted for in accordance with the permission given by Ind AS 110, Ind AS 27 or Ind AS 28

(b) rights and obligations under leases to which Ind AS 17 'Leases' applies. However:

   (i) lease receivables recognised by a lessor are subject to the derecognition and impairment requirements of this Standard;

   (ii) finance lease payables recognised by a lessee are subject to the derecognition requirements of this Standard; and

   (iii) derivatives that are embedded in leases are subject to the embedded derivatives requirements of this Standard.

(c) employers' rights and obligations under employee benefit plans, to which Ind AS 19 'Employee Benefits' applies.

(d) financial instruments issued by the entity that meet the definition of an equity instrument in Ind AS 32 (including options and warrants)

(e) rights and obligations arising under

 (i) an insurance contract as defined in Ind AS 104 *'Insurance Contracts'*,

 (ii) a contract that is within the scope of Ind AS 104 because it contains a discretionary participation feature.

(f) any forward contract between an acquirer and a selling shareholder to buy or sell an acquiree that will result in a business combination within the scope of Ind AS 103 at a future acquisition date.

(g) loan commitments other than those which entity designates as financial liabilities at fair value through profit or loss, loan commitments that can be settled net in cash or by delivering or issuing another financial instrument and commitments to provide a loan at a below-market interest rate.

(h) financial instruments, contracts and obligations under share-based payment transactions to which Ind AS 102 *'Share-based Payment'* applies.

(i) rights to payments to reimburse the entity for expenditure that it is required to make to settle a liability that it recognises as a provision in accordance with Ind AS 37 *'Provisions, Contingent Liabilities and Contingent Assets'*, or for which, in an earlier period, it recognised a provision in accordance with Ind AS 37.

(j) rights and obligations within the scope of Ind AS 11, Construction Contracts, and Ind AS 18, Revenue, that are financial instruments, except for those that Ind AS 11 and Ind AS 18 specify are accounted for in accordance with this Standard.

(k) Contracts to buy or sell a non-financial item which cannot be settled net in cash or another financial instrument, or by exchanging financial instruments.

3 CLASSIFICATION

3.1 Classification of Financial Assets

Financial Assets measured at

Amortised cost

If below conditions are met:

(a) FA is held with BM whose objective is to hold financial assets in order to collect contractual cash flows

(b) Contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Fair value through Other Comprehensive Income

- FA shall be measured at FVOCI if below conditions are met:
  - (a) FA is held with BM whose objective is achieved both by collecting contractual cash flows and selling FA
  - (b) Contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding
- Any equity instruments for which the entity makes an irrevocable election to carry at fair value through OCI

Fair value through profit or loss

FA are accounted at FVTPL if:

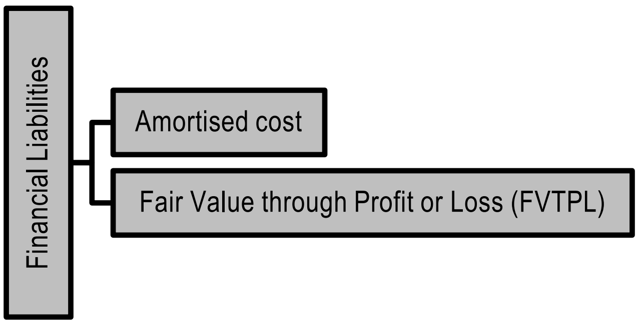
(a) Any asset which is not measured at amortised cost and not measured at FVOCI; or

(b) If on initial recognition, any asset may irrevocably be designated as FVTPL if specific criteria met.

Option to designate a financial asset at fair value through profit or loss: An entity may, at initial recognition, irrevocably designate a financial asset as measured at fair value through profit or loss if doing so eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as an 'accounting mismatch') that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.

3.2 Classification of Financial Liabilities

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



1. ***Amortised Cost*:** An entity shall classify all financial liabilities as subsequently measured at amortised cost, except for those mentioned below to be measured at FVTPL.

2. ***Financial Liabilities at Fair Value through Profit or Loss*:** Such liabilities, include

   - Derivatives that are liabilities, shall be subsequently measured at fair value through profit or loss.
   - Financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies.
   - Financial guarantee contracts.
   - Commitments to provide a loan at a below-market interest rate.
   - Contingent consideration recognised by an acquirer in a business combination to which Ind AS 103 applies. Such contingent consideration shall subsequently be measured at fair value with changes recognised in profit or loss.

Option to designate a financial liability at fair value through profit or loss: An entity may, at initial recognition, irrevocably designate a financial liability as measured at fair value through profit or loss

4 RECLASSIFICATION

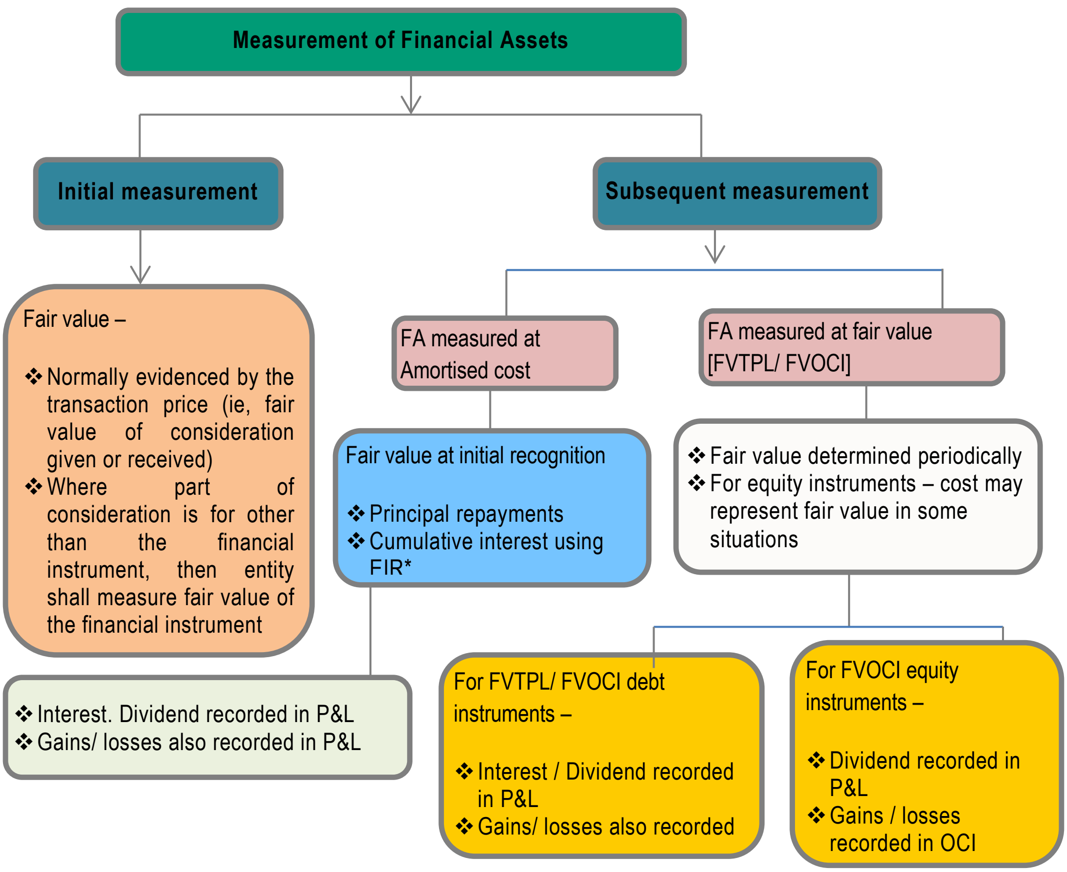
When and only when, an entity changes its business model for managing financial assets it shall reclassify all affected financial assets. An entity shall not reclassify any financial liability.

5 MEASUREMENT

5.1 Initial Measurement

At initial recognition, an entity shall measure a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

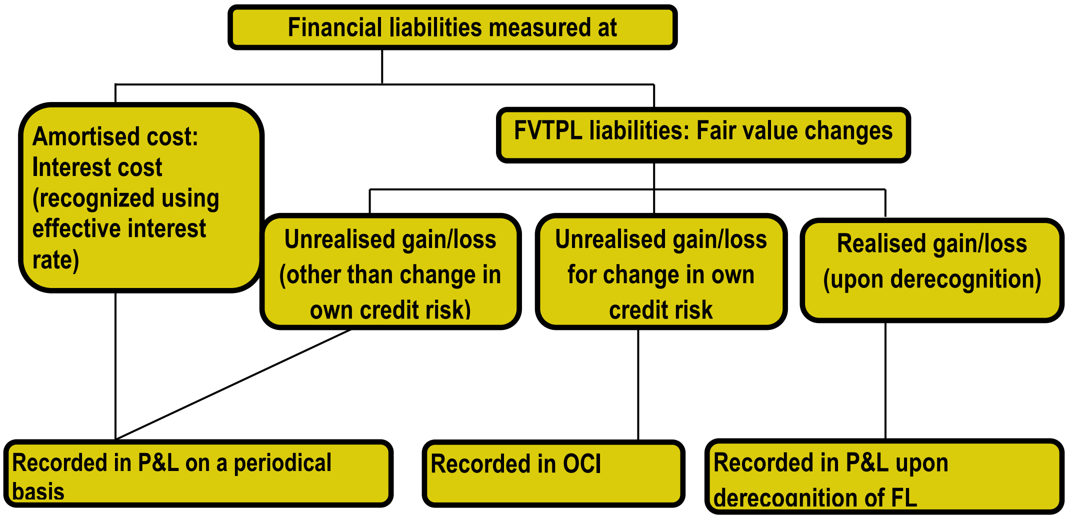
5.2 Subsequent Measurement of Financial Assets:



An entity shall apply the impairment requirements to financial assets that are measured at amortised cost and to financial assets that are measured at fair value through other comprehensive income.

5.3 Subsequent Measurement of Financial Liabilities

After initial recognition, an entity shall measure a financial liability in accordance with amortised cost method using effective interest method.



5.4 Gains and Losses

An entity shall recognise a loss allowance for *expected credit losses* on a financial asset that is measured at FVTOCI and FV at amortised cost, a lease receivable, a *contract asset* or a loan commitment and a financial guarantee contract to which the impairment requirements of this standard applies.

An entity shall measure expected credit losses of a financial instrument in a way that reflects an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes; the time value of money; and reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

A gain or loss on a financial asset or financial liability that is measured at fair value shall be recognised in profit or loss unless:

(i) it is part of a hedging relationship;

(ii) it is an investment in an equity instrument and the entity has elected to present gains and losses on that investment in other comprehensive income;

(iii) it is a financial liability designated as at fair value through profit or loss and the entity is required to present the effects of changes in the liability's credit risk in other comprehensive income; or

(iv) it is a financial asset measured at fair value through other comprehensive income and the entity is required to recognise some changes in fair value in other comprehensive income.

6 RECOGNITION

6.1 Initial Recognition

An entity shall recognise a financial asset or a financial liability in its balance sheet when, and only when, the entity becomes party to the contractual provisions of the instrument.

Ind AS 109 provides certain examples of applying the aforementioned accounting principle:

Nature of contract	Recognition principle – when are assets or liabilities recognised?
Unconditional receivables and payables	When the entity becomes a party to the contract and, as a consequence, has a legal right to receive or a legal obligation to pay cash
Firm commitment to purchase or sell goods or services	When at least one of the parties has performed under the agreement i.e. until the ordered goods or services have been shipped, delivered or rendered.
Firm commitment to purchase or sell goods or services designated as measured at fair value through profit or loss (refer note 2 below)	Net fair value is recognised as an asset or a liability on the commitment date
Forward contract	On the commitment date. When an entity becomes a party to a forward contract, the fair values of the right and obligation are often equal, so that the net fair value of the forward is zero (refer note 1 below). If the net fair value of the right and obligation is not zero, the contract is recognised as an asset or liability.
Option contracts	When the holder or writer becomes a party to the contract (refer note 1 below).
Planned future transactions	Never

Note 1: Generally, no upfront premium is paid by one party in a forward contract to the other at the inception of the contract. This is indicative of the fact that the fair value of a forward contract on inception is approximately zero. On the other hand, the option holder generally pays an upfront premium to the

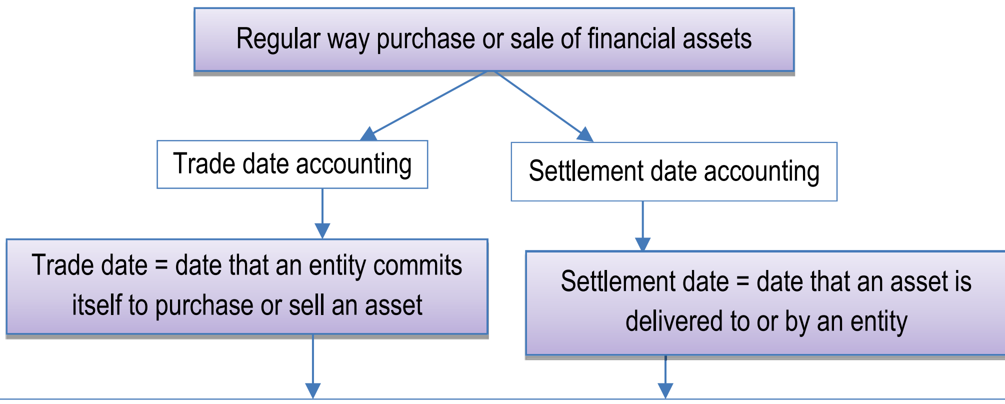
option writer at the inception of the option contract. This provides evidence that there is some fair value of the rights and obligations of the parties at the inception of an options contract.

Note 2: Contracts to buy or sell non-financial assets that can be settled net or by exchanging financial instruments are treated as if they are financial instruments, that is, derivatives unless they were entered into and continued to be held to meet the entity's normal purchase, sale or usage requirements

6.2 Regular way purchase or sale of financial assets

Ind AS 109 defines a regular way purchase or sale as,

- a **purchase or sale** of a financial asset
- under a **contract**
- whose terms require **delivery** of the asset
- within the **time frame**
- established generally by **regulation or convention in the marketplace** concerned



- Recognition of an asset to be received and the liability to pay for it
- derecognition of an asset that is sold, recognition of any gain or loss on disposal and the recognition of a receivable from the buyer for payment

For instance, on the Bombay Stock Exchange in India, all transactions in all groups of securities in the Equity segment, Fixed Income securities and Government securities are settled on "T+2" basis. In this case, "T" is the trade date and "T+2" is the settlement date i.e. exchange of monies and securities between the buyers and sellers respectively takes place on second business day (excluding Saturdays, Sundays, bank and Exchange trading holidays) after the trade date.

It follows that if a contract is entered into with a broker for purchase or sale of securities which is normally traded on the Bombay Stock Exchange, with a settlement period that differs from the norms mentioned above, it would not be regarded as a regular way purchase or sale.

7 DERECOGNITION

7.1 Derecognition of Financial Assets

In simple words, derecognition refers to the timing of removing a financial asset from the balance sheet. A financial asset shall be derecognised when and only when:

(a) the contractual rights to the cash flows from the financial asset expire, or

(b) it transfers the financial asset and the transfer qualifies for derecognition.

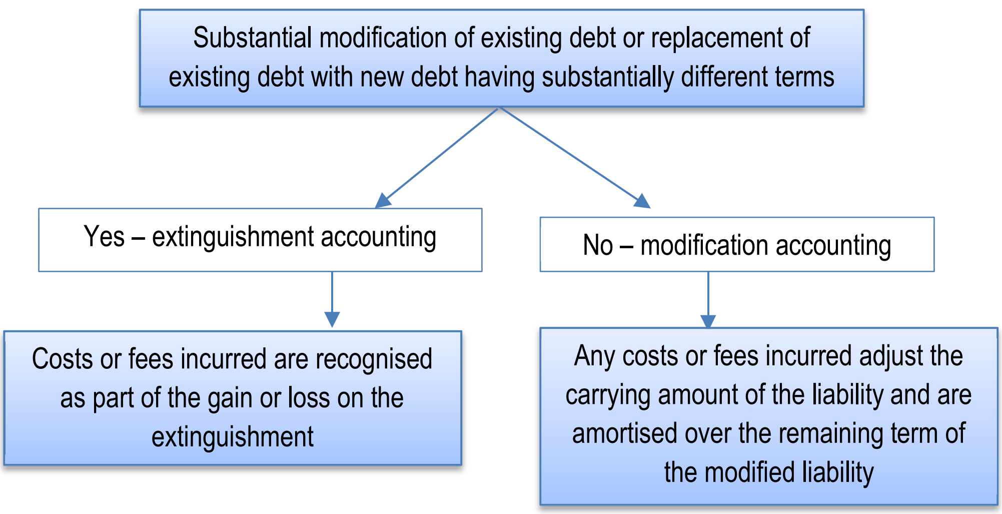
On derecognition of a financial asset in its entirety, the difference between the carrying amount (measured at the date of derecognition) and the consideration received (including any new asset obtained less any new liability assumed) shall be recognised in profit or loss.

In case of partial derecognition of a financial asset, the previous carrying amount of the whole asset shall be allocated between the part that continues to be recognised and the part that is derecognised, on the basis of the relative fair values of those parts on the date of the transfer.

7.2 Derecognition of Financial Liabilities

A financial liability (or a part of a financial liability) shall be derecognised when, and only when, it is extinguished (obligation specified in the contract is discharged or cancelled or expires).

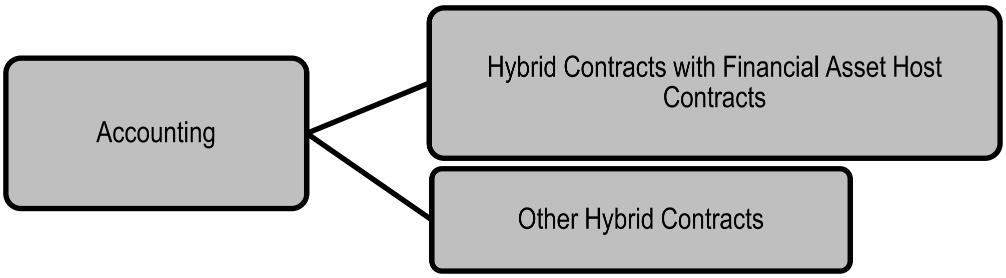
An entity shall account for a substantial modification of the terms of contracts as an extinguishment of the original financial liability and the recognition of a new financial liability. Any difference between the carrying amount of a financial liability extinguished or transferred and the consideration paid should be recognised in profit or loss.



8 EMBEDDED DERIVATIVES

An embedded derivative is a component of a hybrid contract that also includes a non-derivative host—with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative.

An embedded derivative causes some or all of the cash flows that otherwise would be required by the contract to be modified according to a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract. A derivative that is attached to a financial instrument but is contractually transferable independently of that instrument, or has a different counterparty, is not an embedded derivative, but a separate financial instrument.



8.1 Hybrid Contracts with Financial Asset Hosts

If a hybrid contract contains a host that is an asset within the scope of this Standard, an entity shall apply the requirements of this standard to the entire hybrid contract.

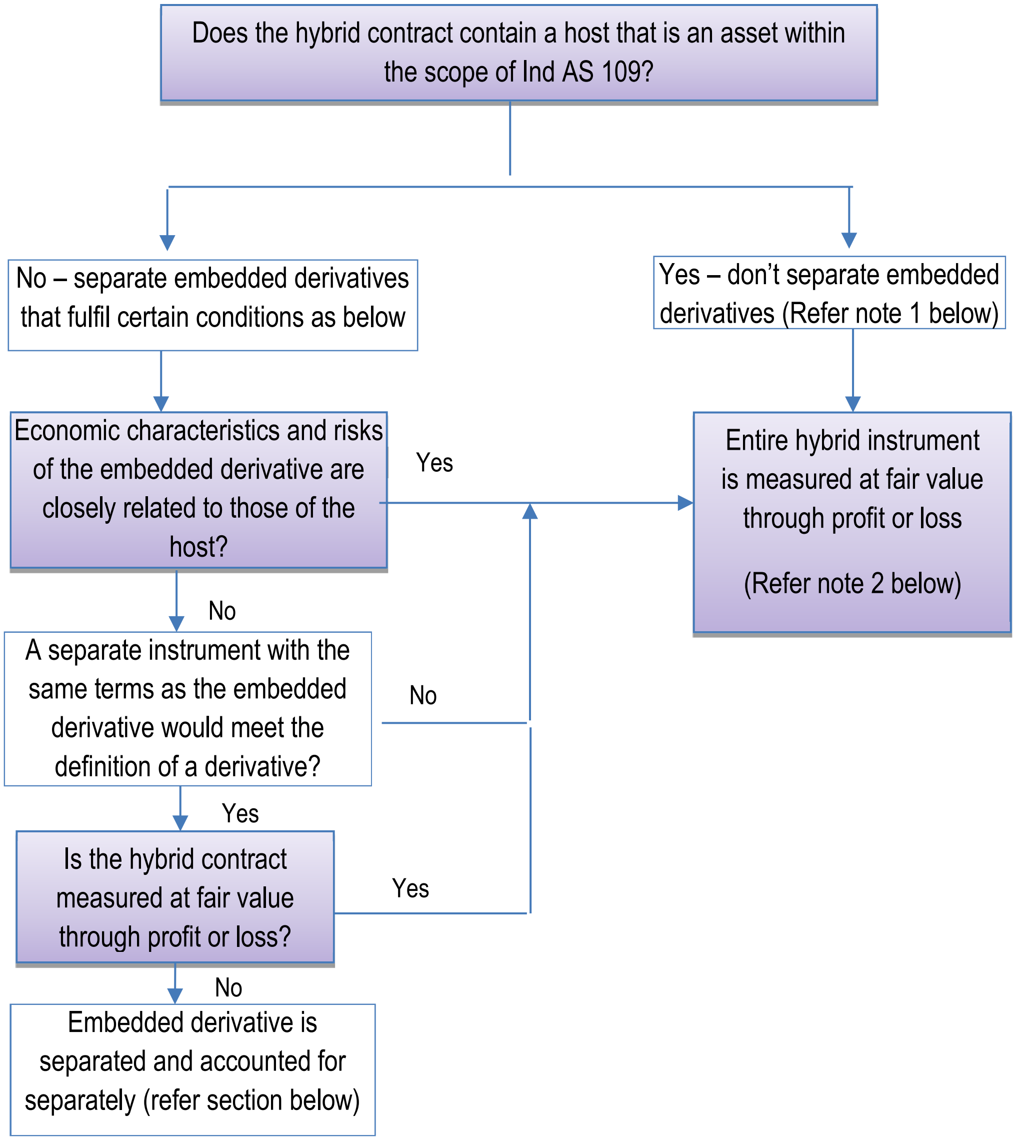
8.2 Other Hybrid Contracts

If a hybrid contract contains a host that is not an asset, an embedded derivative shall be separated from the host and accounted for as a derivative if, and only if:

(a) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host;

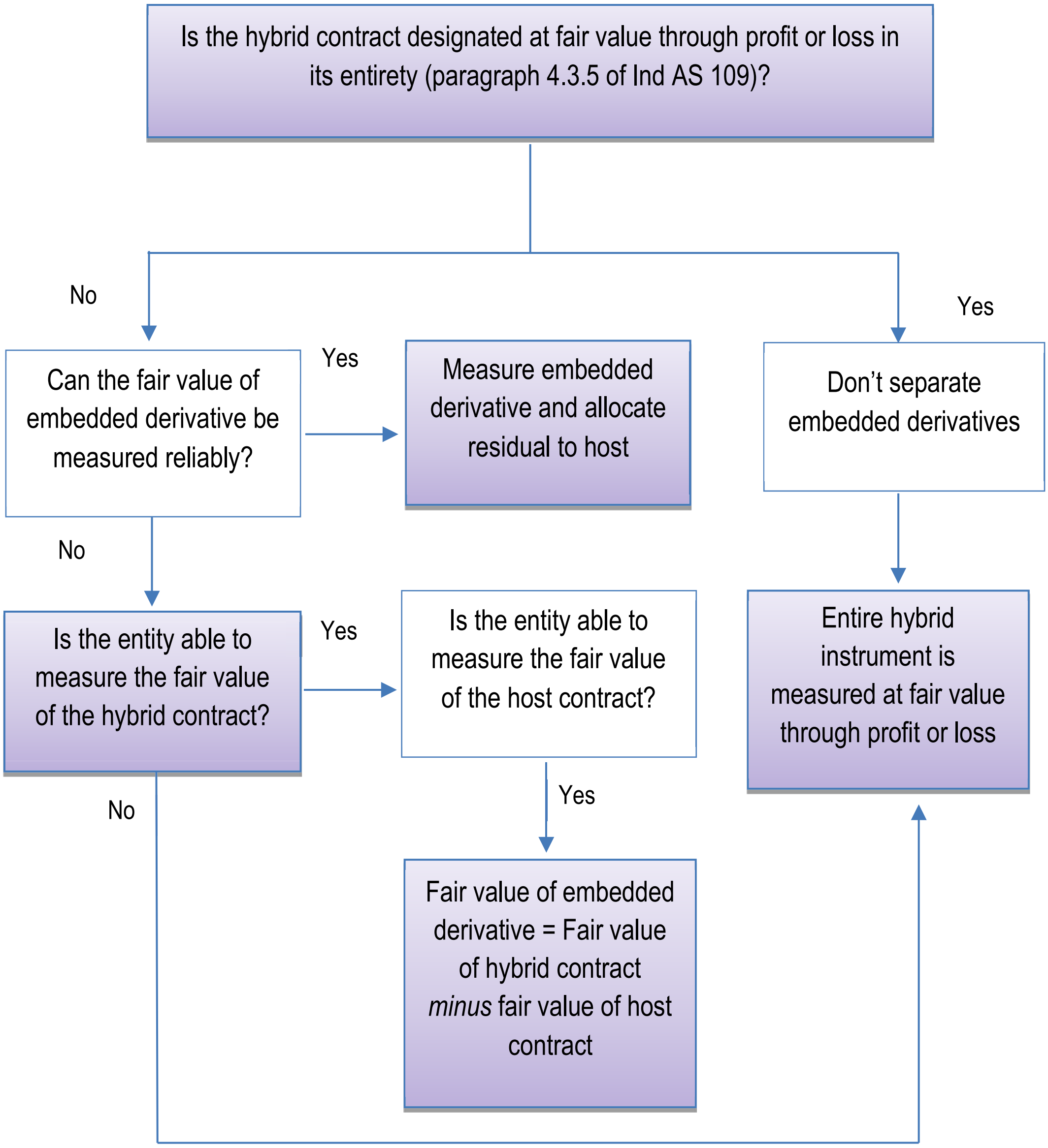
(b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and

(c) the hybrid contract is not measured at fair value with changes in fair value recognised in profit or loss (i.e. a derivative that is embedded in a financial liability at fair value through profit or loss is not separated).



8.3 Accounting for embedded derivatives

If the flowchart given above, results in the conclusion that the embedded derivatives are required to be separated, an entity shall measure the derivatives at fair value at initial recognition and subsequently at fair value through profit or loss.



9 HEDGE ACCOUNTING

9.1 Objective and Scope of Hedge Accounting

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

Step 1 → Identify the hedged item [ie, exposed to one or more risks]

Step 2 → Identify the hedging instrument [ie, a derivative or non-derivative to off-set risks in cash flow/ fair value of hedged item]

Step 3 → Evaluate if hedging relationship meets the requisite criteria for hedge accounting

Step 4 → If hedge is effective, establish type of hedge –

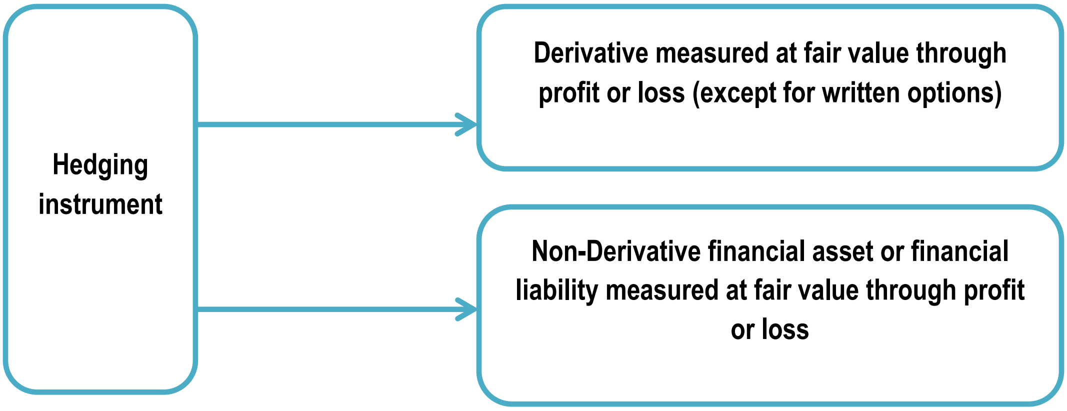
(A) Fair value hedge
(B) Cash flow hedge
(C) Hedge of net investment in foreign operation

Step 6 → Account for the hedging relationship basis guidance in Ind AS 109

9.2 Hedging Instruments

Qualifying Items: A derivative measured at fair value through profit or loss may be designated as a hedging instrument, except for some written options.

A non-derivative financial asset or a non-derivative financial liability measured at fair value through profit or loss may be designated as a hedging instrument unless it is a financial liability designated as at fair value through profit or loss for which the amount of its change in fair value that is attributable to changes in the credit risk of that liability is presented in other comprehensive income.



For a hedge of foreign currency risk, the foreign currency risk component of a non-derivative financial asset or a non-derivative financial liability may be designated as a hedging instrument provided that it is not an investment in an equity instrument for which an entity has elected to present changes in fair value in other comprehensive income.

Only contracts entered into by the entity with party external to the reporting entity can be designated as hedging instruments.

9.3 Designation of Hedging Instruments

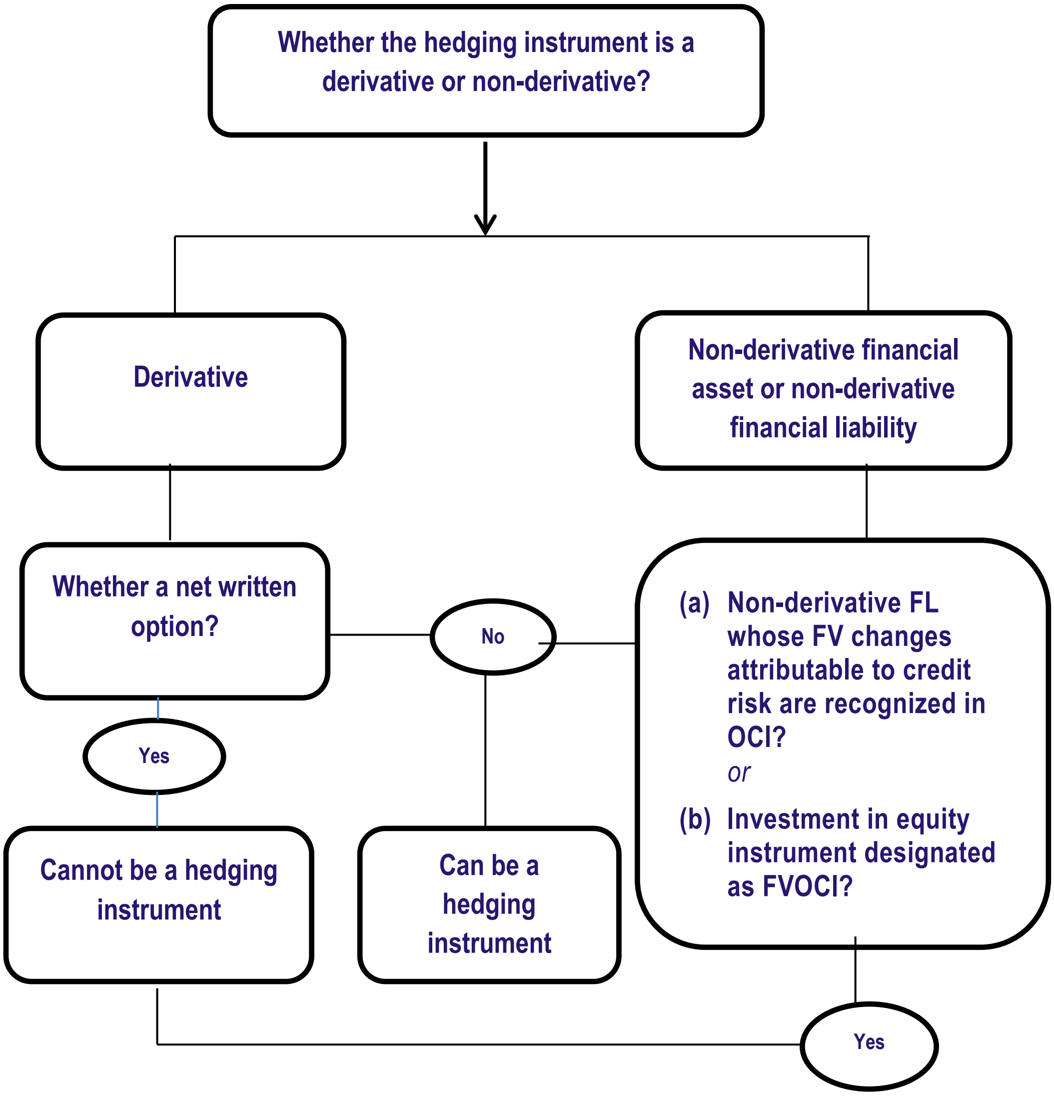
A qualifying instrument must be designated in its entirety as a hedging instrument. The only exceptions permitted are:

(a) separating the intrinsic value and time value of an option contract and designating as the hedging instrument only the change in intrinsic value of an option and not the change in its time value;

(b) separating the forward element and the spot element of a forward contract and designating as the hedging instrument only the change in the value of the spot element of a forward contract and not the forward element; similarly, the foreign currency basis spread may be separated and excluded from the designation of a financial instrument as the hedging instrument; and

(c) a proportion of the entire hedging instrument, such as 50 per cent of the nominal amount, may be designated as the hedging instrument in a hedging relationship. However, a hedging instrument may not be designated for a part of its change in fair value that results from only a portion of the time period during which the hedging instrument remains outstanding.

The decision tree to determining if an instrument can be designated as a hedging instrument is as follows:



9.4 Hedged Items

Qualifying Items: A hedged item can be a recognised asset or liability, an unrecognised firm commitment, a forecast transaction or a net investment in a foreign operation. The hedged item can be:

- a single item; or
- a group of items.

9.5 Types of Hedging Relationship

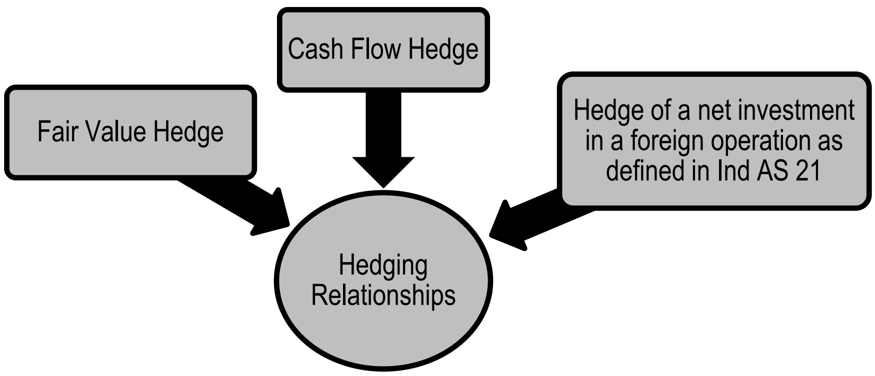
An entity applies hedge accounting to hedging relationships that meet the qualifying criteria (which include the entity's decision to designate the hedging relationship).

There are three types of hedging relationships:

(a) $\boxed{\textbf{Fair Value Hedge}}$**:** a hedge of the exposure to changes in fair value of a recognised asset or liability or an unrecognised firm commitment, or a component of any such item, that is attributable to a particular risk and could affect profit or loss.

(b) $\boxed{\textbf{Cash Flow Hedge}}$**:** a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with all, or a component of, a recognised asset or liability or a highly probable forecast transaction, and could affect profit or loss.

(c) $\boxed{\textbf{Hedge of a Net Investment in a Foreign Operation}}$ as defined in Ind AS 21.



9.6 Qualifying Criteria for Hedge Accounting

A hedging relationship qualifies for hedge accounting only if all of the following criteria are met:

(a) the hedging relationship consists only of eligible hedging instruments and eligible hedged items.

(b) at the inception of the hedging relationship there is formal designation and documentation of the hedging relationship and the entity's risk management objective and strategy for undertaking the hedge.

(c) the hedging relationship meets all of the following hedge effectiveness requirements:

   (i) there is an economic relationship between the hedged item and the hedging instrument;

   (ii) the effect of credit risk does not dominate the value changes that result from that economic relationship; and

(iii) the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the entity actually hedges and the quantity of the hedging instrument that the entity actually uses to hedge that quantity of hedged item.

However, that designation shall not reflect an imbalance between the weightings of the hedged item and the hedging instrument that would create hedge ineffectiveness (irrespective of whether recognised or not) that could result in an accounting outcome that would be inconsistent with the purpose of hedge accounting.

In case a hedging relationship ceases to meet the hedge effectiveness requirement relating to the hedge ratio but the risk management objective for that designated hedging relationship remains the same, an entity shall adjust the hedge ratio of the hedging relationship so that it meets the qualifying criteria again called as 'rebalancing'.

An entity shall discontinue hedge accounting prospectively only when the hedging relationship (or a part of a hedging relationship) ceases to meet the qualifying criteria (after taking into account any rebalancing of the hedging relationship, if applicable).

Ind AS 109 prescribes principles for hedge accounting and also requires detailed disclosures. These disclosures explain both the effect that hedge accounting has had on the financial statements and an entity's risk management strategy, as well as providing details about derivatives that have been entered into and their effect on the entity's future cash flows.

10 MAJOR CHANGE IN IND AS 109 VIS-À-VIS IFRS 9 NOT RESULTING IN CARVE OUT

Fair Value Hedge: IFRS 9 provides an option to apply requirements of IAS 39 *'Financial Instruments: Recognition and Measurement'* for fair value hedge of the interest rate exposure of a portfolio of financial assets or financial liabilities. The said option has been removed in Ind AS 109.

18

IND AS 107 : FINANCIAL INSTRUMENTS: DISCLOSURES

1 OBJECTIVE

The objective of this Ind AS is to require entities to provide disclosures in their financial statements that enable users to evaluate:

(a) the significance of financial instruments for the entity's financial position and performance; and

(b) the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the end of the reporting period, and how the entity manages those risks.

2 SCOPE

This Ind AS shall be applied by all entities to all types of financial instruments, except:

(a) those interests in subsidiaries, associates or joint ventures that are accounted for in accordance with Ind AS 110 *'Consolidated Financial Statements'*, Ind AS 27 *'Separate Financial Statements'*, or Ind AS 28 *'Investments in Associates and Joint Ventures'.*

(b) employers' rights and obligations arising from employee benefit plans, to which Ind AS 19, *'Employee Benefits'*, applies.

(c) insurance contracts as defined in Ind AS 104, *'Insurance Contracts'*.

(d) financial instruments, contracts and obligations under share-based payment transactions to which Ind AS 102, *'Share-based Payment'*, applies.

(e) instruments that are required to be classified as equity instruments in accordance with paragraphs 16A and 16B or paragraphs 16C and 16D of Ind AS 32.

This Ind AS applies to recognised and unrecognised financial instruments.

Recognised financial instruments include financial assets and financial liabilities that are within the scope of Ind AS 109. Unrecognised financial instruments include some financial instruments that, although outside the scope of Ind AS 109, are within the scope of this Ind AS.

3 CREDIT RISK, LIQUIDITY RISK AND MARKET RISK

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

Liquidity Risk: The risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Market Risk: The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices.

Market risk comprises three types of risk:

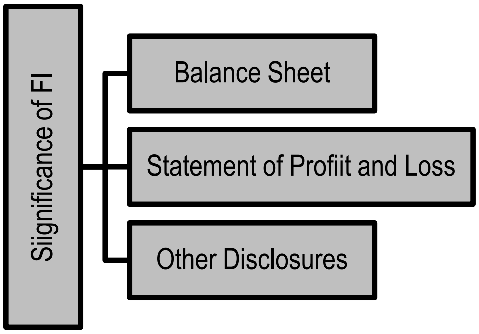
Interest Rate Risk: The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Currency Risk: The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Other Price Risk: The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer or by factors affecting all similar financial instruments traded in the market.

4 SIGNIFICANCE OF FINANCIAL INSTRUMENTS FOR FINANCIAL POSITION AND PERFORMANCE

An entity shall disclose information that enables users of its financial statements to evaluate the significance of financial instruments for its financial position and performance.



4.1 Balance Sheet

Categories of Financial Assets and Financial Liabilities: The carrying amounts of each of the following categories, as specified in Ind AS 109, shall be disclosed either in the balance sheet or in the notes:

1. financial assets measured at fair value through profit or loss, showing separately
   (i) those designated as such upon initial recognition or subsequently in accordance with Ind AS 109 and
   (ii) those mandatorily measured at fair value through profit or loss in accordance with Ind AS 109.
2. financial liabilities at fair value through profit or loss, showing separately
   (i) those designated as such upon initial recognition or subsequently in accordance with Ind AS 109 and
   (ii) those that meet the definition of held for trading in Ind AS 109.
3. financial assets measured at amortised cost.
4. financial liabilities measured at amortised cost.
5. financial assets measured at fair value through other comprehensive income, showing separately
   (i) financial assets that are measured at fair value through other comprehensive income in accordance with Ind AS 109; and
   (ii) investments in equity instruments designated as such upon initial recognition in accordance with Ind AS 109.

$\boxed{\textbf{Financial Assets or Financial Liabilities at Fair Value through Profit or Loss}}$**:** If the entity has designated as measured at fair value through profit or loss a financial asset (or group of financial assets) that would otherwise be measured at fair value through other comprehensive income or amortised cost, it shall disclose:

(a) the maximum exposure to credit risk of the financial asset (or group of financial assets) at the end of the reporting period.

(b) the amount by which any related credit derivatives or similar instruments mitigate that maximum exposure to credit risk.

(c) the amount of change, during the period and cumulatively, in the fair value of the financial asset (or group of financial assets) that is attributable to changes in the credit risk of the financial asset determined either:

   (i) as the amount of change in its fair value that is not attributable to changes in market conditions that give rise to market risk; or

   (ii) using an alternative method the entity believes more faithfully represents the amount of change in its fair value that is attributable to changes in the credit risk of the asset.

(d) the amount of the change in the fair value of any related credit derivatives or similar instruments that has occurred during the period and cumulatively since the financial asset was designated.

Investments in Equity Instruments designated at Fair Value through Other Comprehensive Income

If an entity has designated investments in equity instruments to be measured at fair value through other comprehensive income, as permitted by Ind AS 109, it shall disclose:

(a) which investments in equity instruments have been designated to be measured at fair value through other comprehensive income.

(b) the reasons for using this presentation alternative.

(c) the fair value of each such investment at the end of the reporting period.

(d) dividends recognised during the period, showing separately those related to investments derecognised during the reporting period and those related to investments held at the end of the reporting period.

(e) any transfers of the cumulative gain or loss within equity during the period including the reason for such transfers.

$\boxed{\textbf{Reclassification}}$**:** An entity shall disclose if, in the current or previous reporting periods, it has reclassified any financial assets in accordance with Ind AS 109. For each such event, an entity shall disclose:

(a) the date of reclassification.

(b) a detailed explanation of the change in business model and a qualitative description of its effect on the entity's financial statements.

(c) the amount reclassified into and out of each category.

Collateral: An entity shall disclose:

(a) the carrying amount of financial assets it has pledged as collateral for liabilities or contingent liabilities, including amounts that have been reclassified in accordance with Ind AS 109; and

(b) the terms and conditions relating to its pledge.

Allowance Account for Credit Losses: The carrying amount of financial assets measured at fair value through other comprehensive income in accordance with Ind AS 109 is not reduced by a loss allowance and an entity shall not present the loss allowance separately in the balance sheet as a reduction of the carrying amount of the financial asset. However, an entity shall disclose the loss allowance in the notes to the financial statements.

Compound Financial Instruments with Multiple Embedded Derivatives: If an entity has issued an instrument that contains both a liability and an equity component and the instrument has multiple embedded derivatives whose values are interdependent (such as a callable convertible debt instrument), it shall disclose the existence of those features.

Defaults and Breaches: For loans payable recognised at the end of the reporting period, an entity shall disclose:

(a) details of any defaults during the period of principal, interest, sinking fund, or redemption terms of those loans payable;

(b) the carrying amount of the loans payable in default at the end of the reporting period; and

(c) whether the default was remedied, or the terms of the loans payable were renegotiated, before the financial statements were approved for issue.

4.2 Statement of Profit and Loss

Items of Income, Expense, Gains or Losses: An entity shall disclose the following items of income, expense, gains or losses either in the statement of profit and loss or in the notes:

(a) net gains or net losses on:

(i) financial assets or financial liabilities measured at fair value through profit or loss, showing separately those on financial assets or financial liabilities designated as such upon initial recognition or subsequently in accordance with Ind AS 109, and those on financial assets or financial liabilities that are mandatorily measured at fair value through profit or loss in accordance with Ind AS 109 (e.g. financial liabilities that meet the definition of held for trading in Ind AS 109). For financial liabilities designated as at fair value through profit or loss, an entity shall show separately the amount of gain or loss recognised in other comprehensive income and the amount recognised in profit or loss.

(ii) financial liabilities measured at amortised cost.

(iii) financial assets measured at amortised cost.

(iv) investments in equity instruments designated at fair value through other comprehensive income in accordance with Ind AS 109.

(v) financial assets measured at fair value through other comprehensive income in accordance with Ind AS 109, showing separately the amount of gain or loss recognised in other comprehensive income during the period and the amount reclassified upon derecognition from accumulated other comprehensive income to profit or loss for the period.

(b) total interest revenue and total interest expense (calculated using the effective interest method) for financial assets that are measured at amortised cost or that are measured at fair value through other comprehensive income in accordance with Ind AS 109 (showing these amounts separately); or financial liabilities that are not measured at fair value through profit or loss.

(c) fee income and expense (other than amounts included in determining the effective interest rate) arising from:

(i) financial assets and financial liabilities that are not at fair value through profit or loss; and

(ii) trust and other fiduciary activities that result in the holding or investing of assets on behalf of individuals, trusts, retirement benefit plans, and other institutions.

4.3 Other Disclosures

Accounting Policies: In accordance with Ind AS 1 *'Presentation of Financial Statements'*, an entity discloses its significant accounting policies, comprising the measurement basis (or bases) used in preparing the financial statements and the other accounting policies used that are relevant to an understanding of the financial statements.

Hedge Accounting: An entity shall apply the disclosure requirements for those risk exposures that an entity hedges and for which it elects to apply hedge accounting. Hedge accounting disclosures shall provide information about:

(i) an entity's risk management strategy and how it is applied to manage risk;

(ii) how the entity's hedging activities may affect the amount, timing and uncertainty of its future cash flows; and

(iii) the effect that hedge accounting has had on the entity's balance sheet, statement of profit and loss and statement of changes in equity.

Fair Value: For each class of financial assets and financial liabilities, an entity shall disclose the fair value of that class of assets and liabilities in a way that permits it to be compared with its carrying amount.

Disclosures of fair value are not required:

(a) when the carrying amount is a reasonable approximation of fair value, for example, for financial instruments such as short-term trade receivables and payables;

(b) for a contract containing a discretionary participation feature (as described in Ind AS 104) if the fair value of that feature cannot be measured reliably.

5 NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

An entity shall disclose information that enables users of its financial statements to evaluate the nature and extent of risks arising from financial instruments to which the entity is exposed at the end of the reporting period.

Qualitative Disclosures: The qualitative disclosures describe management's objectives, policies and processes for managing those risks.

For each type of risk arising from financial instruments, an entity shall disclose:

(a) the exposures to risk and how they arise;

(b) its objectives, policies and processes for managing the risk and the methods used to measure the risk; and

(c) any changes in (a) or (b) from the previous period.

Quantitative Disclosures: The quantitative disclosures provide information about the extent to which the entity is exposed to risk, based on information provided internally to the entity's key management personnel.

For each type of risk arising from financial instruments, an entity shall disclose:

(a) summary quantitative data about its exposure to that risk at the end of the reporting period. This disclosure shall be based on the information provided internally to key management personnel of the entity (as defined in Ind AS 24, *'Related Party Disclosures'*), for example the entity's board of directors or chief executive officer.

(b) the disclosures required by paragraphs 36–42, to the extent not provided in accordance with (a).

(c) concentrations of risk if not apparent from the disclosures made in accordance with (a) and (b).

Together, these disclosures provide an overview of the entity's use of financial instruments and the exposures to risks they create.

The Ind AS applies to all entities, including entities that have few financial instruments (eg a manufacturer whose only financial instruments are accounts receivable and accounts payable) and those that have many financial instruments (eg a financial institution most of whose assets and liabilities are financial instruments).

When this Ind AS requires disclosures by class of financial instrument, an entity shall group financial instruments into classes that are appropriate to the nature of the information disclosed and that take into account the characteristics of those financial instruments. An entity shall provide sufficient information to permit reconciliation to the line items presented in the statement of financial position.

The principles in this Ind AS complement the principles for recognising, measuring and presenting financial assets and financial liabilities in Ind AS 32, '*Financial Instruments: Presentation'* and Ind AS 109, *'Financial Instruments'*.

6 MAJOR CHANGE IN IND AS 107 VIS-À-VIS IFRS 7 NOT RESULTING IN CARVE OUT

Disclosure of description of Gains and Losses presented in the Separate Income Statement: IFRS 7 requires disclosure of description of gains and losses presented in the separate income statement, where separate income statement is presented. This requirement is not provided in Ind AS 107 consequential to the removal of option regarding two statement approach in Ind AS 1 as compared to IAS 1. Ind AS 1 requires that the components of profit or loss and components of other comprehensive income shall be presented as a part of the statement of profit and loss.

19

IND AS 113 : FAIR VALUE MEASUREMENT

1 OBJECTIVE

- Defines fair value
- Sets out in a single Ind AS a framework for measuring fair value; and
- Requires disclosures about fair value measurements

Fair value is a market-based measurement, not an entity-specific measurement.

The objective of a fair value measurement is—

- To estimate the price
- At which an orderly transaction to sell the asset or to transfer the liability would take place
- Between market participants
- At the measurement date
- Under current market conditions

(i.e. an exit price at the measurement date from the perspective of a market participant that holds the asset or owes the liability).

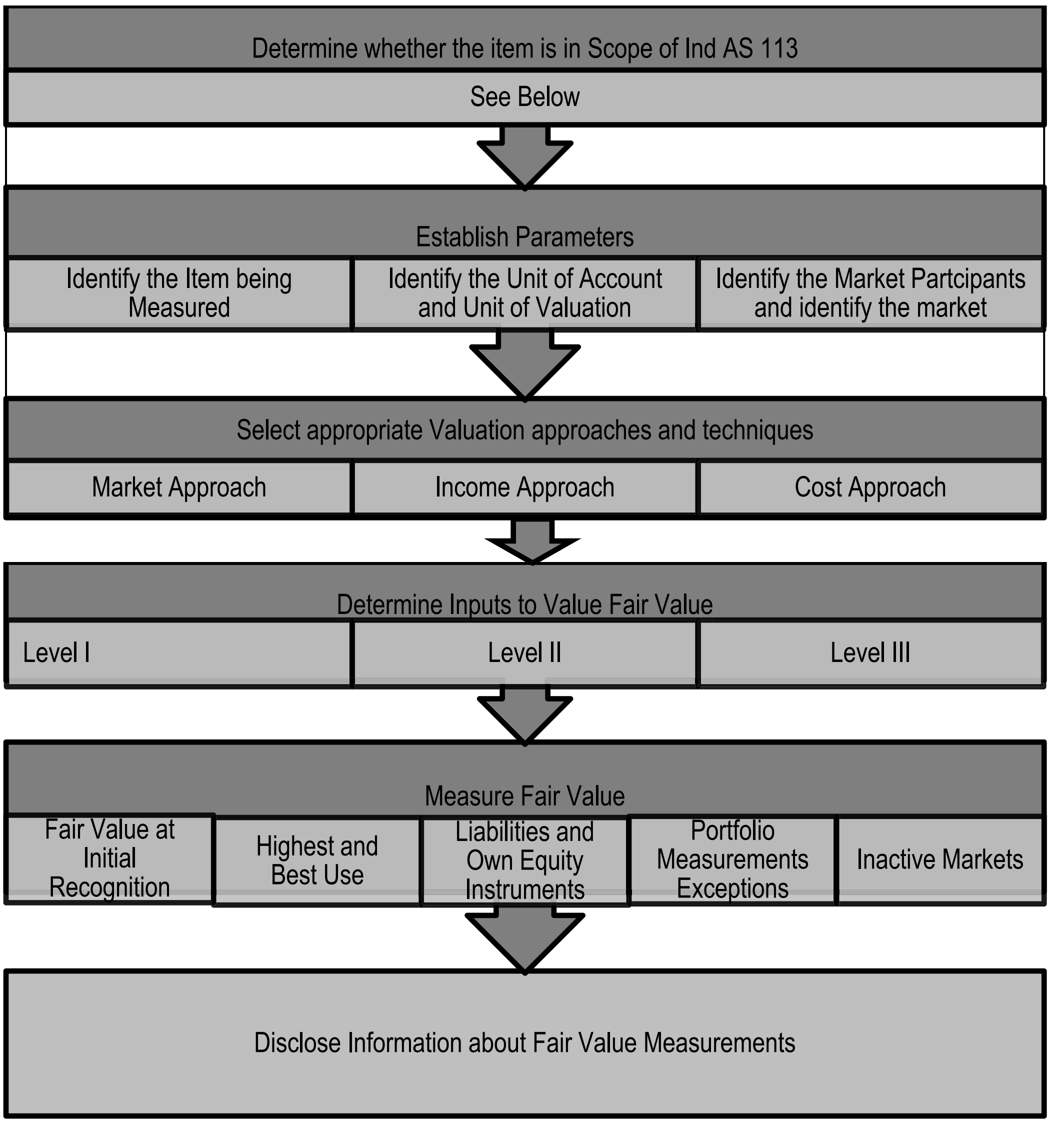
When a price for an identical asset or liability is not observable, an entity measures fair value using another valuation technique that:

- Maximises the use of relevant observable inputs and
- Minimises the use of unobservable inputs.

Because fair value is a market-based measurement, it is measured using the assumptions that market participants would use when pricing the asset or liability, including assumptions about risk. As a result, an entity's intention to hold an asset or to settle or otherwise fulfil a liability is not relevant when measuring fair value.

The definition of fair value focuses on assets and liabilities because they are a primary subject of accounting measurement. In addition, this Ind AS shall be applied to an entity's own equity instruments measured at fair value.

Manner to proceed for the understanding of Ind AS 113:



2 SCOPE

This Ind AS applies when another Ind AS requires or permits:

- Fair value measurements or
- Disclosures about fair value measurements

The measurement and disclosure requirements of this Ind AS do not apply to the following:

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 NRV in Ind AS 2; or • 'Value in use' in Ind AS 36

The disclosures required by this Ind AS are not required for the following:

- Plan assets measured at fair value in accordance with Ind AS 19
- Assets for which recoverable amount is fair value less costs of disposal in accordance with Ind AS 36

The fair value measurement framework described in this Ind AS applies to both initial and subsequent measurement if fair value is required or permitted by other Ind AS.

3 MEASUREMENT

Definition of fair value: This Ind AS defines fair value as:

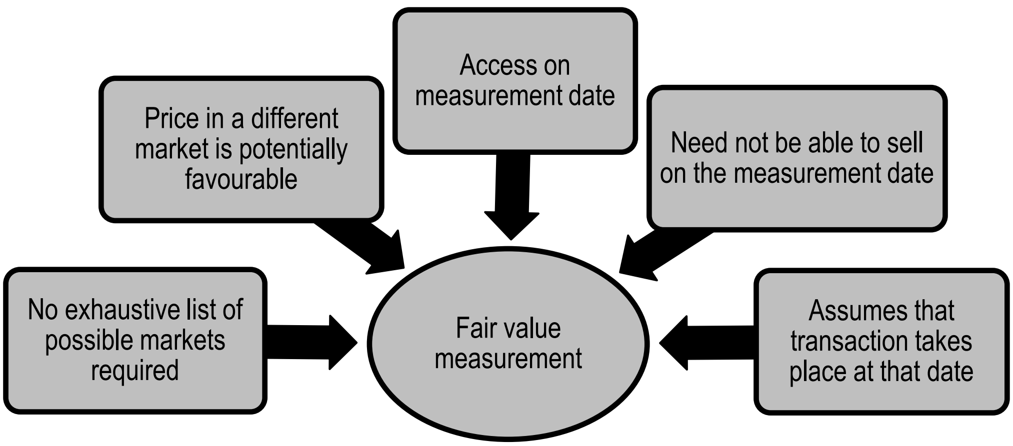
Fair Value			
The price that would be received to sell an asset or paid to transfer a liability	In an orderly transaction	Between market participants	At the measurement date

***Asset or liability*:** A fair value measurement is for a particular asset or liability. Therefore, when measuring fair value an entity shall take into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Such characteristics include, the condition and location of the asset; and restrictions, if any, on the sale or use of the asset.

***The transaction*:** A fair value measurement assumes that the asset or liability is exchanged in an orderly transaction between market participants to sell the asset or transfer the liability at the measurement date under current market conditions. A fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either, in the principal market for the asset or liability or in the absence of a principal market, in the most advantageous market for the asset or liability.

***Market participants*:** An entity shall measure the fair value of an asset or a liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their best economic interest.

***The price*:** Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (ie an exit price) regardless of whether that price is directly observable or estimated using another valuation technique.

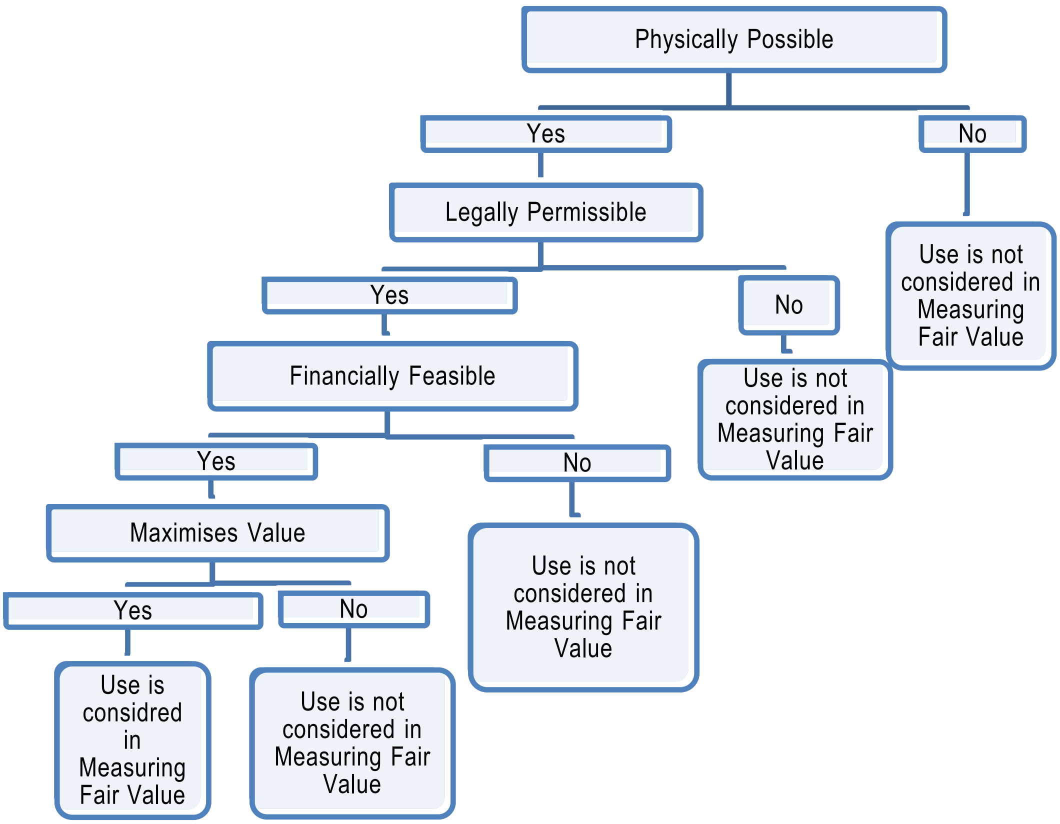


4 APPLICATION TO NON-FINANCIAL ASSETS

Highest and best use for non-financial assets: A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits:

- By using the asset in its 'highest and best use'
- OR
- By selling it to another market participant that would use the asset in its highest and best use

The highest and best use of a non-financial asset takes into account the use of the asset that is physically possible, legally permissible and financially feasible.



5 APPLICATION TO LIABILITIES AND AN ENTITY'S OWN EQUITY INSTRUMENTS

General Principles: A fair value measurement assumes that a financial or non-financial liability or an entity's own equity instrument (e.g. equity interests issued as consideration in a business combination) is transferred to a market participant at the measurement date. The transfer of a liability or an entity's own equity instrument assumes the following:

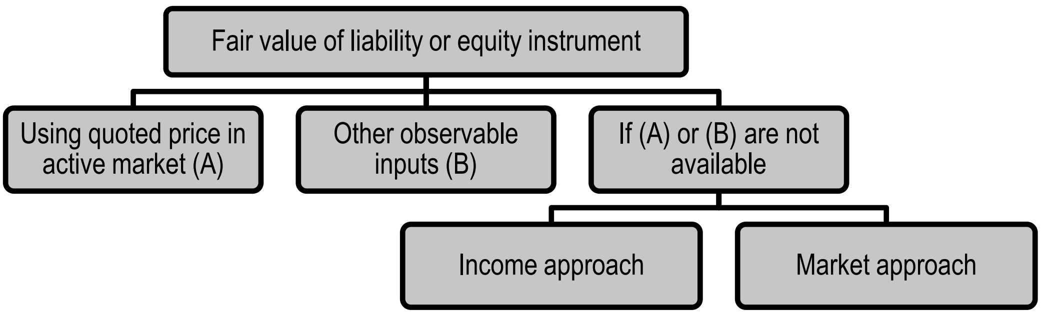
a) A liability would remain outstanding and the market participant transferee would be required to fulfil the obligation. The liability would not be settled with the counterparty or otherwise extinguished on the measurement date.

b) An entity's own equity instrument 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 the measurement date.

5.1 LIABILITIES AND EQUITY INSTRUMENTS 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 the identical item is held by another party as an asset, an entity shall measure the fair value of the liability or equity instrument from the perspective of a market participant that holds the identical item as an asset at the measurement date.

In such cases, an entity shall measure the fair value of the liability or equity instrument as follows:



5.2 Liabilities and Equity Instruments 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 the identical item is not held by another party as an asset, an entity shall measure the fair value of the liability or equity instrument using a valuation technique from the perspective of a market participant that owes the liability or has issued the claim on equity.

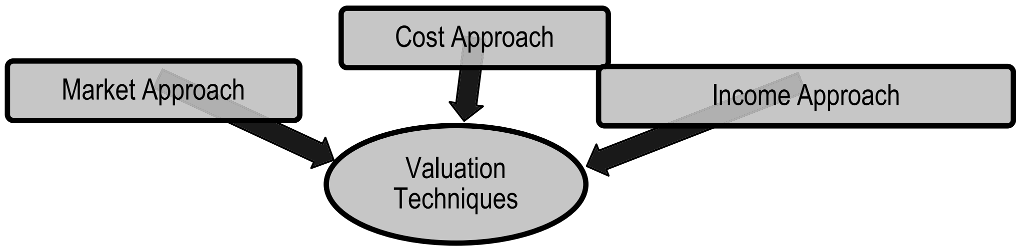
6 VALUATION TECHNIQUES

An entity shall use valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value by

- Maximising the use of relevant observable inputs and
- Minimising the use of unobservable inputs

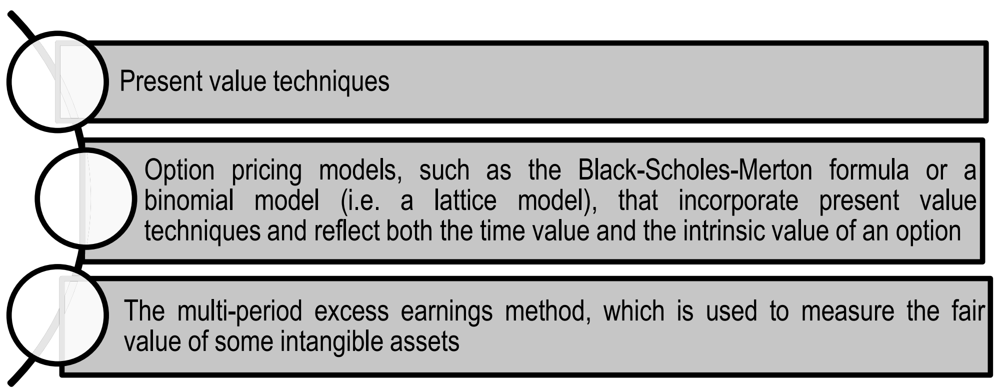
The objective of using a valuation technique is to estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions.

Three widely used valuation techniques are:



1. ***Income Approach*****:** The income approach converts future amounts (e.g. cash flows or income and expenses) to a single current (i.e. discounted) amount. When the income approach is used, the fair value measurement reflects current market expectations about those future amounts.

   Those valuation techniques include, for example, the following:



2. ***Market Approach*****:** The market approach uses prices and other relevant information generated by market transactions involving identical or comparable (i.e. similar) assets, liabilities or a group of assets and liabilities, such as a business.

   For example, valuation techniques consistent with the market approach often use market multiples derived from a set of comparables. Multiples might be in ranges with a different multiple for each comparable. The selection of the appropriate multiple within the range requires judgement, considering qualitative and quantitative factors specific to the measurement.

Valuation techniques consistent with the market approach include matrix pricing. Matrix pricing is a mathematical technique used principally to value some types of financial instruments, such as debt securities, without relying exclusively on quoted prices for the specific securities, but rather relying on the securities' relationship to other benchmark quoted securities.

An entity shall use valuation techniques consistent with one or more of those approaches to measure fair value.

7 FAIR VALUE HIERARCHY

To increase consistency and comparability in fair value measurements and related disclosures, this Ind AS establishes a fair value hierarchy that categorises into three levels, the inputs to valuation techniques used to measure fair value.

The fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1 inputs) and the lowest priority to unobservable inputs (Level 3 inputs).

In some cases, the inputs used to measure the fair value of an asset or a liability might be categorised within different levels of the fair value hierarchy. In those cases, the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. Assessing the significance of a particular input to the entire measurement requires judgement, taking into account factors specific to the asset or liability. Adjustments to arrive at measurements based on fair value, such as costs to sell when measuring fair value less costs to sell, shall not be taken into account when determining the level of the fair value hierarchy within which a fair value measurement is categorised.

The availability of relevant inputs and their relative subjectivity might affect the selection of appropriate valuation techniques. However, the fair value hierarchy prioritises the inputs to valuation techniques, not the valuation techniques used to measure fair value.

For example: A fair value measurement developed using a present value technique might be categorised within Level 2 or Level 3, depending on the inputs that are significant to the entire measurement and the level of the fair value hierarchy within which those inputs are categorised. If an observable input requires an adjustment using an unobservable input and that adjustment results in a significantly higher or lower fair value measurement, the resulting measurement would be categorised within Level 3 of the fair value hierarchy.

For example: If a market participant would take into account the effect of a restriction on the sale of an asset when estimating the price for the asset, an entity would adjust the quoted price to reflect the effect of that restriction. If that quoted price is a Level 2 input and the adjustment is an unobservable input that is significant to the entire measurement, the measurement would be categorised within Level 3 of the fair value hierarchy.

7.1 Level 1 Inputs

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.

A quoted price in an active market provides the most reliable evidence of fair value and shall be used without adjustment to measure fair value whenever available.

A Level 1 input will be available for many financial assets and financial liabilities, some of which might be exchanged in multiple active markets (e.g. on different exchanges). Therefore, the emphasis within Level 1 is on determining both of the following:

- The principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability
- Whether the entity can enter into a transaction for the asset or liability at the price in that market at the measurement date

7.2 Level 2 Inputs

Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

If the asset or liability has a specified (contractual) term, a Level 2 input must be observable for substantially the full term of the asset or liability. Level 2 inputs include the following:

(a) quoted prices for similar assets or liabilities in active markets.

(b) quoted prices for identical or similar assets or liabilities in markets that are not active.

(c) inputs other than quoted prices that are observable for the asset or liability, for example:

  (i) interest rates and yield curves observable at commonly quoted intervals;

  (ii) implied volatilities; and

  (iii) credit spreads.

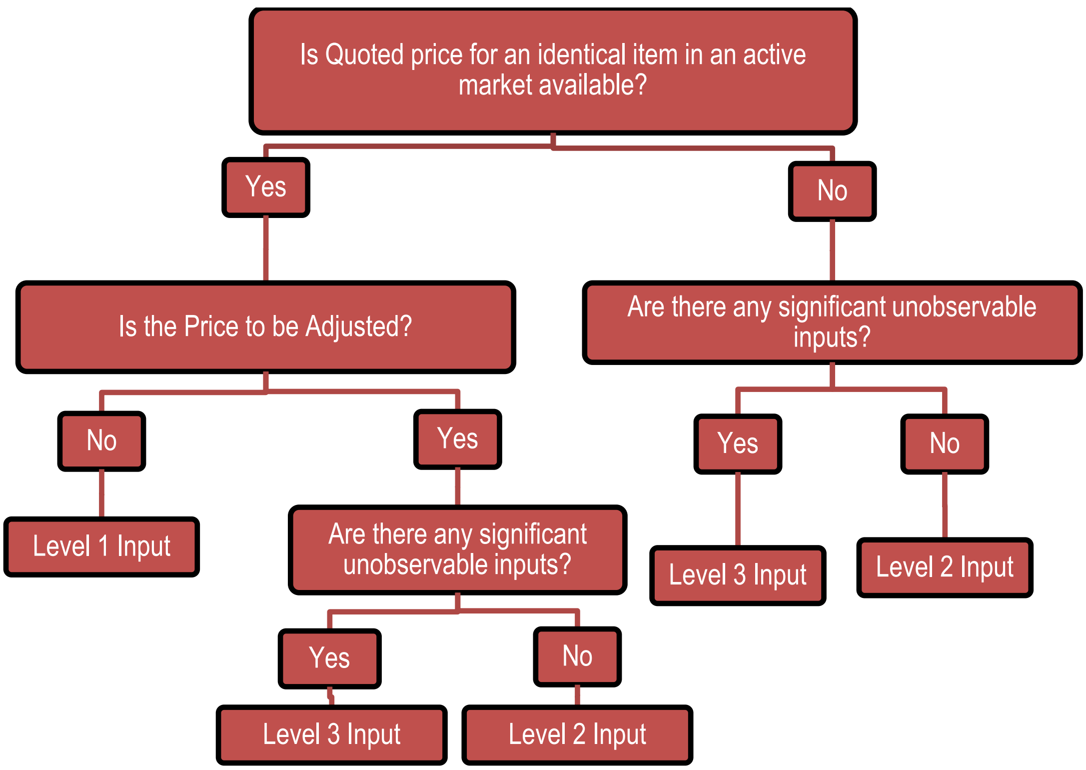
  (iv) market-corroborated inputs.

7.3 Level 3 Inputs

Level 3 inputs are unobservable inputs for the asset or liability. Unobservable inputs shall be used to measure fair value to the extent that relevant observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date. However, the fair value measurement objective remains the same, i.e. an exit price at the measurement date from the perspective of a market participant that holds the asset or owes the liability. Therefore, unobservable inputs shall reflect the assumptions that market participants would use when pricing the asset or liability, including assumptions about risk.

Assumptions about risk include the risk inherent in a particular valuation technique used to measure fair value (such as a pricing model) and the risk inherent in the inputs to the valuation technique. A measurement that does not include an adjustment for risk would not represent a fair value measurement if market participants would include one when pricing the asset or liability.

For example: It might be necessary to include a risk adjustment when there is significant measurement uncertainty (e.g. when there has been a significant decrease in the volume or level of activity when compared with normal market activity for the asset or liability, or similar assets or liabilities, and the entity has determined that the transaction price or quoted price does not represent fair value).



8 DISCLOSURE

An entity shall disclose information that helps users of its financial statements assess both of the following:

(a) for assets and liabilities that are measured at fair value on a recurring or non-recurring basis in the balance sheet after initial recognition, the valuation techniques and inputs used to develop those measurements.

(b) for recurring fair value measurements using significant unobservable inputs (Level 3), the effect of the measurements on profit or loss or other comprehensive income for the period.

9 MAJOR CHANGE IN IND AS 113 *VIS-À-VIS* IFRS 13 NOT RESULTING IN CARVE OUT

Paragraph 7(b) of IFRS 13: Paragraph 7(b) of IFRS 13 refers to IAS 26 '*Accounting and Reporting by Retirement Benefit Plans*', which is not relevant for the companies. Hence the paragraph is deleted in Ind AS 113.

20

IND AS 101 : FIRST-TIME ADOPTION OF INDIAN ACCOUNTING STANDARDS

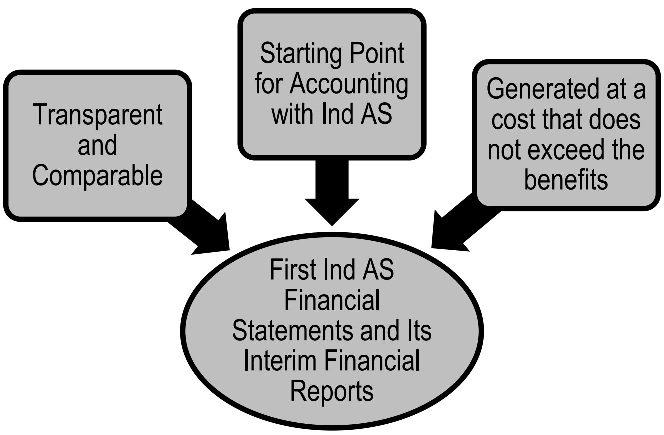
1 OBJECTIVE

The objective of this Ind AS is to ensure that an entity's first Ind AS financial statements, and its interim financial reports for part of the period covered by those financial statements contain high quality information that:

(a) is transparent for users and comparable over all periods presented;

(b) provides a suitable starting point for accounting in accordance with Ind AS; and

(c) can be generated at a cost that does not exceed the benefits.



2 SCOPE

An entity shall apply this Ind AS in:

(a) its first Ind AS financial statements; and

(b) each interim financial report, if any, that it presents in accordance with Ind AS 34, 'Interim Financial Reporting', for part of the period covered by its first Ind AS financial statements.

An entity's first Ind AS financial statements are the first annual financial statements in which the entity adopts Ind AS, in accordance with Ind AS notified under the Companies Act, 2013 and makes ***an explicit and unreserved statement*** in those financial statements of compliance with Ind AS.

3 RECOGNITION AND MEASUREMENT

Opening Ind AS Balance Sheet: An entity shall prepare and present an opening Ind AS Balance Sheet at the date of transition to Ind AS. This is the starting point for its accounting in accordance with Ind AS.

An entity shall, in its opening Ind AS Balance Sheet:

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

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

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

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

Accounting Policies: An entity shall use the same accounting policies in its opening Ind AS Balance Sheet and throughout all periods presented in its first Ind AS financial statements. The accounting policies in opening Ind AS Balance Sheet may differ from those that it used for the same date using previous GAAP. The resulting adjustments arise from events and transactions before the date of transition to Ind AS shall be recognised directly in retained earnings.

Those accounting policies shall comply with each Ind AS effective at the end of its first Ind AS reporting period, subject to:

- Mandatory Exceptions
- Optional Exemptions

This Ind AS establishes two categories of exceptions to the principle that an entity's opening Ind AS Balance Sheet shall comply with each Ind AS:

- Ind AS 101 prohibit retrospective application of some specific aspects of other Ind AS.
- Ind AS 101 grant exemptions from some specific requirements of other Ind AS.

4 EXCEPTIONS TO THE RETROSPECTIVE APPLICATION OF OTHER IND AS

This Ind AS prohibits retrospective application of some aspects of other Ind AS. These exceptions are as under:

4.1 Mandatory Exceptions

1. ***Estimates:*** An entity's estimates in accordance with Ind AS at the date of transition to Ind AS shall be consistent with estimates made for the same date in accordance with previous GAAP (after adjustments to reflect any difference in accounting policies), unless there is objective evidence that those estimates were in error.

   Step 1 Estimates required by previous GAAP? If yes then go to Step 2 otherwise Step 3.

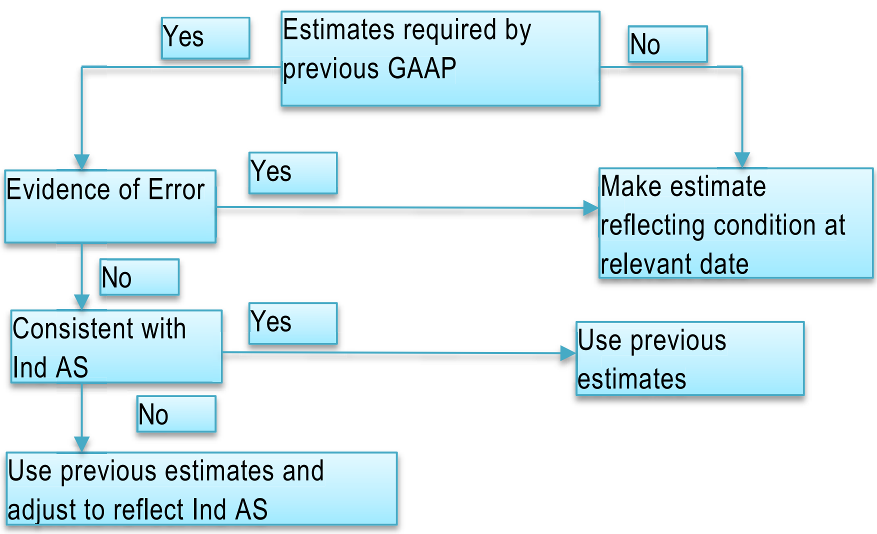
   Step 2 Evidence of Error? If yes then go to Step 3 otherwise Step 4.

   Step 3 Make estimate reflecting condition at relevant date.

   Step 4 Consistent with Ind AS? If yes then go to step 5 otherwise Step 6

   Step 5 Use previous estimates

   Step 6 Use previous estimates and adjust to reflect Ind AS.



2. ***Derecognition of Financial Assets or Financial Liabilities:*** A first-time adopter shall apply the derecognition requirements in Ind AS 109 prospectively for transactions occurring on or after the date of transition to Ind AS.

3. ***Hedge Accounting:*** An entity shall not reflect in its opening Ind AS Balance Sheet a hedging relationship of a type that does not qualify for hedge accounting in accordance with Ind AS 109.

4. ***Non-controlling Interests:*** A first-time adopter shall apply the following requirements of Ind AS 110 prospectively from the date of transition to Ind AS:

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

   (b) Accounting for changes in the parent's ownership interest in a subsidiary that do not result in a loss of control; and

   (c) Accounting for a loss of control over a subsidiary, and the related requirements of paragraph 8A of Ind AS 105, *'Non-current Assets Held for Sale and Discontinued Operations'*.

5. ***Classification and Measurement of Financial Assets****:* An entity shall assess whether a financial asset meets the conditions in paragraph 4.1.2 or the conditions in paragraph 4.1.2A of Ind AS 109 on the basis of the facts and circumstances that exist at the date of transition to Ind AS.

6. ***Impairment of Financial Assets:*** An entity should seek to approximate the credit risk on initial recognition by considering all reasonable and supportable information that is available without undue cost or effort.

   An entity is not required to undertake an exhaustive search for information when determining, at the date of transition to Ind AS, whether there have been significant increases in credit risk since initial recognition. If an entity is unable to make this determination without undue cost or effort paragraph B8G of this Ind AS applies.

7. ***Embedded Derivatives:*** A first-time adopter shall assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative on the basis of the conditions that existed at the later of the date it first became a party to the contract and the date of a reassessment.

8. ***Government Loans:*** A first-time adopter shall classify all government loans received as a financial liability or an equity instrument in accordance with Ind AS 32.

4.2 Optional Exemptions

1. ***Exemptions for Business Combinations:*** A first-time adopter may elect not to apply Ind AS 103 retrospectively to past business combinations (business combinations that occurred before the date of transition to Ind AS).

However, if a first-time adopter restates any business combination to comply with Ind AS 103, it shall restate all later business combinations and shall also apply Ind AS 110 from that same date.

2. ***Share-based Payment Transactions:*** A first-time adopter is encouraged, but not required, to apply Ind AS 102 '*Share-based Payment'* to equity instruments that vested before date of transition to Ind AS.

3. ***Insurance Contracts:*** An entity shall apply Ind AS 104 *'Insurance Contracts'* for annual periods beginning on or after date of transition to Ind AS. Earlier application is encouraged. If an entity applies this Ind AS 104 for an earlier period, it shall disclose that fact.

4. ***Deemed Cost:*** An entity may elect to measure an item of property, plant and equipment or an intangible asset at the date of transition to Ind AS at its fair value and use that fair value as its deemed cost at that date.

A first-time adopter may elect to use a previous GAAP revaluation of an item of property, plant and equipment or an intangible asset at, or before, the date of transition to Ind AS as deemed cost at the date of the revaluation, if the revaluation was, at the date of the revaluation, broadly comparable to:

(a) fair value; or

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

5. ***Leases:*** A first-time adopter may apply paragraphs 6-9 of the Appendix C of Ind AS 17 Determining whether an Arrangement contains a Lease to determine whether an arrangement existing at the date of transition to Ind AS contains a lease on the basis of facts and circumstances existing at the date of transition to Ind AS, except where the effect is expected to be not material.

6. ***Cumulative Translation Differences:*** Ind AS 21 requires an entity:

(a) to recognise some translation differences in other comprehensive income and accumulate these in a separate component of equity; and

(b) on disposal of a foreign operation, to reclassify the cumulative translation difference for that foreign operation (including, if applicable, gains and losses on related hedges) from equity to profit or loss as part of the gain or loss on disposal.

However, a first-time adopter need not comply with these requirements for cumulative translation differences that existed at the date of transition to Ind AS. If a first-time adopter uses this exemption:

(a) the cumulative translation differences for all foreign operations are deemed to be zero at the date of transition to Ind AS; and

(b) the gain or loss on a subsequent disposal of any foreign operation shall exclude translation differences that arose before the date of transition to Ind AS and shall include later translation differences.

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

8. ***Investments in Subsidiaries, Joint Ventures and Associates:*** When an entity prepares separate financial statements, Ind AS 27 requires it to account for its investments in subsidiaries, joint ventures and associates either:

(a) at cost; or

(b) in accordance with Ind AS 109.

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

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

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

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

   (ii) previous GAAP carrying amount at that date.

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

9. ***Assets and Liabilities of Subsidiaries, Associates and Joint ventures:*** If a subsidiary becomes a first-time adopter later than its parent, the subsidiary shall, in its financial statements, measure its assets and liabilities at either:

(a) the carrying amounts that would be included in the parent's consolidated financial statements, based on the parent's date of transition to Ind AS, if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary (this election is not available to a subsidiary of an investment entity, as defined in Ind AS 110, that is required to be measured at fair value through profit or loss); or

(b) the carrying amounts required by the rest of this Ind AS, based on the subsidiary's date of transition to Ind AS. These carrying amounts could differ from those described in (a):

  (i) when the exemptions in this Ind AS result in measurements that depend on the date of transition to Ind AS.

  (ii) when the accounting policies used in the subsidiary's financial statements differ from those in the consolidated financial statements. For example, the subsidiary may use as its accounting policy the cost model in Ind AS 16 *'Property, Plant and Equipment'*, whereas the group may use the revaluation model.

A similar election is available to an associate or joint venture that becomes a first-time adopter later than an entity that has significant influence or joint control over it.

10. ***Compound Financial Instruments:*** Ind AS 32 *'Financial Instruments: Presentation'* requires an entity to split a compound financial instrument at inception into separate liability and equity components. If the liability component is no longer outstanding, retrospective application of Ind AS 32 involves separating two portions of equity. The first portion is in retained earnings and represents the cumulative interest accreted on the liability component. The other portion represents the original equity component.

However, in accordance with this Ind AS, a first-time adopter need not separate these two portions if the liability component is no longer outstanding at the date of transition to Ind AS.

11. ***Designation of previously recognised Financial Instruments:*** Ind AS 109 permits a financial liability (provided it meets certain criteria) to be designated as a financial liability at fair value through profit or loss. Despite this requirement an entity is permitted to designate, at the date of transition to Ind AS, any financial liability as at fair value through profit or loss provided the liability meets the criteria in paragraph 4.2.2 of Ind AS 109 at that date.

12. ***Fair Value Measurement of Financial Assets or Financial Liabilities at Initial Recognition:*** Despite the requirements of paragraphs 7 and 9 of this Ind AS, an entity may apply the requirements of Ind AS 109 prospectively to transactions entered into on or after the date of transition to Ind AS.

13. ***Decommissioning Liabilities included in the Cost of Property, Plant and Equipment:*** A first-time adopter need not comply with these requirements for changes in such liabilities that occurred before the date of transition to Ind AS. If a first-time adopter uses this exemption, it shall:

(a) measure the liability as at the date of transition to Ind AS in accordance with Ind AS 37;

(b) to the extent that the liability is within the scope of Appendix A of Ind AS 16, estimate the amount that would have been included in the cost of the related asset when the liability first arose, by discounting the liability to that date using its best estimate of the historical risk-adjusted discount rate(s) that would have applied for that liability over the intervening period; and

(c) calculate the accumulated depreciation on that amount, as at the date of transition to Ind AS, on the basis of the current estimate of the useful life of the asset, using the depreciation policy adopted by the entity in accordance with Ind AS.

14. ***Financial assets or intangible assets accounted for in accordance with Appendix A, Service Concession Arrangements to Ind AS 11:*** D22 A first-time adopter may apply the following provisions while applying the Appendix A to Ind AS 11:

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

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

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

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

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

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

15. ***Extinguishing Financial Liabilities with Equity Instruments:*** A first-time adopter may apply the Appendix E of Ind AS 109 Extinguishing Financial Liabilities with Equity Instruments from the date of transition to Ind AS.

16. ***Severe Hyperinflation:*** If an entity has a functional currency that was, or is, the currency of a hyperinflationary economy, it shall determine whether it was subject to severe hyperinflation before the date of transition to Ind AS. This applies to entities that are adopting Ind AS for the first time, as well as entities that have previously applied Ind AS.

17. ***Joint Ventures - Transition from Proportionate Consolidation to the Equity Method:*** When changing from proportionate consolidation to the equity method, an entity shall recognise its investment in the joint venture at transition date to Ind AS. That initial investment shall be measured as the aggregate of the carrying amounts of the assets and liabilities that the entity had previously proportionately consolidated, including any goodwill arising from acquisition. If the goodwill previously belonged to a larger cash-generating unit, or to a group of cash-generating units, the entity shall allocate goodwill to the joint venture on the basis of the relative carrying amounts of the joint venture and the cash-generating unit or group of cash-generating units to which it belonged.

18. ***Joint Operations—Transition from the Equity Method to Accounting for Assets and Liabilities:*** When changing from the equity method to accounting for assets and liabilities in respect of its interest in a joint operation, an entity shall, at the date of transition to Ind AS, derecognise the investment that was previously accounted for using the equity method and any other items that formed part of the entity's net investment in the arrangement in accordance with paragraph 38 of Ind AS 28 and recognise its share of each of the assets and the liabilities in respect of its interest in the joint operation, including any goodwill that might have formed part of the carrying amount of the investment.

19. ***Transition Provisions in an Entity's Separate Financial Statements:*** An entity that, in accordance with paragraph 10 of Ind AS 27, was previously accounting in its separate financial statements for its interest in a joint operation as an investment at cost or in accordance with Ind AS 109 shall:

(a) derecognise the investment and recognise the assets and the liabilities in respect of its interest in the joint operation at the amounts determined.

(b) provide a reconciliation between the investment derecognised, and the assets and liabilities recognised, together with any remaining difference adjusted in retained earnings, at the date of transition to Ind AS.

20. ***Stripping Costs in the Production Phase of a Surface Mine:*** A first-time adopter may apply the Appendix B of Ind AS 16 Stripping Costs in the Production Phase of a Surface Mine from the date of transition to Ind AS. As at transition date to Ind AS, any previously recognised asset balance that resulted from stripping activity undertaken during the production phase ('predecessor stripping asset') shall be reclassified as a part of an existing asset to which the stripping activity related, to the extent that there remains an identifiable component of the ore body with which the predecessor stripping asset can be associated. Such balances shall be depreciated or amortised over the remaining expected useful life of the identified component of the ore body to which each predecessor stripping asset balance relates. If there is no identifiable component of the ore body to which that predecessor stripping asset relates, it shall be recognised in opening retained earnings at the transition date to Ind AS.

21. ***Designation of Contracts to Buy or Sell a Non-financial Item:*** Ind AS 109 permits some contracts to buy or sell a non-financial item to be designated at inception as measured at fair value through profit or loss (Ind AS 109). Despite this requirement an entity is permitted to designate, at the date of transition to Ind AS, contracts that already exist on that date as measured at fair value through profit or loss but only if they meet the requirements of paragraph 2.5 of Ind AS 109 at that date and the entity designates all similar contracts.

22. ***Non-current Assets Held for Sale and Discontinued Operations:*** Ind AS 105 requires non-current assets (or disposal groups) that meet the criteria to be classified as held for sale, non-current assets (or disposal groups) that are held for distribution to owners and operations that meet the criteria to be classified as discontinued and carried at lower of its carrying amount and fair value less cost to sell on the initial date of such identification. A first time adopter can:

(a) measure such assets or operations at the lower of carrying value and fair value less cost to sell at the date of transition to Ind AS in accordance with Ind AS 105; and

(b) recognise directly in retained earnings any difference between that amount and the carrying amount of those assets at the date of transition to Ind AS determined under the entity's previous GAAP.

23. ***Transfers of Assets from Customers:*** An entity shall apply Appendix C of Ind AS 18 prospectively to transfers of assets from customers received on or after the transition date.

5 PRESENTATION AND DISCLOSURE

The Standard does not provide exemptions from the presentation and disclosure requirements in other Ind AS. The Standard requires that an entity's first Ind AS financial statements shall include at least three Balance Sheets, two Statements of profit and loss, two Statements of cash flows and two Statements of changes in equity and related notes, including comparative information for all statements presented.

6 EXPLANATION OF TRANSITION TO IND AS

The Standard requires that an entity shall explain how the transition from previous GAAP to Ind AS affected its reported balance sheet, financial performance and cash flows.

7 RECONCILIATION

An entity's first Ind AS financial statements shall include:

(a) reconciliations of its equity reported in accordance with previous GAAP to its equity in accordance with Ind AS for both of the following dates:

   (i) the date of transition to Ind AS; and

   (ii) the end of the latest period presented in the entity's most recent annual financial statements in accordance with previous GAAP.

(b) a reconciliation to its total comprehensive income in accordance with Ind AS for the latest period in the entity's most recent annual financial statements.

(c) if the entity recognised or reversed any impairment losses for the first time in preparing its opening Ind AS Balance Sheet, the disclosures that Ind AS 36, *'Impairment of Assets'*, would have required if the entity had recognised those impairment losses or reversals in the period beginning with the date of transition to Ind AS.

8 MAJOR CHANGES IN IND AS 101 VIS-À-VIS IFRS 1

8.1 Resulting in Carve Outs

(i) Definition of Previous GAAP under Ind AS 101

***As per IFRS**:* IFRS 1 defines previous GAAP as the basis of accounting that a first-time adopter used immediately before adopting IFRS.

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

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

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

(ii) ***Allowing the use of Carrying Cost of Property, Plant and Equipment (PPE) on the Date of Transition of Ind AS 101.***

As per IFRS: IFRS 1 *First time adoption of International Accounting Standards* provides that on the date of transition either the items of Property, Plant and Equipment shall be determined by applying IAS 16 '*Property, Plant and Equipment'* retrospectively or the same should be recorded at fair value.

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

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

(iii) ***Long-term Foreign Currency Monetary Items***

As per IFRS: No provision in IFRS 1.

Carve out: Paragraph D13AA of Appendix D to Ind AS 101 provides that a first-time adopter may continue the policy adopted for accounting for exchange differences arising from translation of long-term foreign currency monetary items recognised in the financial statements for the period ending immediately before the beginning of the first Ind AS financial reporting period as per the previous GAAP. Consequently, Ind AS 21 also provides that it does not apply to long-term foreign currency monetary items for which an entity has opted for the exemption given in paragraph D13AA of Appendix D to Ind AS 101. Such an entity may continue to apply the accounting policy so opted for such long-term foreign currency monetary items.

Reason: Para 46A of AS 11 provides an option to recognise long term foreign currency monetary items in the statement of profit and loss as a part of the cost of property, plant and equipment or to defer its recognition in the statement of profit and loss over the period of loan in case the loan is not related to acquisition of fixed assets. To provide transitional relief, such entities have been given an option to continue the capitalisation or deferment of exchange differences, as the case may be, on foreign currency borrowings obtained before the beginning of First IFRS reporting period.

8.2 Not Resulting in Carve Outs

1. ***First Financial Statements:*** Paragraph 3 of Ind AS 101 specifies that an entity's first Ind AS financial statements are the first annual financial statements in which the entity adopts Ind AS in accordance with Ind AS notified under the Companies Act, 2013 whereas IFRS 1 provides various examples of first IFRS financial statements.

2. ***Examples when an Entity does not apply IFRS 1:*** IFRS 1 provide various examples of instances when an entity does not apply this IFRS. Ind AS 101 does not provide the same.

3. ***Previous GAAP:*** IFRS 1 requires the first-time adopter shall exclude from its opening Ind AS Balance Sheet any item recognised in accordance with previous GAAP that does not qualify for recognition as an asset or liability under IFRS. The first-time adopter shall account for the resulting change in the retained earnings as at the transition date except in certain specific instances where it requires adjustment in the goodwill. In such specific instances where IFRS 1 allows adjustment in the goodwill, under Ind AS 101 it can be adjusted with the Capital Reserve to the extent such adjustment amount does not exceed the balance available in Capital Reserve.

4. ***Optional Exemptions:*** IFRS 1 provides for various optional exemptions that an entity can seek while an entity transitions to IFRS from its previous GAAP. Similar provisions have been retained under Ind AS 101. However, there are few changes that have been made, which can be broadly categorized as follows:

   (a) *Elimination of Effective Dates Prior to Transition Date to Ind AS:* IFRS 1 provides for various dates from which a standard could have been implemented. For example, Paragraph D2 of IFRS 1 provides that an entity is encouraged, but not required, to apply IFRS 2 '*Share-based Payment'* to equity instruments that were granted on or before 7 November 2002 or to instruments that were granted after 7 November 2002 and vested before the later of (a) the date of transition to IFRS and (b) 1 January 2005. However, for Ind AS 101 purposes, all these dates have been changed to coincide with the transition date elected by the entity adopting these converged standards i.e. Ind AS.

   (b) *Deletion of Borrowing Cost Exemptions not relevant for India:* Paragraph D23 of IFRS 1 provides for transitional adjustment requiring companies to apply the provisions of IAS 23 prospectively after the transition date to IFRS. IAS 23 provided an option to expense out such borrowing cost. However, this paragraph has not been included in Appendix D of Ind AS 101 since this was considered as not relevant in Indian situation as existing Accounting Standard 16 always required an entity to capitalize borrowing costs.

5. ***Short-term Exemptions from IFRS:*** Appendix E of IFRS 1 provides for 'Short-term exemptions from IFRS', however Ind AS 101 does not provide the above said short-term exemption.

6. ***Consequential Amendments of Ind AS 109:*** The consequential amendments of Ind AS 109 '*Financial Instruments'*, which have been early adopted in India have been incorporated in all the Ind AS including Ind AS 101. Further, the transitional provisions of these Ind AS have also been appropriately incorporated in Ind AS 101.

7. ***Transitional Provisions:*** Paragraph D9AA of Ind AS 101 provides that when a lease includes both land and building elements, a first time adopter may assess the classification of each element as finance or an operating lease at the transition date to Ind AS on the basis of the facts and circumstances existing as at that date. If there is any land lease newly classified as finance lease then the first time adopter may recognise assets and liability at fair value on that date; any difference between those fair values is recognised in retained earnings.

8. ***Optional Exemptions relating to the Long-term Foreign Currency Monetary Items and Service Concession Arrangements relating to Toll Roads:*** Ind AS 101 in addition to exemptions provided under IFRS 1, also provides certain optional exemptions relating to the long-term foreign currency monetary items and service concession arrangements relating to toll roads.

9. ***Business Combinations:*** Under Ind AS 101, para C4(c) requires, the first-time adopter shall exclude from its opening Ind AS Balance Sheet any item recognised in accordance with previous GAAP that does not qualify for recognition as an asset or liability under Ind AS. The first-time adopter shall account for the resulting change in the retained earnings as at the transition date except in certain specific instances where it requires adjustment in the goodwill.

   In such specific instances where IFRS 1 allows adjustment in the goodwill, under Ind AS 101 it can be adjusted with the Capital reserve to the extent such adjustment amount does not exceed the balance available in Capital reserve.

10. ***Option to take Fair Value for Investment Property:*** Paragraph D7 (a) of IFRS 1 provides that option to take fair value at the date of transition to Ind AS or previous GAAP revalued amount may be exercised by a first item adopter for investment property. However, this option has not been provided under Ind AS 101, as Ind AS 40 permits only the cost model.

21

IND AS 103 : BUSINESS COMBINATION

1 OBJECTIVE

The objective of this Indian Accounting Standard (Ind AS) is to improve the:

- Relevance
- Reliability
- Comparability

of the information that a reporting entity provides in its financial statements about a business combination and its effects.

To accomplish that, this Ind AS establishes principles and requirements for how the acquirer:

- Recognises and measures in its financial statements the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree
- Recognises and measures the goodwill acquired in the business combination or a gain from a bargain purchase
- Determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination

2 SCOPE

This Ind AS applies to a transaction or other event that meets the definition of a business combination. This Ind AS does not apply to:

1. The accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself.
2. The acquisition of an asset or a group of assets that does not constitute a business.
3. The requirements of this Standard do not apply to the acquisition by an investment entity, as defined in Ind AS 110, *'Consolidated Financial Statements'*, of an investment in a subsidiary that is required to be measured at fair value through profit or loss.

3 VARIETY OF WAYS IN WHICH A BUSINESS COMBINATION MAY BE STRUCTURED

A business combination may be structured in a variety of ways for legal, taxation or other reasons, which include but are not limited to:

(a) one or more businesses become subsidiaries of an acquirer or the net assets of one or more businesses are legally merged into the acquirer;

(b) one combining entity transfers its net assets, or its owners transfer their equity interests to another combining entity or its owners;

(c) all of the combining entities transfer their net assets, or the owners of those entities transfer their equity interests, to a newly formed entity (sometimes referred to as a roll-up or put-together transaction); or

(d) a group of former owners of one of the combining entities obtains control of the combined entity.

4 ACQUISITION METHOD

An entity shall account for each business combination by applying the acquisition method. Applying the acquisition method requires:

Step I	• Identifying the Acquirer
Step II	• Determining the Acquisition date
Step III	• Recognising and Measuring the Identifiable Assets acquired, the Liabilities assumed and any Non-controlling Interest in the Acquiree
Step IV	• Recognising and Measuring any Goodwill or Bargain Purchase Gain

The date on which the acquirer obtains control of the acquiree is generally the date on which the acquirer legally transfers the consideration, acquires the assets and assumes the liabilities of the acquire - the closing date. However, the acquirer might obtain control on a date that is either earlier or later than the closing date.

Recognition Principle

On the acquisition date, the acquirer shall recognise, separately from goodwill:

- The identifiable assets acquired
- The liabilities assumed
- Any non-controlling interest in the acquiree

Exceptions to the Recognition Principles

Contingent Liabilities

- the acquirer shall recognise if it is a present obligation that arises from past events and its fair value can be measured reliably.

Measurement Principle

The acquirer shall measure the identifiable assets acquired and the liabilities assumed at their acquisition-date fair values.

Exceptions to the Measurement Principles

- Reacquired rights
  - ✓ measured at fair value based on remaining contractual term ignoring the fair value effect of renewal

- Share-based payment transactions
  - ✓ measured in accordance with Ind AS 102 (Market Based Measure)
- Assets held for sale
  - ✓ measured in accordance with Ind AS 105 (i.e. fair value less costs to sell)

Exceptions to the Recognition and Measurement Principles

- Income taxes
  - ✓ deferred tax assets or liabilities arising from acquired assets or liabilities accounted for using Ind AS 12
- Employee benefits
  - ✓ accounted for using Ind AS 19
- Indemnification assets
  - ✓ Shall be measured and recognized on the basis of the indemnified item

Recognition and Measurement of Goodwill or Bargain Purchase

The acquirer shall recognise goodwill as of the acquisition date measured as the excess of (a) over (b) below:

(a) the aggregate of:

(i) the consideration transferred, which generally requires acquisition-date fair value;

(ii) the amount of any non-controlling interest in the acquiree; and

(iii) in a business combination achieved in stages, the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree.

(b) the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

In extremely rare circumstances, an acquirer will make a bargain purchase in a business combination, where the value of acquired identifiable assets and liabilities exceeds the consideration transferred; the acquirer shall recognize a gain (bargain purchase). The gain shall be recognized by the acquirer in Other Comprehensive Income on the acquisition date and accumulate the same in equity as capital reserve, if there exists a clear evidence of the underlying reasons for classifying the business combination as a bargain purchase.

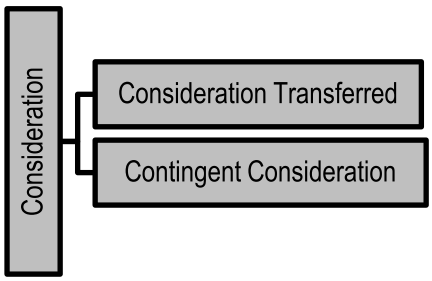
If there does not exist clear evidence of the underlying reasons for classifying the business combination as a bargain purchase, then the gain shall be recognised directly in equity as capital reserve.

<u>A Business Combination achieved in Stages (Step Acquisition):</u> In a business combination achieved in stages, the acquirer shall re-measure its previously held equity interest in the acquiree at its acquisition-date fair value and recognise the resulting gain or loss, if any, in profit or loss or other comprehensive income, as appropriate.

In prior reporting periods, the acquirer may have recognised changes in the value of its equity interest in the acquiree in other comprehensive income.

If so, the amount that was recognised in other comprehensive income shall be recognised on the same basis as would be required if the acquirer had disposed directly of the previously held equity interest.

5 CONSIDERATION



5.1 Consideration Transferred

The consideration transferred in a business combination shall be measured at fair value, which shall be calculated as the sum of:

- The acquisition-date fair values of the assets transferred by the acquirer
- The liabilities incurred by the acquirer to former owners of the acquire; and
- The equity interests issued by the acquirer.

5.2 Contingent Consideration

- The consideration the acquirer transfers in exchange for the acquiree includes any asset or liability resulting from a contingent consideration arrangement.
- The acquirer shall recognise the acquisition-date fair value of contingent consideration as part of the consideration transferred in exchange for the acquiree.

6 REVERSE ACQUISITIONS

A reverse acquisition occurs when the entity that issues securities (the legal acquirer) is identified as the acquiree for accounting. The entity whose equity interests are acquired (the legal acquiree) must be the acquirer for accounting purposes for the transaction to be considered a reverse acquisition.

7 MEASUREMENT PERIOD

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the acquirer shall report in its financial statements provisional amounts for the items for which the accounting is incomplete.

During the measurement period, the acquirer shall retrospectively adjust the provisional amounts recognised at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and, if known, would have affected the measurement of the amounts recognised as of that date.

During the measurement period, the acquirer shall also recognise additional assets or liabilities if new information is obtained about facts and circumstances that existed as of the acquisition date and, if known, would have resulted in the recognition of those assets and liabilities as of that date.

The measurement period ends as soon as the acquirer receives the information it was seeking about facts and circumstances that existed as of the acquisition date or learns that more information is not obtainable.

However, the measurement period shall not exceed one year from the acquisition date.

8 ACQUISITION RELATED COSTS

Acquisition-related costs are costs the acquirer incurs to effect a business combination. The acquirer shall account for acquisition-related costs as expenses in the periods in which the costs are incurred and the services are received, with one exception. The costs to issue debt or equity securities shall be recognised in accordance with Ind AS 32 and Ind AS 109.

9 SUBSEQUENT MEASUREMENT AND ACCOUNTING

In general, an acquirer shall subsequently measure and account for assets acquired, liabilities assumed or incurred and equity instruments issued in a business combination in accordance with other applicable Ind AS for those items, depending on their nature. However, Ind AS 103 provides guidance on subsequently measuring and accounting for the following assets acquired, liabilities assumed or incurred and equity instruments issued in a business combination:

(a) reacquired rights;

(b) contingent liabilities recognised as of the acquisition date;

(c) indemnification assets; and

(d) contingent consideration.

10 BUSINESS COMBINATIONS OF ENTITIES UNDER COMMON CONTROL

Common control business combination means a business combination involving entities or businesses in which all the combining entities or businesses are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory.

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

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

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

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

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

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

(e) The identity of the reserves shall be preserved and shall appear in the financial statements of the transferee in the same form in which they appeared in the financial statements of the transferor.

(f) The difference, if any, between the amounts recorded as share capital issued plus any additional consideration in the form of cash or other assets and the amount of share capital of the transferor shall be transferred to capital reserve and should be presented separately from other capital reserves with disclosure of its nature and purpose in the notes.

11 MAJOR CHANGE IN IND AS 103 VIS-À-VIS IFRS 3 RESULTING IN CARVE OUT

(A) Resulting in Carve Out

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

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

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

(B) Resulting in Carve-in

As per IFRS

IFRS 3 excludes from its scope business combinations of entities under common control.

Carve-in

Appendix C of Ind AS 103 Business Combinations gives guidance in this regard.

12 MAJOR CHANGES IN IND AS 103 VIS-À-VIS AS 14

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

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

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

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

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

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

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

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

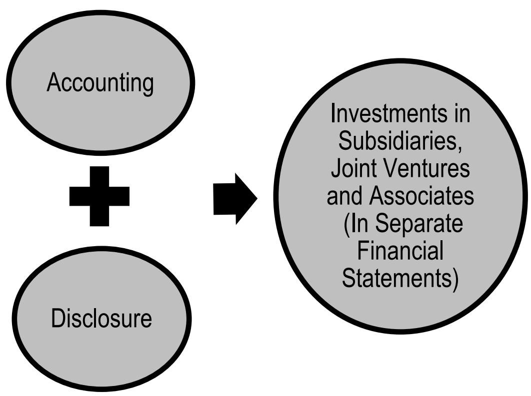
(ix) ***Accounting for Common Control Transactions***: Appendix C of Ind AS 103 deals with accounting for common control transactions, which prescribes a method of accounting different from Ind AS 103. AS 14 does not prescribe accounting for such transactions different from other amalgamations.

22

IND AS 27 : SEPARATE FINANCIAL STATEMENTS

1 OBJECTIVE

The objective of this Standard is to prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements.



2 SCOPE

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

- This Standard does not mandate which entities produce separate financial statements. It applies when an entity prepares separate financial statements shall comply with Indian Accounting Standards.

3 SEPARATE AND 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.

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'*.

4 PREPARATION OF SEPARATE FINANCIAL STATEMENTS

Separate financial statements shall be prepared in accordance with all applicable Ind AS.

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

(a) at cost, or

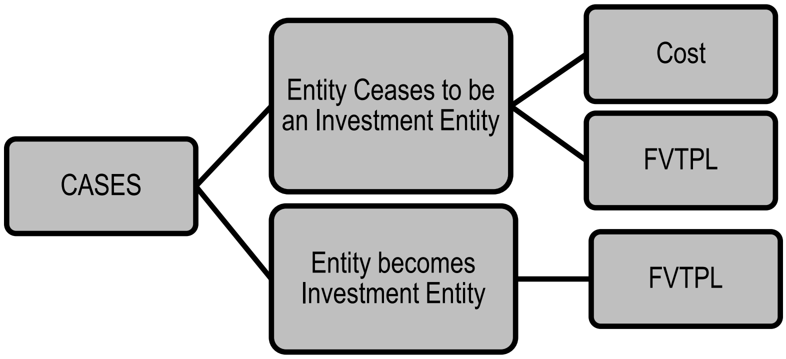
(b) in accordance with Ind AS 109, *Financial Instruments*.

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

If an entity elects, in accordance with Ind AS 28, to measure its investments in associates or joint ventures at fair value through profit or loss in accordance with Ind AS 109, it shall also account for those investments in the same way in its separate financial statements.

If a parent is required, in accordance with Ind AS 110, to measure its investment in a subsidiary at fair value through profit or loss in accordance with Ind AS 109, it shall also account for its investment in a subsidiary in the same way in its separate financial statements.

5 WHEN A PARENT CEASES TO BE AN INVESTMENT ENTITY, OR BECOMES AN INVESTMENT ENTITY



When a parent ceases to be an investment entity, or becomes an investment entity, it shall account for the change from the date when the change in status occurred, as follows:

(a) when an entity ceases to be an investment entity, the entity shall, either:

(i) Account for an investment in a subsidiary at cost.

The fair value of the subsidiary at the date of the change of status shall be used as the deemed cost at that date; or

(ii) Continue to account for an investment in a subsidiary in accordance with Ind AS 109.

(b) when an entity becomes an investment entity, it shall account for an investment in a subsidiary at fair value through profit or loss in accordance with Ind AS 109.

The difference between the previous carrying amount of the subsidiary and its fair value at the date of the change of status of the investor shall be recognised as a gain or loss in profit or loss. The cumulative amount of any fair value adjustment previously recognised in other comprehensive income in respect of those subsidiaries shall be treated as if the investment entity had disposed of those subsidiaries at the date of change in status.

6 DIVIDEND

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

7 MAJOR CHANGES IN IND AS 27 VIS-À-VIS IAS* 27 NOT RESULTING IN CARVE OUTS

1. ***Separate Financial Statements:*** IAS 27 requires to disclose the reason for preparing separate financial statements if not required by law. In India, since the Companies Act mandates preparation of separate financial statements, such requirement has been removed in Ind AS 27.

2. ***Option to use Equity Method:*** IAS 27 allows the entities to use the equity method to account for investment in subsidiaries, joint ventures and associates in their Separate Financial Statements (SFS). This option is not given in Ind AS 27, as the equity method is not a measurement basis like cost and fair value but is a manner of consolidation and therefore would lead to inconsistent accounting conceptually.

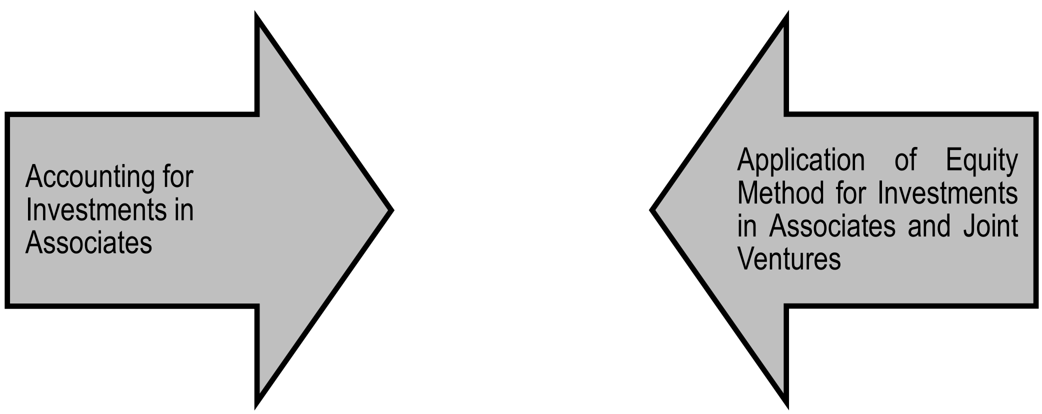
* The term 'IFRS' includes not only the International Financial Reporting Standards (IFRSs) issued by the IASB, it also includes the International Accounting Standards (IASs), IFRS Interpretations and SICs.

23

IND AS 28 : INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

1 OBJECTIVE

The objective of this Standard is to prescribe the accounting for investments in associates and to set out the requirements for the application of the equity method when accounting for investments in associates and joint ventures.



2 SCOPE

This Standard shall be applied by all entities that are investors with joint control of, or significant influence over, an investee.

3 DEFINITIONS

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

Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control of those policies.

Significant Influence

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

The existence of significant influence by an entity is usually 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 entity and its investee
- Interchange of managerial personnel
- Provision of essential technical information

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

Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

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

Ind AS 111, *Joint Arrangements,* establishes principles for the financial reporting of parties to joint arrangements. As per the Standard, an entity shall determine the type of joint arrangement in which it is involved. The classification of a joint arrangement as a joint operation or a joint venture depends upon the rights and obligations of the parties to the arrangement. The Standard requires that a joint venturer shall recognise its interest in a joint venture as an investment and shall account for that investment using the equity method in accordance with Ind AS 28 unless the entity is exempted from applying the equity method as specified in the standard.

4 EQUITY METHOD

The equity method is a method of accounting whereby the investment is initially recognised at cost and adjusted thereafter for the post-acquisition change in the investor's share of the investee's net assets.

4.1 Application of the Equity Method

An investment is accounted for using the equity method from the date on which it becomes an associate or a joint venture.

The investor's profit or loss includes its share of the investee's profit or loss and the investor's other comprehensive income includes its share of the investee's other comprehensive income.

Distributions received from an investee reduce the carrying amount of the investment. Adjustments to the carrying amount may also be necessary for changes in the investor's proportionate interest in the investee arising from changes in the investee are other comprehensive income. Such changes include those arising from the revaluation of property, plant and equipment and from foreign exchange translation differences. The investor's share of those changes is recognised in the investor's other comprehensive income (Ind AS 1, *Presentation of Financial Statements*).

If an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate, the entity continues to apply the equity method and does not re-measure the retained interest.

4.2 Equity Method Procedures

Many of the procedures that are appropriate for the application of the equity method are similar to the consolidation procedures described in Ind AS 110.

A group's share in an associate or a joint venture is the aggregate of the holdings in that associate or joint venture by the parent and its subsidiaries. The holdings of the group's other associates or joint ventures are ignored for this purpose. When an associate or a joint venture has subsidiaries , associates or joint ventures, the profit or loss, other comprehensive income and net assets taken into account in applying the equity method are those recognised in the associate's or joint venture's financial statements (including the associate's or joint venture's share of the profit or loss, other comprehensive income and net assets of its associates and joint ventures), after any adjustments necessary to give effect to uniform accounting policies.

Goodwill/Capital Reserve

On acquisition of the investment, any difference between the cost of the investment and the entity's share of the net fair value of the investee's identifiable assets and liabilities is accounted for as follows:

(i) Goodwill relating to an associate or a joint venture is included in the carrying amount of the investment.

> Amortisation of that goodwill is not permitted.

(ii) Any excess of the entity's share of the net fair value of the investee's identifiable assets and liabilities over the cost of the investment is recognised directly in equity as capital reserve in the period in which the investment is acquired.

4.3 Changes in Ownership Interest

If an entity's ownership interest in an associate or a joint venture is reduced, but the entity continues to apply the equity method, the entity shall reclassify to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be required to be reclassified to profit or loss on the disposal of the related assets or liabilities.

4.4 Exemptions from Applying the Equity Method

An entity need not apply the equity method to its investment in an associate or a joint venture if the entity is a parent that is exempt from preparing consolidated financial statements by the scope exception of Ind AS 110 or if all the following apply:

(a) The entity is a wholly-owned subsidiary, or is a partially-owned subsidiary of another entity and its other owners, including those not otherwise entitled to vote, have been informed about, and do not object to, the entity not applying the equity method.

(b) The entity's debt or equity instruments are not traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets).

(c) The entity did not file, nor is it in the process of filing, its financial statements with a securities commission or other regulatory organisation, for the purpose of issuing any class of instruments in a public market.

(d) The ultimate or any intermediate parent of the entity produces financial statements available for public use that comply with Ind AS, in which subsidiaries are consolidated or are measured at fair value through profit or loss in accordance with Ind AS 110.

The Standard also provides exemptions from applying the equity method when the investment in an associate or a joint venture is held by, or is held indirectly through, an entity that is a venture capital organisation, or a mutual fund, unit trust and similar entities including investment-linked insurance funds. Those investments may be measured at fair value through profit or loss in accordance with Ind AS 109,

4.5 Discontinuing the use of the Equity Method

An entity shall discontinue the use of the equity method from the date when its investment ceases to be an associate or a joint venture as follows:

(a) If the investment becomes a subsidiary, the entity shall account for its investment in accordance with Ind AS 103, Business Combinations, and Ind AS 110.

(b) If the retained interest in the former associate or joint venture is a financial asset, the entity shall measure the retained interest at fair value. The fair value of the retained interest shall be regarded as its fair value on initial recognition as a financial asset in accordance with Ind AS 109. The entity shall recognise in profit or loss any difference between:

   (i) the fair value of any retained interest and any proceeds from disposing of a part interest in the associate or joint venture; and

   (ii) the carrying amount of the investment at the date the equity method was discontinued.

When an entity discontinues the use of the equity method, the entity shall account for all amounts previously recognised in other comprehensive income in relation to that investment on the same basis as would have been required if the investee had directly disposed of the related assets or liabilities.

5 FINANCIAL STATEMENTS

- The most recent available financial statements of the associate or joint venture are used by the entity in applying the equity method.
- When the end of the reporting period of the entity is different from that of the associate or joint venture, the associate or joint venture prepares, for the use of the entity, financial statements as of the same date as the financial statements of the entity unless it is impracticable to do so.

- When, the financial statements of an associate or a joint venture used in applying the equity method are prepared as of a date different from that used by the entity, adjustments shall be made for the effects of significant transactions or events that occur between that date and the date of the entity's financial statements. In any case, the difference between the end of the reporting period of the associate or joint venture and that of the entity shall be no more than three months.
- The entity's financial statements shall be prepared using uniform accounting policies for like transactions and events in similar circumstances unless, in case of an associate, it is impracticable to do so.

Separate Financial Statements

An investment in an associate or a joint venture shall be accounted for in the entity's separate financial statements in accordance with Ind AS 27.

6 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.

Because goodwill that forms part of the carrying amount of the net investment in an associate or a joint venture is not separately recognised, it is not tested for impairment separately by applying the requirements for impairment testing goodwill in Ind AS 36, 'Impairment of Assets'.

Instead, the entire carrying amount of the investment is tested for impairment in accordance with Ind AS 36 as a single asset, by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount, whenever there is an indication that the net investment may be impaired.

7 MAJOR CHANGE IN IND AS 28 VIS-À-VIS IAS* 28 RESULTING IN CARVE OUT

As per IFRS: IAS 28 requires that for the purpose of applying equity method of accounting in the preparation of investor's financial statements, uniform accounting policies should be used. In other words, if the associate's accounting policies are different from those of the investor, the investor should change the financial statements of the associate by using same accounting policies.

---

* The term 'IFRS' includes not only the International Financial Reporting Standards (IFRSs) issued by the IASB, it also includes the International Accounting Standards (IASs), IFRS Interpretations and SICs.

Carve out 1: In Ind AS 28, the phrase, 'unless impracticable to do so' has been added in the relevant requirements, i.e., paragraph 35.

Reasons: Certain associates, e.g., regional rural banks (RRBs), being associates of nationalized banks, are not in a position to use the Ind AS as these may be too advanced for the RRBs. Accordingly, the above-stated words have been included to exempt such associates.

Carve out 2: Further, in IAS 28, Capital Reserve when Investors share in Net Assets exceeds Cost of Investment is recognised in profit or loss while in Ind AS 28, Paragraph 32 (b) has been modified on the lines of Ind AS 103, *'Business Combinations'*, to transfer excess of the investor's share of the net fair value of the investee's identifiable assets and liabilities over the cost of investment in capital reserve.

8 MAJOR CHANGES IN IND AS 28 VIS-À-VIS AS 23

(i) ***Definition of Significant Influence:*** In AS 23, 'Significant Influence' has been defined as 'power to participate in the financial and/or operating policy decisions of the investee but is not control over those policies'. In Ind AS 28, the same has been defined as 'power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies'. Ind AS 28 defines joint control also.

(ii) ***Potential Equity Shares:*** For considering share ownership for the purpose of significant influence, potential equity shares of the investee held by investor are not taken into account as per AS 23. As per Ind AS 28, existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether an entity has significant influence or not.

(iii) ***Equity Method:*** AS 23 requires application of the equity method only when the entity has subsidiaries and prepares Consolidated Financial Statements. Ind AS 28 requires application of equity method in financial statements other than separate financial statements even if the investor does not have any subsidiary.

(iv) ***Exemption:*** One of the exemptions from applying equity method in AS 23 is where the associate operates under severe long-term restrictions that significantly impair its ability to transfer funds to the investee. No such exemption is provided in Ind AS 28.

(v) ***Explanation regarding the term 'Near Future':*** An explanation has been given in AS 23 regarding the term 'near future' used in another exemption from applying equity method, i.e., where the investment is acquired and held exclusively with a view to its subsequent disposal in the near future. This explanation has not been given in Ind AS 28 as such situations are covered by Ind AS 105, '*Non-current Assets Held for Sale and Discontinued Operations*'.

(vi) ***Measurement of Investment:*** Ind AS 28 now permits an entity that has an investment in an associate, a portion of which is held indirectly through venture capital organisations, or a mutual fund, unit trust and similar entities including investment-linked insurance funds, to elect to measure that portion of the investment in the associate at fair value through profit or loss in accordance with Ind AS 109 regardless of whether these entities have significant influence over that portion of the investment.

(vii) ***Investment Classified as Held for Sale:*** Ind AS 28 requires a portion of an investment in an associate or a joint venture to be classified as held for sale if the disposal of that portion of the interest would fulfill the criteria to be classified as held for sale in accordance with Ind AS 105. AS 23 does not specifically deal with this aspect.

(vii) ***Application of Equity Method in Separate Financial Statements:*** As per AS 23, in separate financial statements, investment in an associate is not accounted for as per the equity method, the same is accounted for in accordance with AS 13, *'Accounting for Investments'*. As per Ind AS 28, the same is to be accounted for at cost or in accordance with Ind AS 109, '*Financial Instruments'*.

(viii) ***Difference in Reporting Dates:*** AS 23 permits the use of financial statements of the associate drawn upto a date different from the date of financial statements of the investor when it is impracticable to draw the financial statements of the associate upto the date of the financial statements of the investor. There is no limit on the length of difference in the reporting dates of the investor and the associate. As per Ind AS 28, length of difference in the reporting dates of the associate or joint venture should not be more than three months unless.

(ix) ***Accounting Policies:*** Both AS 23 and Ind AS 28 require that similar accounting policies should be used for preparation of investor's financial statements and in case an associate uses different accounting policies for like transactions, appropriate adjustments shall be made to the accounting policies of the associate. AS 23 provides exemption to this that if it is not possible to make adjustments to the accounting policies of the associate, the fact shall be disclosed along with a brief description of the differences between the accounting policies. Ind AS 28 provides that the entity's financial statements shall be prepared using uniform accounting policies for like transactions and events in similar circumstances unless, in case of an associate, it is impracticable to do so.

(x) ***Share in Losses:*** As per AS 23, investor's share of losses in the associate is recognised to the extent of carrying amount of investment in the associate. As per Ind AS 28, carrying amount of investment in the associate or joint venture determined using the equity method together with any long term interests that, in substance form part of the entity's net investment in the associate or joint venture shall be considered for recognising entity's share of losses in the associate or joint venture.

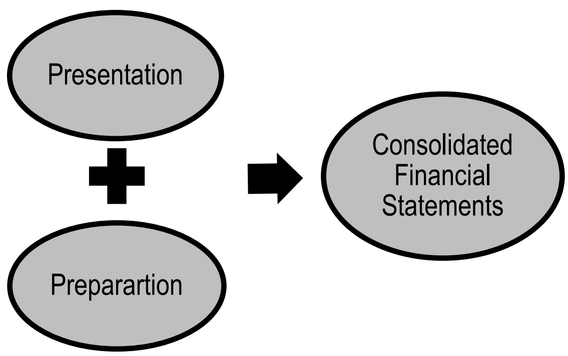
(xi) ***Impairment Loss:*** With regard to impairment, AS 23 requires that the carrying amount of investment in an associate should be reduced to recognise a decline, other than temporary, in the value of the investment. Ind AS 28 requires that after application of equity method, including recognising the associate's or joint venture's losses, the requirements of Ind AS 109 shall be applied to determine whether it is necessary to recognise any additional impairment loss.

24

IND AS 110 : CONSOLIDATED FINANCIAL STATEMENTS

1 OBJECTIVE

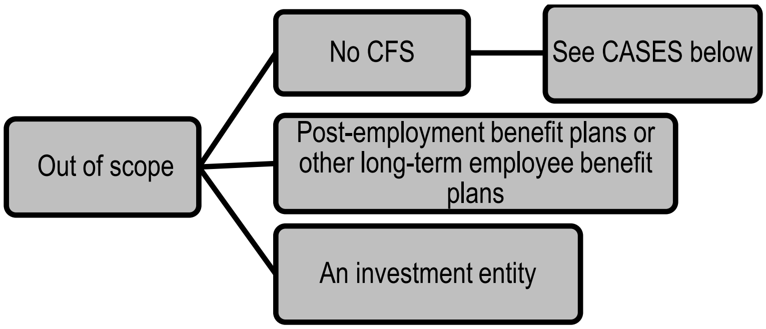
The objective of this Indian Accounting Standard (Ind AS) is to establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities.



This Ind AS does not deal with the accounting requirements for business combinations and their effect on consolidation, including goodwill arising on a business combination.

2 SCOPE

An entity that is a parent shall present consolidated financial statements. This Ind AS applies to all entities, except as follows:



(a) A parent need not present consolidated financial statements if it meets all the following conditions:

(i) it is a wholly-owned subsidiary or is a partially-owned 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;

(ii) its debt or equity instruments are not traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets);

(iii) it did not file, nor is it in the process of filing, its financial statements with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market; and

(iv) its ultimate or any intermediate parent produces financial statements that are available for public use and comply with Ind AS, in which subsidiaries are consolidated or are measured at fair value through profit or loss in accordance with this Ind AS.

This Ind AS does not apply to post-employment benefit plans or other long-term employee benefit plans to which Ind AS 19, Employee Benefits, applies.

A parent that is an investment entity shall not present consolidated financial statements if it is required, to measure all of its subsidiaries at fair value through profit or loss.

3 CONSOLIDATED FINANCIAL STATEMENTS

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.

4 CONTROL

An investor, regardless of the nature of its involvement with an entity (the investee), shall determine whether it is a parent by assessing whether it controls the investee.

An investor controls an investee when it 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.

Thus, an investor controls an investee if and only if the investor has all the following:

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

4.1 Power

- An investor has power over an investee when the investor has existing rights that give it the current ability to direct the relevant activities, i.e. the activities that significantly affect the investee's returns.
- Power arises from rights.
- Sometimes assessing power is straightforward, such as when power over an investee is obtained directly and solely from the voting rights granted by equity instruments such as shares
- Power may result from one or more contractual arrangements.

4.2 Returns

- An investor is exposed, or has rights, to variable returns from its involvement with the investee when the investor's returns from its involvement have the potential to vary as a result of the investee's performance.
- The investor's returns can be only positive, only negative or both positive and negative.
- Although only one investor can control an investee, more than one party can share in the returns of an investee. For example, holders of non-controlling interests can share in the profits or distributions of an investee.

4.3 Link between Power and Returns

- An investor controls an investee if the investor not only has power over the investee and exposure or rights to variable returns from its involvement with the investee, but also has the ability to use its power to affect the investor's returns from its involvement with the investee.
- An investor with decision-making rights shall determine whether it is a principal or an agent.
- An investor that is an agent does not control an investee when it exercises decision-making rights delegated to it.

A parent of an investment entity shall consolidate all entities that it controls, including those controlled through an investment entity subsidiary, unless the parent itself is an investment entity.

5 ACCOUNTING REQUIREMENTS

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

Consolidation of an investee shall begin from the date the investor obtains control of the investee and cease when the investor loses control of the investee.

5.1 Non-controlling Interests

- A parent shall present 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 (i.e. transactions with owners in their capacity as owners).

5.2 Loss of Control

If a parent loses control of a subsidiary, the parent shall:

(a) derecognise the assets and liabilities of the former subsidiary from the consolidated balance sheet.

(b) recognise any investment retained in the former subsidiary at its fair value in accordance with relevant Ind AS.

(c) recognises the gain or loss associated with the loss of control attributable to the former controlling interest.

5.3 Consolidation Procedures

Consolidated financial statements:

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

(b) offset (eliminate) the carrying amount of the parent's investment in each subsidiary and the parent's portion of equity of each subsidiary.

(c) eliminate in full intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between entities of the group (profits or losses resulting from intragroup transactions that are recognised in assets, such as inventory and fixed assets, are eliminated in full).

5.4 Uniform Accounting Policies

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

5.5 Measurement

- An entity includes the income and expenses of a subsidiary in the consolidated financial statements from the date it gains control until the date when the entity ceases to control the subsidiary.
- Income and expenses of the subsidiary are based on the amounts of the assets and liabilities recognised in the consolidated financial statements at the acquisition date.

For example: Depreciation expense recognised in the consolidated statement of profit and loss after the acquisition date is based on the fair values of the related depreciable assets recognised in the consolidated financial statements at the acquisition date.

5.6 Potential Voting Rights

- When potential voting rights, or other derivatives containing potential voting rights, exist, the proportion of profit or loss and changes in equity allocated to the parent and non-controlling interests in preparing consolidated financial statements is determined solely on the basis of existing ownership interests and does not reflect the possible exercise or conversion of potential voting rights and other derivatives.

- Ind AS 109 does not apply to interests in subsidiaries that are consolidated. When instruments containing potential voting rights in substance currently give access to the returns associated with an ownership interest in a subsidiary, the instruments are not subject to the requirements of Ind AS 109. In all other cases, instruments containing potential voting rights in a subsidiary are accounted for in accordance with Ind AS 109.

5.7 Reporting Date

- The financial statements of the parent and its subsidiaries used in the preparation of the consolidated financial statements shall have the same reporting date.
- When the end of the reporting period of the parent is different from that of a subsidiary, the subsidiary prepares, for consolidation purposes, additional financial information as of the same date as the financial statements of the parent to enable the parent to consolidate the financial information of the subsidiary, unless it is impracticable to do so.
- If it is impracticable to do so, the parent shall consolidate the financial information of the subsidiary using the most recent financial statements of the subsidiary adjusted for the effects of significant transactions or events that occur between the date of those financial statements and the date of the consolidated financial statements.
- In any case, the difference between the date of the subsidiary's financial statements and that of the consolidated financial statements shall be no more than three months, and the length of the reporting periods and any difference between the dates of the financial statements shall be the same from period to period.

6 DETERMINING WHETHER AN ENTITY IS AN INVESTMENT ENTITY

A parent shall determine whether it is an investment entity. An investment entity is an entity that:

- 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 the performance of substantially all of its investments on a fair value basis

A parent that either ceases to be an investment entity or becomes an investment entity shall account for the change in its status prospectively from the date at which the change in status occurred.

7 INVESTMENT ENTITIES: EXCEPTION TO CONSOLIDATION

- An 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.
- If an investment entity has a subsidiary that is not itself an investment entity and whose main purpose and activities are providing services that relate to the investment entity's investment activities, it shall consolidate that subsidiary in accordance with this Ind AS and apply the requirements of Ind AS 103 to the acquisition of any such subsidiary.
- A parent of an investment entity shall consolidate all entities that it controls, including those controlled through an investment entity subsidiary, unless the parent itself is an investment entity.

8 MAJOR CHANGE IN IND AS 110 VIS-À-VIS IFRS 10 NOT RESULTING IN CARVE OUT

Investment Properties: IFRS 10 requires all investments to be measured at fair value to qualify for the exemption from consolidation available to an investment entity. Ind AS 40 *'Investment Properties'* requires all investment properties to be measured at cost initially and cost less depreciation subsequently. Accordingly, the relevant paragraph of IFRS 10 has been deleted in Ind AS 110 as investment property measured at fair value is not relevant in the Indian context.

9 MAJOR CHANGES IN IND AS 110 *VIS-A-VIS* NOTIFIED AS 21

(i) ***Mandatory preparation of Consolidated Financial Statements****:* Ind AS 110 makes the preparation of Consolidated Financial Statements mandatory for a parent. AS 21 does not mandate the preparation of Consolidated Financial Statements by a parent.

(ii) ***Control****:* As per AS 21, control is the ownership of more than one-half of the voting power of an enterprise or control of the composition of the board of directors or governing body. However, unlike rule based definition given in AS 21, definition of control in Ind AS 110 is principle based which states that, an investor controls an investee when it 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.

(iii) ***Clarification regarding inclusion of Notes****:* AS 21 provides clarification regarding inclusion of notes appearing in the separate financial statements of the parent and its subsidiaries in the consolidated financial statements. However, Ind AS 110 does not provide any clarification in this regard.

(iv) ***Clarification on more than one Parent of a Subsidiary**:* Under AS 21 there can be more than one parent of a subsidiary therefore AS 21 provides clarification regarding consolidation in case an entity is controlled by two entities. No clarification has been provided in this regard in Ind AS 110, keeping in view that as per the definition of control given in Ind AS 110, control of an entity could be with one entity only.

(v) ***Difference in Reporting Dates**:* As per AS 21, difference between the date of the subsidiary's financial statements and that of the consolidated financial statements shall not exceed 6 months. However, as per Ind AS 110 the difference shall not be more than three months.

(vi) ***Loss of Control**:* Ind AS 110 provides detailed guidance as compared to AS 21 regarding accounting in case of loss of control over subsidiary.

(vii) ***Uniform Accounting Policies**:* Both AS 21 and Ind AS 110, require the use of uniform accounting policies. However, AS 21 specifically states that if it is not practicable to use uniform accounting policies in preparing the consolidated financial statements, that fact should be disclosed together with the proportions of the items in the consolidated financial statements to which the different accounting policies have been applied. However, Ind AS 110 does not recognise the situation of impracticability.

(viii) ***Presentation of Non-controlling Interest in CFS**:* As per AS 21 minority interest should be presented in the consolidated balance sheet separately from liabilities and equity of the parent's shareholders. However, as per Ind AS 110 non-controlling interests shall be presented in the consolidated balance sheet within equity separately from the parent shareholders' equity.

(ix) ***Potential Equity Shares**:* For considering share ownership, potential equity shares of the investee held by investor are not taken into account as per AS 21. However, as per Ind AS 110, potential voting rights that are substantive are also considered when assessing whether an entity has control over the subsidiary.

(x) ***Exclusion from Consolidation**:* As per AS 21, subsidiary is excluded from consolidation when control is intended to be temporary or when subsidiary operates under severe long term restrictions. Ind AS 110 does not give any such exemption from consolidation.

(xi) ***Explanations**:* AS 21 explains where an entity owns majority of voting power because of ownership and all the shares are held as stock-in-trade, whether this amounts to temporary control. AS 21 also explains the term 'near future'. However, Ind AS 110 does not explain the same, as these are not relevant.

25

IND AS 111 : JOINT ARRANGEMENTS

1 OBJECTIVE

The objective of this Ind AS is to establish principles for financial reporting by entities that have an interest in arrangements that are controlled jointly (i.e. joint arrangements).

The Standard requires an entity that is a party to a joint arrangement to determine the type of joint arrangement in which it is involved by assessing its rights and obligations and to account for those rights and obligations in accordance with that type of joint arrangement.

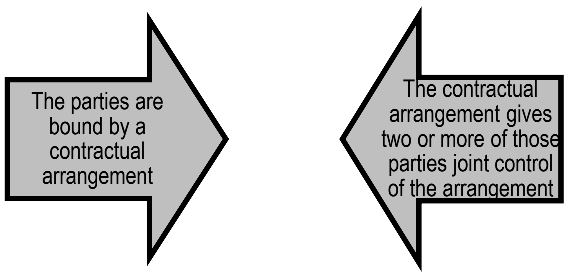
2 SCOPE

This Ind AS shall be applied by all entities that are a party to a joint arrangement.

3 JOINT ARRANGEMENT AND JOINT CONTROL

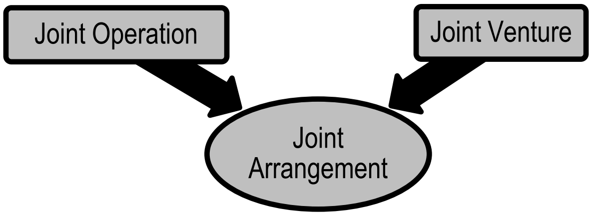
A joint arrangement is an arrangement of which two or more parties have ***joint control.***

A joint arrangement has the following characteristics:



Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

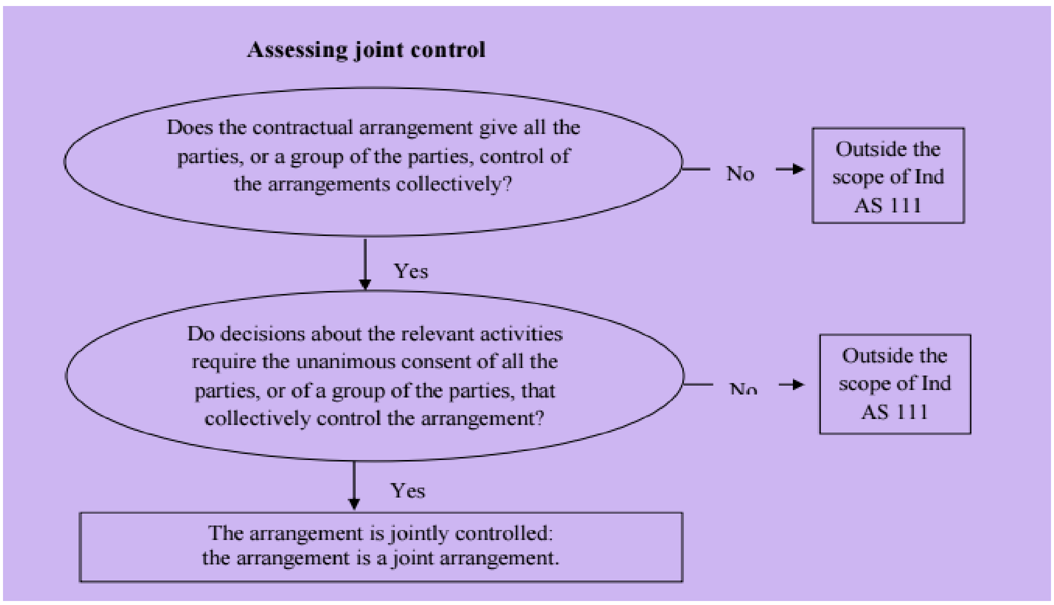
A joint arrangement is either a joint operation or a joint venture.



The classification of a joint arrangement as a joint operation or a joint venture depends upon the rights and obligations of the parties to the arrangement.

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Those parties are called joint operators.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. Those parties are called joint venturers.



4 FINANCIAL STATEMENTS OF PARTIES TO A JOINT ARRANGEMENT

4.1 Joint Operations

A joint operator shall recognise in relation to its 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 share of the revenue from the sale of the output by the joint operation; and

(e) its expenses, including its share of any expenses incurred jointly.

A joint operator shall account for the assets, liabilities, revenues and expenses relating to its interest in a joint operation in accordance with the Ind AS applicable to the particular assets, liabilities, revenues and expenses.

4.2 Joint Ventures

A joint venturer shall recognise its interest in a joint venture as an investment and shall account for that investment using 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 as specified in that standard.

A party that participates in, but does not have joint control of, a joint venture shall account for its interest in the arrangement in accordance with Ind AS 109, *'Financial Instruments'*, unless it has significant influence over the joint venture, in which case it shall account for it in accordance with Ind AS 28.

5 SEPARATE FINANCIAL STATEMENTS

In its separate financial statements, a joint operator or joint venturer shall account for its interest in:

(a) a joint operation in accordance with this AS;

(b) a joint venture in accordance with Ind AS 27, *'Separate Financial Statements'*.

In its separate financial statements, a party that participates in, but does not have joint control of, a joint arrangement shall account for its interest in:

(a) a joint operation in accordance with this AS;

(b) a joint venture in accordance with Ind AS 109, unless the entity has significant influence over the joint venture, in which case it shall apply Ind AS 27.

6 MAJOR CHANGE IN IND AS 111 VIS-À-VIS IFRS 11 NOT RESULTING IN CARVE OUT

Appendix C 'Business Combinations under Common Control' : 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. IFRS 11 scopes out the same as IFRS 3, Business Combinations, does not deal with business combinations under common control.

7 MAJOR CHANGES IN IND AS 111 *VIS-A-VIS* AS 27

(i) ***Types of Joint Arrangement/Joint Venture****:* AS 27 recognises three forms of joint venture namely: a) jointly controlled operations, b) jointly controlled assets and c) jointly controlled entities. As per Ind AS 111, a joint arrangement is either a joint operation or a joint venture. Such classification of joint arrangement depends upon the rights and obligations of the parties to the arrangement and disregards the legal structure.

(ii) ***Joint Control****:* AS 27 provides that in some exceptional cases, an enterprise by a contractual arrangement establishes joint control over an entity which is a subsidiary of that enterprise within the meaning of AS 21, '*Consolidated Financial Statements*'. In those cases, the entity is consolidated under AS 21 by the said enterprise, and is not treated as a joint venture. Ind AS 111 does not recognise such cases keeping in view the definition of control given in Ind AS 110.

(iii) ***Equity Method****:* Ind AS 111 provides that a venturer can recognise its interest in joint venture using only equity method as per Ind AS 28. AS 27 prescribes the use of proportionate consolidation method only.

(iv) ***Interest in Jointly Controlled Entity****:* In case of separate financial statements under AS

27, interest in jointly controlled entity is accounted for as per AS 13, Accounting for Investments, i.e., at cost less provision for other than temporary decline in the value of investment. Ind AS 111 requires that the joint operator shall recognise its interest in joint operation and a joint venture in accordance with Ind AS 28, *'Investments in Associates and Joint Ventures'*.

(v) ***Near Future****:* An explanation has been given in AS 27 regarding the term 'near future' used in an exemption given from applying proportionate consolidation method, i.e., where the investment is acquired and held exclusively with a view to its subsequent disposal in the near future.

This explanation has not been given in the Ind AS 111, as such situations are now covered by Ind AS 105, '*Non-current Assets Held for Sale and Discontinued Operations'*.

(vi) ***Application of the Proportionate Consolidation Method****:* AS 27 requires application of the proportionate consolidation method only when the entity has subsidiaries and prepares Consolidated Financial Statements. Ind AS 111 requires application of equity method in financial statements other than separate financial statements in case of a joint venture, even if the venturer does not have any subsidiary in the financial statements

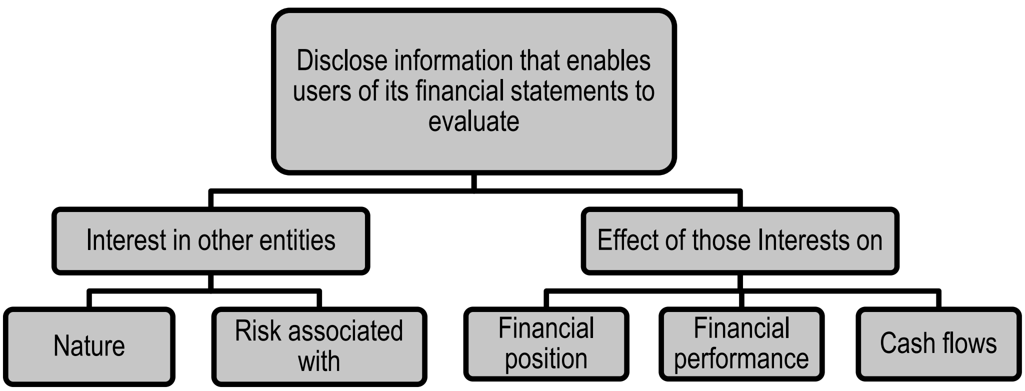
(vii) ***Disclosure of Venturer's Share in Post-acquisition Reserves****:* AS 21 provides clarification regarding disclosure of venturer's share in post-acquisition reserves of a jointly controlled entity. The same has not been dealt with in the Ind AS 111.

26

IND AS 112 : DISCLOSURE OF INTERESTS IN OTHER ENTITIES

1 OBJECTIVE

The objective of this Indian Accounting Standard (Ind AS) is to require an entity to disclose information that enables users of its financial statements to evaluate:



To meet the above objective, an entity shall disclose:

(a) the significant judgements and assumptions it has made in determining:

- (i) the nature of its interest in another entity or arrangement;
- (ii) the type of joint arrangement in which it has an interest;
- (iii) that it meets the definition of an investment entity, if applicable; and

(b) information about its interests in:

  (i) Subsidiaries;

  (ii) Arrangements and Associates; and

  (iii) Structured Entities that are not controlled by the entity (Unconsolidated Structured Entities).

If the disclosures required by this Ind AS, together with disclosures required by other Ind AS, do not meet the above objective, an entity shall disclose whatever additional information is necessary to meet that objective.

2 SCOPE

This Ind AS shall be applied by an entity that has an interest in any of the following:

- Subsidiaries
- Joint arrangements (i.e. Joint operations or Joint ventures)
- Associates
- Unconsolidated Structured Entities

This Ind AS does not apply to:

(a) post-employment benefit plans or other long-term employee benefit plans to which Ind AS 19, *'Employee Benefits'*, applies.

(b) an entity's separate financial statements to which Ind AS 27, *'Separate Financial Statements'*, applies. However:

  (i) if an entity has interests in unconsolidated structured entities and prepares separate financial statements as its only financial statements, it shall apply the specified requirements when preparing those separate financial statements.

  (ii) an investment entity that prepares financial statements in which all of its subsidiaries are measured at fair value through profit or loss in accordance with paragraph 31 of Ind AS 110 shall present the disclosures relating to investment entities required by this Ind AS.

(c) 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.

(d) an interest in another entity that is accounted for in accordance with Ind AS 109, *'Financial Instruments'*. However, an entity shall apply this Ind AS:

(i) when that interest is an interest in an associate or a joint venture that, in accordance with Ind AS 28, *'Investments in Associates and Joint Ventures'*, is measured at fair value through profit or loss; or

(ii) when that interest is an interest in an unconsolidated structured entity.

3 SIGNIFICANT JUDGEMENTS AND ASSUMPTIONS

An entity shall disclose information about significant judgements and assumptions it has made (and changes to those judgements and assumptions) in determining:

- That it has control of another entity, i.e. an investee as described in Ind AS 110 *'Consolidated Financial Statements'*
- That it has joint control of an arrangement or 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

4 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 judgements and assumptions it has made in determining that it is an investment entity.

If the investment entity does not have one or more of the typical characteristics of an investment entity, it 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:

(a) the total fair value, as of the date of change of status, of the subsidiaries that cease to be consolidated;

(b) the total gain or loss, if any, calculated in accordance with Ind AS 110; and

(c) the line item(s) in profit or loss in which the gain or loss is recognised (if not presented separately).

5 INTERESTS IN SUBSIDIARIES

An entity shall disclose information that enables users of its consolidated financial statements:

(a) to understand:

- (i) the composition of the group; and
- (ii) the interest that non-controlling interests have in the group's activities and cash flows; and

(b) to evaluate:

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

6 INTERESTS IN UNCONSOLIDATED SUBSIDIARIES (INVESTMENT ENTITIES)

An investment entity that, in accordance with Ind AS 110, is required to apply the exception to consolidation and instead account for its investment in a subsidiary at fair value through profit or loss shall disclose that fact.

For each unconsolidated subsidiary, an investment entity shall disclose:

- Subsidiary's name
- Principal place of business (and Country of incorporation if different from the principal place of business) of the Subsidiary
- Proportion of ownership interest held by the Investment Entity and, if different, the proportion of voting rights held

If an investment entity is the parent of another investment entity, the parent shall also provide the above disclosures for investments that are controlled by its investment entity subsidiary.

An investment entity is required to make disclosures regarding the nature and extent of any significant restrictions on the ability of an unconsolidated subsidiary to transfer funds to the investment entity in the form of cash dividends or to repay loans or advances made to the unconsolidated subsidiary by the investment entity and any current commitments or intentions to provide financial or other support to an unconsolidated subsidiary, etc.

7 INTERESTS IN JOINT ARRANGEMENTS AND ASSOCIATES

An entity shall disclose information that enables users of its financial statements to evaluate:

(i) the nature, extent and financial effects of its interests in joint arrangements and associates, including the nature and effects of its contractual relationship with the other investors with joint control of, or significant influence over, joint arrangements and associates; and

(ii) the nature of, and changes in, the risks associated with its interests in joint ventures and associates.

8 INTERESTS IN UNCONSOLIDATED STRUCTURED ENTITIES

An entity shall disclose information that enables users of its financial statements:

(i) to understand the nature and extent of its interests in unconsolidated structured entities; and

(ii) to evaluate the nature of, and changes in, the risks associated with its interests in unconsolidated structured entities.