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Part 2

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Indian Accounting Standard (Ind AS) 116

Leases

(This Indian Accounting Standard includes paragraphs set in **bold** type and plain type, which have equal authority. Paragraphs in bold type indicate the main principles)

Objective

- 1 **This Standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. The objective is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions. This information gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity.**
- 2 An entity shall consider the terms and conditions of *contracts* and all relevant facts and circumstances when applying this Standard. An entity shall apply this Standard consistently to contracts with similar characteristics and in similar circumstances.

Scope

- 3 An entity shall apply this Standard to all leases, including leases of *right-of-use assets* in a *sublease*, except for:
 - (a) leases to explore for or use minerals, oil, natural gas and similar non-regenerative resources;
 - (b) leases of biological assets within the scope of Ind AS 41, *Agriculture*, held by a lessee;
 - (c) service concession arrangements within the scope of Appendix D, *Service Concession Arrangements*, of Ind AS 115, *Revenue from Contracts with Customer*;
 - (d) licences of intellectual property granted by a lessor within the scope of Ind AS 115, *Revenue from Contracts with Customers*; and
 - (e) rights held by a lessee under licensing agreements within the scope of Ind AS 38, *Intangible Assets*, for such items as motion picture films, video recordings, plays, manuscripts, patents and copyrights.
- 4 A lessee may, but is not required to, apply this Standard to leases of intangible assets other than those described in paragraph 3(e).

Recognition exemptions (paragraphs B3–B8)

- 5 A lessee may elect not to apply the requirements in paragraphs 22–49 to:
 - (a) *short-term leases*; and
 - (b) leases for which the *underlying asset* is of low value (as described in paragraphs B3–B8).
6. If a lessee elects not to apply the requirements in paragraphs 22–49 to either short-term leases or leases for which the underlying asset is of low value, the lessee shall recognise the *lease payments* associated with those leases as an expense on either a straight-line basis over the *lease term* or another systematic basis. The lessee shall apply another systematic basis if that basis is more representative of the pattern of the lessee's benefit.
7. If a lessee accounts for short-term leases applying paragraph 6, the lessee shall consider the lease to be a new lease for the purposes of this Standard if:
 - (a) there is a *lease modification*; or
 - (b) there is any change in the lease term (for example, the lessee exercises an option not previously included in its determination of the lease term).
8. The election for short-term leases shall be made by class of underlying asset to which the right of use relates. A class of underlying asset is a grouping of underlying assets of a similar nature and use in an entity's operations. The election for leases for which the underlying asset is of low value can be made on a lease-by-lease basis.

Identifying a lease (paragraphs B9–B33)

- 9 **At inception of a contract, an entity shall assess whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Paragraphs B9–B31 set out guidance on the assessment of whether a contract is, or contains, a lease.**

- 10 A period of time may be described in terms of the amount of use of an identified asset (for example, the number of production units that an item of equipment will be used to produce).
- 11 An entity shall reassess whether a contract is, or contains, a lease only if the terms and conditions of the contract are changed.

Separating components of a contract

- 12 For a contract that is, or contains, a lease, an entity shall account for each lease component within the contract as a lease separately from non-lease components of the contract, unless the entity applies the practical expedient in paragraph 15. Paragraphs B32–B33 set out guidance on separating components of a contract.

Lessee

- 13 For a contract that contains a lease component and one or more additional lease or non-lease components, a lessee shall allocate the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.
- 14 The relative stand-alone price of lease and non-lease components shall be determined on the basis of the price the lessor, or a similar supplier, would charge an entity for that component, or a similar component, separately. If an observable stand-alone price is not readily available, the lessee shall estimate the stand-alone price, maximising the use of observable information.
- 15 As a practical expedient, a lessee may elect, by class of underlying asset, not to separate non-lease components from lease components, and instead account for each lease component and any associated non-lease components as a single lease component. A lessee shall not apply this practical expedient to embedded derivatives that meet the criteria in paragraph 4.3.3 of Ind AS 109, *Financial Instruments*.
- 16 Unless the practical expedient in paragraph 15 is applied, a lessee shall account for non-lease components applying other applicable Standards.

Lessor

- 17 For a contract that contains a lease component and one or more additional lease or non-lease components, a lessor shall allocate the consideration in the contract applying paragraphs 73–90 of Ind AS 115.

Lease term (paragraphs B34–B41)

- 18 An entity shall determine the lease term as the non-cancellable period of a lease, together with both:
- (a) periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option; and
 - (b) periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option.
- 19 In assessing whether a lessee is reasonably certain to exercise an option to extend a lease, or not to exercise an option to terminate a lease, an entity shall consider all relevant facts and circumstances that create an economic incentive for the lessee to exercise the option to extend the lease, or not to exercise the option to terminate the lease, as described in paragraphs B37– B40.
- 20 A lessee shall reassess whether it is reasonably certain to exercise an extension option, or not to exercise a termination option, upon the occurrence of either a significant event or a significant change in circumstances that:
- (a) is within the control of the lessee; and
 - (b) affects whether the lessee is reasonably certain to exercise an option not previously included in its determination of the lease term, or not to exercise an option previously included in its determination of the lease term (as described in paragraph B41).
- 21 An entity shall revise the lease term if there is a change in the non-cancellable period of a lease. For example, the non-cancellable period of a lease will change if:
- (a) the lessee exercises an option not previously included in the entity's determination of the lease term;
 - (b) the lessee does not exercise an option previously included in the entity's determination of the lease term;
 - (c) an event occurs that contractually obliges the lessee to exercise an option not previously included in the entity's determination of the lease term; or
 - (d) an event occurs that contractually prohibits the lessee from exercising an option previously included in the entity's determination of the lease term.

Lessee

Recognition

- 22 **At the commencement date, a lessee shall recognise a right-of-use asset and a lease liability.**

Measurement**Initial measurement***Initial measurement of the right-of-use asset*

- 23 **At the commencement date, a lessee shall measure the right-of-use asset at cost.**

- 24 The cost of the right-of-use asset shall comprise:

- (a) the amount of the initial measurement of the lease liability, as described in paragraph 26;
- (b) any lease payments made at or before the commencement date, less any *lease incentives* received;
- (c) any *initial direct costs* incurred by the lessee; and
- (d) an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories. The lessee incurs the obligation for those costs either at the commencement date or as a consequence of having used the underlying asset during a particular period.

- 25 A lessee shall recognise the costs described in paragraph 24(d) as part of the cost of the right-of-use asset when it incurs an obligation for those costs. A lessee applies Ind AS 2, *Inventories*, to costs that are incurred during a particular period as a consequence of having used the right-of-use asset to produce inventories during that period. The obligations for such costs accounted for applying this Standard or Ind AS 2 are recognised and measured applying Ind AS 37, *Provisions, Contingent Liabilities and Contingent Assets*.

Initial measurement of the lease liability

- 26 **At the commencement date, a lessee shall measure the lease liability at the present value of the lease payments that are not paid at that date. The lease payments shall be discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the lessee shall use the lessee's incremental borrowing rate.**

- 27 At the commencement date, the lease payments included in the measurement of the lease liability comprise the following payments for the right to use the underlying asset during the lease term that are not paid at the commencement date:

- (a) *fixed payments* (including in-substance fixed payments as described in paragraph B42), less any lease incentives receivable;
- (b) *variable lease payments* that depend on an index or a rate, initially measured using the index or rate as at the commencement date (as described in paragraph 28);
- (c) amounts expected to be payable by the lessee under *residual value guarantees*;
- (d) the exercise price of a purchase option if the lessee is reasonably certain to exercise that option (assessed considering the factors described in paragraphs B37–B40); and
- (e) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

- 28 Variable lease payments that depend on an index or a rate described in paragraph 27(b) include, for example, payments linked to a consumer price index, payments linked to a benchmark interest rate (such as LIBOR) or payments that vary to reflect changes in market rental rates.

Subsequent measurement*Subsequent measurement of the right-of-use asset*

- 29 **After the commencement date, a lessee shall measure the right-of-use asset applying a cost model, unless it applies the measurement model described in paragraph 35.**

Cost model

- 30 To apply a cost model, a lessee shall measure the right-of-use asset at cost:

- (a) less any accumulated depreciation and any accumulated impairment losses; and
- (b) adjusted for any remeasurement of the lease liability specified in paragraph 36(c).

- 31 A lessee shall apply the depreciation requirements in Ind AS 16, *Property, Plant and Equipment*, in depreciating the right-of-use asset, subject to the requirements in paragraph 32.

32 If the lease transfers ownership of the underlying asset to the lessee by the end of the lease term or if the cost of the right-of-use asset reflects that the lessee will exercise a purchase option, the lessee shall depreciate the right-of-use asset from the commencement date to the end of the *useful life* of the underlying asset. Otherwise, the lessee shall depreciate the right-of-use asset from the commencement date to the earlier of the end of the *useful life* of the right-of-use asset or the end of the lease term.

33 A lessee shall apply Ind AS 36, *Impairment of Assets*, to determine whether the right-of-use asset is impaired and to account for any impairment loss identified.

Other measurement models

34 [Refer Appendix 1].

35 If right-of-use assets relate to a class of property, plant and equipment to which the lessee applies the revaluation model in Ind AS 16, a lessee may elect to apply that revaluation model to all of the right-of-use assets that relate to that class of property, plant and equipment.

Subsequent measurement of the lease liability

36 **After the commencement date, a lessee shall measure the lease liability by:**

- (a) **increasing the carrying amount to reflect interest on the lease liability;**
- (b) **reducing the carrying amount to reflect the lease payments made; and**
- (c) **remeasuring the carrying amount to reflect any reassessment or lease modifications specified in paragraphs 39–46, or to reflect revised in-substance fixed lease payments (see paragraph B42).**

37 Interest on the lease liability in each period during the lease term shall be the amount that produces a constant periodic rate of interest on the remaining balance of the lease liability. The periodic rate of interest is the discount rate described in paragraph 26, or if applicable the revised discount rate described in paragraph 41, paragraph 43 or paragraph 45(c).

38 After the commencement date, a lessee shall recognise in profit or loss, unless the costs are included in the carrying amount of another asset applying other applicable Standards, both:

- (a) interest on the lease liability; and
- (b) variable lease payments not included in the measurement of the lease liability in the period in which the event or condition that triggers those payments occurs.

Reassessment of the lease liability

39 After the commencement date, a lessee shall apply paragraphs 40–43 to remeasure the lease liability to reflect changes to the lease payments. A lessee shall recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. However, if the carrying amount of the right-of-use asset is reduced to zero and there is a further reduction in the measurement of the lease liability, a lessee shall recognise any remaining amount of the remeasurement in profit or loss.

40 A lessee shall remeasure the lease liability by discounting the revised lease payments using a revised discount rate, if either:

- (a) there is a change in the lease term, as described in paragraphs 20–21. A lessee shall determine the revised lease payments on the basis of the revised lease term; or
- (b) there is a change in the assessment of an option to purchase the underlying asset, assessed considering the events and circumstances described in paragraphs 20–21 in the context of a purchase option. A lessee shall determine the revised lease payments to reflect the change in amounts payable under the purchase option.

41 In applying paragraph 40, a lessee shall determine the revised discount rate as the interest rate implicit in the lease for the remainder of the lease term, if that rate can be readily determined, or the lessee's incremental borrowing rate at the date of reassessment, if the interest rate implicit in the lease cannot be readily determined.

42 A lessee shall remeasure the lease liability by discounting the revised lease payments, if either:

- (a) there is a change in the amounts expected to be payable under a residual value guarantee. A lessee shall determine the revised lease payments to reflect the change in amounts expected to be payable under the residual value guarantee.
- (b) there is a change in future lease payments resulting from a change in an index or a rate used to determine those payments, including for example a change to reflect changes in market rental rates following a market rent review. The lessee shall remeasure the lease liability to reflect those revised lease payments only when there is a change in the cash flows (ie when the adjustment to the lease payments takes effect). A lessee shall determine the revised lease payments for the remainder of the lease term based on the revised contractual payments.

- 43 In applying paragraph 42, a lessee shall use an unchanged discount rate, unless the change in lease payments results from a change in floating interest rates. In that case, the lessee shall use a revised discount rate that reflects changes in the interest rate.

Lease modifications

- 44 A lessee shall account for a lease modification as a separate lease if both:
- (a) the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
 - (b) the consideration for the lease increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.
- 45 For a lease modification that is not accounted for as a separate lease, at the *effective date of the lease modification* a lessee shall:
- (a) allocate the consideration in the modified contract applying paragraphs 13–16;
 - (b) determine the lease term of the modified lease applying paragraphs 18–19; and
 - (c) remeasure the lease liability by discounting the revised lease payments using a revised discount rate. The revised discount rate is determined as the interest rate implicit in the lease for the remainder of the lease term, if that rate can be readily determined, or the lessee's incremental borrowing rate at the effective date of the modification, if the interest rate implicit in the lease cannot be readily determined.
- 46 For a lease modification that is not accounted for as a separate lease, the lessee shall account for the remeasurement of the lease liability by:
- (a) decreasing the carrying amount of the right-of-use asset to reflect the partial or full termination of the lease for lease modifications that decrease the scope of the lease. The lessee shall recognise in profit or loss any gain or loss relating to the partial or full termination of the lease.
 - (b) making a corresponding adjustment to the right-of-use asset for all other lease modifications.
- 46A As a practical expedient, a lessee may elect not to assess whether a rent concession that meets the conditions in paragraph 46B is a lease modification. A lessee that makes this election shall account for any change in lease payments resulting from the rent concession the same way it would account for the change applying this Standard if the change were not a lease modification.
- 46B The practical expedient in paragraph 46A applies only to rent concessions occurring as a direct consequence of the covid-19 pandemic and only if all of the following conditions are met:—
- (a) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
 - (b) any reduction in lease payments affects only payments originally due on or before the 30th June, 2022 (for example, a rent concession would meet this condition if it results in reduced lease payments on or before the 30th June, 2022 and increased lease payments that extend beyond the 30th June, 2022); and
 - (c) there is no substantive change to other terms and conditions of the lease.

Presentation

- 47 A lessee shall either present in the balance sheet, or disclose in the notes:
- (a) right-of-use assets separately from other assets. If a lessee does not present right-of-use assets separately in the balance sheet, the lessee shall:
 - (i) include right-of-use assets within the same line item as that within which the corresponding underlying assets would be presented if they were owned; and
 - (ii) disclose which line items in the balance sheet include those right-of-use assets.
 - (b) lease liabilities separately from other liabilities. If a lessee does not present lease liabilities separately in the balance sheet, the lessee shall disclose which line items in the balance sheet include those liabilities.
- 48 The requirement in paragraph 47(a) does not apply to right-of-use assets that meet the definition of investment property, which shall be presented in the balance sheet as investment property.
- 49 In the statement of profit and loss, a lessee shall present interest expense on the lease liability separately from the depreciation charge for the right-of-use asset. Interest expense on the lease liability is a component of finance costs, which paragraph 82(b) of Ind AS 1, *Presentation of Financial Statements*, requires to be presented separately in the statement of profit and loss.

- 50 In the statement of cash flows, a lessee shall classify:
- (a) cash payments for the principal portion of the lease liability within financing activities;
 - (b) cash payments for the interest portion of the lease liability within financing activities applying the requirements in Ind AS 7, *Statement of Cash Flows*, for interest paid; and
 - (c) short-term lease payments, payments for leases of low-value assets and variable lease payments not included in the measurement of the lease liability within operating activities.

Disclosure

- 51 **The objective of the disclosures is for lessees to disclose information in the notes that, together with the information provided in the balance sheet, statement of profit and loss and statement of cash flows, gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of the lessee. Paragraphs 52–60 specify requirements on how to meet this objective.**
- 52 A lessee shall disclose information about its leases for which it is a lessee in a single note or separate section in its financial statements. However, a lessee need not duplicate information that is already presented elsewhere in the financial statements, provided that the information is incorporated by cross-reference in the single note or separate section about leases.
- 53 A lessee shall disclose the following amounts for the reporting period:
- (a) depreciation charge for right-of-use assets by class of underlying asset;
 - (b) interest expense on lease liabilities;
 - (c) the expense relating to short-term leases accounted for applying paragraph 6. This expense need not include the expense relating to leases with a lease term of one month or less;
 - (d) the expense relating to leases of low-value assets accounted for applying paragraph 6. This expense shall not include the expense relating to short-term leases of low-value assets included in paragraph 53(c);
 - (e) the expense relating to variable lease payments not included in the measurement of lease liabilities;
 - (f) income from subleasing right-of-use assets;
 - (g) total cash outflow for leases;
 - (h) additions to right-of-use assets;
 - (i) gains or losses arising from sale and leaseback transactions; and
 - (j) the carrying amount of right-of-use assets at the end of the reporting period by class of underlying asset.
- 54 A lessee shall provide the disclosures specified in paragraph 53 in a tabular format, unless another format is more appropriate. The amounts disclosed shall include costs that a lessee has included in the carrying amount of another asset during the reporting period.
- 55 A lessee shall disclose the amount of its lease commitments for short-term leases accounted for applying paragraph 6 if the portfolio of short-term leases to which it is committed at the end of the reporting period is dissimilar to the portfolio of short-term leases to which the short-term lease expense disclosed applying paragraph 53(c) relates.
- 56 If right-of-use assets meet the definition of investment property, a lessee shall apply the disclosure requirements in Ind AS 40. In that case, a lessee is not required to provide the disclosures in paragraph 53(a), (f), (h) or (j) for those right-of-use assets.
- 57 If a lessee measures right-of-use assets at revalued amounts applying Ind AS 16, the lessee shall disclose the information required by paragraph 77 of Ind AS 16 for those right-of-use assets.
- 58 A lessee shall disclose a maturity analysis of lease liabilities applying paragraphs 39 and B11 of Ind AS 107, *Financial Instruments: Disclosures*, separately from the maturity analyses of other financial liabilities.
- 59 In addition to the disclosures required in paragraphs 53–58, a lessee shall disclose additional qualitative and quantitative information about its leasing activities necessary to meet the disclosure objective in paragraph 51 (as described in paragraph B48). This additional information may include, but is not limited to, information that helps users of financial statements to assess:
- (a) the nature of the lessee's leasing activities;
 - (b) future cash outflows to which the lessee is potentially exposed that are not reflected in the measurement of lease liabilities. This includes exposure arising from:
 - (i) variable lease payments (as described in paragraph B49);
 - (ii) extension options and termination options (as described in paragraph B50);

- (iii) residual value guarantees (as described in paragraph B51); and
 - (iv) leases not yet commenced to which the lessee is committed.
 - (c) restrictions or covenants imposed by leases; and
 - (d) sale and leaseback transactions (as described in paragraph B52).
- 60 A lessee that accounts for short-term leases or leases of low-value assets applying paragraph 6 shall disclose that fact.
- 60A If a lessee applies the practical expedient in paragraph 46A, the lessee shall disclose—
- (a) that it has applied the practical expedient to all rent concessions that meet the conditions in paragraph 46B or, if not applied to all such rent concessions, information about the nature of the contracts to which it has applied the practical expedient (see paragraph 2); and
 - (b) the amount recognised in profit or loss for the reporting period to reflect changes in lease payments that arise from rent concessions to which the lessee has applied the practical expedient in paragraph 46A.

Lessor

Classification of leases (paragraphs B53–B58)

- 61 A lessor shall classify each of its leases as either an *operating lease* or a *finance lease*.
- 62 A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership of an underlying asset.
- 63 Whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than the form of the contract. Examples of situations that individually or in combination would normally lead to a lease being classified as a finance lease are:
- (a) the lease transfers ownership of the underlying asset to the lessee by the end of the lease term;
 - (b) the lessee has the option to purchase the underlying asset at a price that is expected to be sufficiently lower than the *fair value* at the date the option becomes exercisable for it to be reasonably certain, at the *inception date*, that the option will be exercised;
 - (c) the lease term is for the major part of the *economic life* of the underlying asset even if title is not transferred;
 - (d) at the inception date, the present value of the lease payments amounts to at least substantially all of the fair value of the underlying asset; and
 - (e) the underlying asset is of such a specialised nature that only the lessee can use it without major modifications.
- 64 Indicators of situations that individually or in combination could also lead to a lease being classified as a finance lease are:
- (a) if the lessee can cancel the lease, the lessor's losses associated with the cancellation are borne by the lessee;
 - (b) gains or losses from the fluctuation in the fair value of the residual accrue to the lessee (for example, in the form of a rent rebate equaling most of the sales proceeds at the end of the lease); and
 - (c) the lessee has the ability to continue the lease for a secondary period at a rent that is substantially lower than market rent.
- 65 The examples and indicators in paragraphs 63–64 are not always conclusive.
If it is clear from other features that the lease does not transfer substantially all the risks and rewards incidental to ownership of an underlying asset, the lease is classified as an operating lease. For example, this may be the case if ownership of the underlying asset transfers at the end of the lease for a variable payment equal to its then fair value, or if there are variable lease payments, as a result of which the lessor does not transfer substantially all such risks and rewards.
- 66 Lease classification is made at the inception date and is reassessed only if there is a lease modification. Changes in estimates (for example, changes in estimates of the economic life or of the residual value of the underlying asset), or changes in circumstances (for example, default by the lessee), do not give rise to a new classification of a lease for accounting purposes.

Finance leases

Recognition and measurement

- 67 At the commencement date, a lessor shall recognise assets held under a finance lease in its balance sheet and present them as a receivable at an amount equal to the *net investment in the lease*.

Initial measurement

- 68 The lessor shall use the interest rate implicit in the lease to measure the net investment in the lease. In the case of a sublease, if the interest rate implicit in the sublease cannot be readily determined, an intermediate lessor may use the discount rate used for the head lease (adjusted for any initial direct costs associated with the sublease) to measure the net investment in the sublease.
- 69 Initial direct costs, other than those incurred by manufacturer or dealer lessors, are included in the initial measurement of the net investment in the lease and reduce the amount of income recognised over the lease term. The interest rate implicit in the lease is defined in such a way that the initial direct costs are included automatically in the net investment in the lease; there is no need to add them separately.

Initial measurement of the lease payments included in the net investment in the lease

- 70 At the commencement date, the lease payments included in the measurement of the net investment in the lease comprise the following payments for the right to use the underlying asset during the lease term that are not received at the commencement date:
- (a) fixed payments (including in-substance fixed payments as described in paragraph B42), less any lease incentives payable;
 - (b) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
 - (c) any residual value guarantees provided to the lessor by the lessee, a party related to the lessee or a third party unrelated to the lessor that is financially capable of discharging the obligations under the guarantee;
 - (d) the exercise price of a purchase option if the lessee is reasonably certain to exercise that option (assessed considering the factors described in paragraph B37); and
 - (e) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

Manufacturer or dealer lessors

- 71 At the commencement date, a manufacturer or dealer lessor shall recognise the following for each of its finance leases:
- (a) revenue being the fair value of the underlying asset, or, if lower, the present value of the lease payments accruing to the lessor, discounted using a market rate of interest;
 - (b) the cost of sale being the cost, or carrying amount if different, of the underlying asset less the present value of the *unguaranteed residual value*; and
 - (c) selling profit or loss (being the difference between revenue and the cost of sale) in accordance with its policy for outright sales to which Ind AS 115 applies. A manufacturer or dealer lessor shall recognise selling profit or loss on a finance lease at the commencement date, regardless of whether the lessor transfers the underlying asset as described in Ind AS 115.
- 72 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 profit or loss equivalent to the profit or loss resulting from an outright sale of the underlying asset, at normal selling prices, reflecting any applicable volume or trade discounts.
- 73 Manufacturer or dealer lessors sometimes quote artificially low rates of interest in order to attract customers. The use of such a rate would result in a lessor recognising an excessive portion of the total income from the transaction at the commencement date. If artificially low rates of interest are quoted, a manufacturer or dealer lessor shall restrict selling profit to that which would apply if a market rate of interest were charged.
- 74 A manufacturer or dealer lessor shall recognise as an expense costs incurred in connection with obtaining a finance lease at the commencement date because they are mainly related to earning the manufacturer or dealer's selling profit. Costs incurred by manufacturer or dealer lessors in connection with obtaining a finance lease are excluded from the definition of initial direct costs and, thus, are excluded from the net investment in the lease.

Subsequent measurement

- 75 **A lessor shall recognise finance income over the lease term, based on a pattern reflecting a constant periodic rate of return on the lessor's net investment in the lease.**
- 76 A lessor aims to allocate finance income over the lease term on a systematic and rational basis. A lessor shall apply the lease payments relating to the period against the *gross investment in the lease* to reduce both the principal and the *unearned finance income*.

- 77 A lessor shall apply the derecognition and impairment requirements in Ind AS 109 to the net investment in the lease. A lessor shall review regularly estimated unguaranteed residual values used in computing the gross investment in the lease. If there has been a reduction in the estimated unguaranteed residual value, the lessor shall revise the income allocation over the lease term and recognise immediately any reduction in respect of amounts accrued.
- 78 A lessor that classifies an asset under a finance lease as held for sale (or includes it in a disposal group that is classified as held for sale) applying Ind AS 105, *Non-current Assets Held for Sale and Discontinued Operations*, shall account for the asset in accordance with that Standard.

Lease modifications

- 79 A lessor shall account for a modification to a finance lease as a separate lease if both:
- (a) the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
 - (b) the consideration for the lease increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.
- 80 For a modification to a finance lease that is not accounted for as a separate lease, a lessor shall account for the modification as follows:
- (a) if the lease would have been classified as an operating lease had the modification been in effect at the inception date, the lessor shall:
 - (i) account for the lease modification as a new lease from the effective date of the modification; and
 - (ii) measure the carrying amount of the underlying asset as the net investment in the lease immediately before the effective date of the lease modification.
 - (b) otherwise, the lessor shall apply the requirements of Ind AS 109.

Operating leases**Recognition and measurement**

- 81 **A lessor shall recognise lease payments from operating leases as income on either a straight-line basis or another systematic basis. The lessor shall apply another systematic basis if that basis is more representative of the pattern in which benefit from the use of the underlying asset is diminished.**
- 82 A lessor shall recognise costs, including depreciation, incurred in earning the lease income as an expense.
- 83 A lessor shall add initial direct costs incurred in obtaining an operating lease to the carrying amount of the underlying asset and recognise those costs as an expense over the lease term on the same basis as the lease income.
- 84 The depreciation policy for depreciable underlying assets subject to operating leases shall be consistent with the lessor's normal depreciation policy for similar assets. A lessor shall calculate depreciation in accordance with Ind AS 16 and Ind AS 38.
- 85 A lessor shall apply Ind AS 36 to determine whether an underlying asset subject to an operating lease is impaired and to account for any impairment loss identified.
- 86 A manufacturer or dealer lessor does not recognise any selling profit on entering into an operating lease because it is not the equivalent of a sale.

Lease modifications

- 87 A lessor shall account for a modification to an operating lease as a new lease from the effective date of the modification, considering any prepaid or accrued lease payments relating to the original lease as part of the lease payments for the new lease.

Presentation

- 88 A lessor shall present underlying assets subject to operating leases in its balance sheet according to the nature of the underlying asset.

Disclosure

- 89 **The objective of the disclosures is for lessors to disclose information in the notes that, together with the information provided in the balance sheet, statement of profit or loss and statement of cash flows, gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of the lessor. Paragraphs 90–97 specify requirements on how to meet this objective.**

- 90 A lessor shall disclose the following amounts for the reporting period:
- (a) for finance leases:
 - (i) selling profit or loss;
 - (ii) finance income on the net investment in the lease; and
 - (iii) income relating to variable lease payments not included in the measurement of the net investment in the lease.
 - (b) for operating leases, lease income, separately disclosing income relating to variable lease payments that do not depend on an index or a rate.
- 91 A lessor shall provide the disclosures specified in paragraph 90 in a tabular format, unless another format is more appropriate.
- 92 A lessor shall disclose additional qualitative and quantitative information about its leasing activities necessary to meet the disclosure objective in paragraph 89. This additional information includes, but is not limited to, information that helps users of financial statements to assess:
- (a) the nature of the lessor's leasing activities; and
 - (b) how the lessor manages the risk associated with any rights it retains in underlying assets. In particular, a lessor shall disclose its risk management strategy for the rights it retains in underlying assets, including any means by which the lessor reduces that risk. Such means may include, for example, buy-back agreements, residual value guarantees or variable lease payments for use in excess of specified limits.

Finance leases

- 93 A lessor shall provide a qualitative and quantitative explanation of the significant changes in the carrying amount of the net investment in finance leases.
- 94 A lessor shall disclose a maturity analysis of the lease payments receivable, showing the undiscounted lease payments to be received on an annual basis for a minimum of each of the first five years and a total of the amounts for the remaining years. A lessor shall reconcile the undiscounted lease payments to the net investment in the lease. The reconciliation shall identify the unearned finance income relating to the lease payments receivable and any discounted unguaranteed residual value.

Operating leases

- 95 For items of property, plant and equipment subject to an operating lease, a lessor shall apply the disclosure requirements of Ind AS 16. In applying the disclosure requirements in Ind AS 16, a lessor shall disaggregate each class of property, plant and equipment into assets subject to operating leases and assets not subject to operating leases. Accordingly, a lessor shall provide the disclosures required by Ind AS 16 for assets subject to an operating lease (by class of underlying asset) separately from owned assets held and used by the lessor.
- 96 A lessor shall apply the disclosure requirements in Ind AS 36, Ind AS 38, Ind AS 40 and Ind AS 41 for assets subject to operating leases.
- 97 A lessor shall disclose a maturity analysis of lease payments, showing the undiscounted lease payments to be received on an annual basis for a minimum of each of the first five years and a total of the amounts for the remaining years.

Sale and leaseback transactions

- 98 If an entity (the seller-lessee) transfers an asset to another entity (the buyer- lessor) and leases that asset back from the buyer-lessor, both the seller-lessee and the buyer-lessor shall account for the transfer contract and the lease applying paragraphs 99–103.

Assessing whether the transfer of the asset is a sale

- 99 An entity shall apply the requirements for determining when a performance obligation is satisfied in Ind AS 115 to determine whether the transfer of an asset is accounted for as a sale of that asset.

Transfer of the asset is a sale

- 100 If the transfer of an asset by the seller-lessee satisfies the requirements of Ind AS 115 to be accounted for as a sale of the asset:
- (a) the seller-lessee shall measure the right-of-use asset arising from the leaseback at the proportion of the previous carrying amount of the asset that relates to the right of use retained by the seller-lessee. Accordingly, the seller-lessee shall recognise only the amount of any gain or loss that relates to the rights transferred to the buyer-lessor.
 - (b) the buyer-lessor shall account for the purchase of the asset applying applicable Standards, and for the lease applying the lessor accounting requirements in this Standard.

- 101 If the fair value of the consideration for the sale of an asset does not equal the fair value of the asset, or if the payments for the lease are not at market rates, an entity shall make the following adjustments to measure the sale proceeds at fair value:
- (a) any below-market terms shall be accounted for as a prepayment of lease payments; and
 - (b) any above-market terms shall be accounted for as additional financing provided by the buyer-lessor to the seller-lessee.
- 102 The entity shall measure any potential adjustment required by paragraph 101 on the basis of the more readily determinable of:
- (a) the difference between the fair value of the consideration for the sale and the fair value of the asset; and
 - (b) the difference between the present value of the contractual payments for the lease and the present value of payments for the lease at market rates.

Transfer of the asset is not a sale

- 103 If the transfer of an asset by the seller-lessee does not satisfy the requirements of Ind AS 115 to be accounted for as a sale of the asset:
- (a) the seller-lessee shall continue to recognise the transferred asset and shall recognise a financial liability equal to the transfer proceeds. It shall account for the financial liability applying Ind AS 109.
 - (b) the buyer-lessor shall not recognise the transferred asset and shall recognise a financial asset equal to the transfer proceeds. It shall account for the financial asset applying Ind AS 109.

Temporary exception arising from interest rate benchmark reform

- 104 A lessee shall apply paragraphs 105–106 to all lease modifications that change the basis for determining future lease payments as a result of interest rate benchmark reform (see paragraphs 5.4.6 and 5.4.8 of Ind AS 109). These paragraphs apply only to such lease modifications. For this purpose, the term ‘interest rate benchmark reform’ refers to the market-wide reform of an interest rate benchmark as described in paragraph 6.8.2 of Ind AS 109.
- 105 As a practical expedient, a lessee shall apply paragraph 42 to account for a lease modification required by interest rate benchmark reform. This practical expedient applies only to such modifications. For this purpose, a lease modification is required by interest rate benchmark reform if, and only if, both of these conditions are met:
- (a) the modification is necessary as a direct consequence of interest rate benchmark reform; and
 - (b) the new basis for determining the lease payments is economically equivalent to the previous basis (ie the basis immediately preceding the modification).
- 106 However, if lease modifications are made in addition to those lease modifications required by interest rate benchmark reform, a lessee shall apply the applicable requirements in this Standard to account for all lease modifications made at the same time, including those required by interest rate benchmark reform.

Appendix A

Defined terms

This appendix is an integral part of the Standard.

commencement date of the lease(commencement date)	The date on which a lessor makes an underlying asset available for use by a lessee
economic life	Either the period over which an asset is expected to be economically usable by one or more users or the number of production or similar units expected to be obtained from an asset by one or more users.
effective date of the modification	The date when both parties agree to a lease modification.
fair value	For the purpose of applying the lessor accounting requirements in this Standard, the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm’s length transaction.
finance lease	A lease that transfers substantially all the risks and rewards incidental to ownership of an underlying asset .
fixed payments	Payments made by a lessee to a lessor for the right to use an underlying asset during the lease term , excluding variable lease payments .

gross investment in the lease	The sum of: (a) the lease payments receivable by a lessor under a finance lease ; and (b) any unguaranteed residual value accruing to the lessor.
inception date of the lease (inception date)	The earlier of the date of a lease agreement and the date of commitment by the parties to the principal terms and conditions of the lease.
initial direct costs	Incremental costs of obtaining a lease that would not have been incurred if the lease had not been obtained, except for such costs incurred by a manufacturer or dealer lessor in connection with a finance lease .
interest rate implicit in the lease	The rate of interest that causes the present value of (a) the lease payments and (b) the unguaranteed residual value to equal the sum of (i) the fair value of the underlying asset and (ii) any initial direct costs of the lessor.
Lease	A contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration.
lease incentives	Payments made by a lessor to a lessee associated with a lease, or the reimbursement or assumption by a lessor of costs of a lessee.
Lease Modification	A change in the scope of a lease, or the consideration for a lease, that was not part of the original terms and conditions of the lease (for example, adding or terminating the right to use one or more underlying assets, or extending or shortening the contractual lease term).
lease payments	Payments made by a lessee to a lessor relating to the right to use an underlying asset during the lease term, comprising the following: (a) fixed payments (including in-substance fixed payments), less any lease incentives ; (b) variable lease payments that depend on an index or a rate; (c) the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and (d) payments of penalties for terminating the lease , if the lease term reflects the lessee exercising an option to terminate the lease. For the lessee, lease payments also include amounts expected to be payable by the lessee under residual value guarantees. Lease payments do not include payments allocated to non-lease components of a contract, unless the lessee elects to combine non-lease components with a lease component and to account for them as a single lease component. For the lessor, lease payments also include any residual value guarantees provided to the lessor by the lessee, a party related to the lessee or a third party unrelated to the lessor that is financially capable of discharging the obligations under the guarantee. Lease payments do not include payments allocated to non-lease components.
lease term	The non-cancellable period for which a lessee has the right to use an underlying asset, together with both: (a) periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option; and (b) periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option.
Lessee	An entity that obtains the right to use an underlying asset for a period of time in exchange for consideration.
lessee's incremental borrowing rate	The rate of interest that a lessee would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment.
Lessor net investment in the lease	An entity that provides the right to use an underlying asset for a period of time in exchange for consideration. The gross investment in the lease discounted at the interest rate implicit in the lease .

operating lease	A lease that does not transfer substantially all the risks and rewards incidental to ownership of an underlying asset .
optional lease Payments	Payments to be made by a lessee to a lessor for the right to use an underlying asset during periods covered by an option to extend or terminate a lease that are not included in the lease term .
period of use	The total period of time that an asset is used to fulfil a contract with a customer (including any non-consecutive periods of time).
residual value Guarantee	A guarantee made to a lessor by a party unrelated to the lessor that the value (or part of the value) of an underlying asset at the end of a lease will be at least a specified amount.
right-of-use asset	An asset that represents a lessee's right to use an underlying asset for the lease term .
short-term lease	A lease that, at the commencement date , has a lease term of 12 months or less. A lease that contains a purchase option is not a short-term lease.
Sublease	A transaction for which an underlying asset is re-leased by a lessee ('intermediate lessor') to a third party, and the lease ('head lease') between the head lessor and lessee remains in effect.
underlying asset	An asset that is the subject of a lease , for which the right to use that asset has been provided by a lessor to a lessee .
unearned finance income	The difference between: (a) the gross investment in the lease ; and (b) the net investment in the lease .
unguaranteed residual value	That portion of the residual value of the underlying asset , the realisation of which by a lessor is not assured or is guaranteed solely by a party related to the lessor.
variable lease payments	The portion of payments made by a lessee to a lessor for the right to use an underlying asset during the lease term that varies because of changes in facts or circumstances occurring after the commencement date , other than the passage of time.

Terms defined in other Standards and used in this Standard with the same meaning

contract	An agreement between two or more parties that creates enforceable rights and obligations.
useful life	The period over which an asset is expected to be available for use by an entity; or the number of production or similar units expected to be obtained from an asset by an entity.

Appendix B

Application guidance

This appendix is an integral part of the Standard. It describes the application of paragraphs 1–103 and has the same authority as the other parts of the Standard.

Portfolio application

B1 This Standard specifies the accounting for an individual lease. However, as a practical expedient, an entity may apply this Standard to a portfolio of leases with similar characteristics if the entity reasonably expects that the effects on the financial statements of applying this Standard to the portfolio would not differ materially from applying this Standard to the individual leases within that portfolio. If accounting for a portfolio, an entity shall use estimates and assumptions that reflect the size and composition of the portfolio.

Combination of contracts

B2 In applying this Standard, an entity shall combine two or more contracts entered into at or near the same time with the same counterparty (or related parties of the counterparty), and account for the contracts as a single contract if one or more of the following criteria are met:

- the contracts are negotiated as a package with an overall commercial objective that cannot be understood without considering the contracts together;
- the amount of consideration to be paid in one contract depends on the price or performance of the other contract; or

(c) the rights to use underlying assets conveyed in the contracts (or some rights to use underlying assets conveyed in each of the contracts) form a single lease component as described in paragraph B32.

Recognition exemption: leases for which the underlying asset is of low value (paragraphs 5–8)

- B3 Except as specified in paragraph B7, this Standard permits a lessee to apply paragraph 6 to account for leases for which the underlying asset is of low value. A lessee shall assess the value of an underlying asset based on the value of the asset when it is new, regardless of the age of the asset being leased.
- B4 The assessment of whether an underlying asset is of low value is performed on an absolute basis. Leases of low-value assets qualify for the accounting treatment in paragraph 6 regardless of whether those leases are material to the lessee. The assessment is not affected by the size, nature or circumstances of the lessee. Accordingly, different lessees are expected to reach the same conclusions about whether a particular underlying asset is of low value.
- B5 An underlying asset can be of low value only if:
- (a) the lessee can benefit from use of the underlying asset on its own or together with other resources that are readily available to the lessee; and
 - (b) the underlying asset is not highly dependent on, or highly interrelated with, other assets.
- B6 A lease of an underlying asset does not qualify as a lease of a low-value asset if the nature of the asset is such that, when new, the asset is typically not of low value. For example, leases of cars would not qualify as leases of low-value assets because a new car would typically not be of low value.
- B7 If a lessee subleases an asset, or expects to sublease an asset, the head lease does not qualify as a lease of a low-value asset.
- B8 Examples of low-value underlying assets can include tablet and personal computers, small items of office furniture and telephones.

Identifying a lease (paragraphs 9–11)

- B9 To assess whether a contract conveys the right to control the use of an identified asset (see paragraphs B13–B20) for a period of time, an entity shall assess whether, throughout the *period of use*, the customer has both of the following:
- (a) the right to obtain substantially all of the economic benefits from use of the identified asset (as described in paragraphs B21–B23); and
 - (b) the right to direct the use of the identified asset (as described in paragraphs B24–B30).
- B10 If the customer has the right to control the use of an identified asset for only a portion of the term of the contract, the contract contains a lease for that portion of the term.
- B11 A contract to receive goods or services may be entered into by a joint arrangement, or on behalf of a joint arrangement, as defined in Ind AS 111, *Joint Arrangements*. In this case, the joint arrangement is considered to be the customer in the contract. Accordingly, in assessing whether such a contract contains a lease, an entity shall assess whether the joint arrangement has the right to control the use of an identified asset throughout the period of use.
- B12 An entity shall assess whether a contract contains a lease for each potential separate lease component. Refer to paragraph B32 for guidance on separate lease components.

Identified asset

- B13 An asset is typically identified by being explicitly specified in a contract.
However, an asset can also be identified by being implicitly specified at the time that the asset is made available for use by the customer.

Substantive substitution rights

- B14 Even if an asset is specified, a customer does not have the right to use an identified asset if the supplier has the substantive right to substitute the asset throughout the period of use. A supplier's right to substitute an asset is substantive only if both of the following conditions exist:
- (a) the supplier has the practical ability to substitute alternative assets throughout the period of use (for example, the customer cannot prevent the supplier from substituting the asset and alternative assets are readily available to the supplier or could be sourced by the supplier within a reasonable period of time); and
 - (b) the supplier would benefit economically from the exercise of its right to substitute the asset (ie the economic benefits associated with substituting the asset are expected to exceed the costs associated with substituting the asset).

- B15 If the supplier has a right or an obligation to substitute the asset only on or after either a particular date or the occurrence of a specified event, the supplier's substitution right is not substantive because the supplier does not have the practical ability to substitute alternative assets throughout the period of use.
- B16 An entity's evaluation of whether a supplier's substitution right is substantive is based on facts and circumstances at inception of the contract and shall exclude consideration of future events that, at inception of the contract, are not considered likely to occur. Examples of future events that, at inception of the contract, would not be considered likely to occur and, thus, should be excluded from the evaluation include:
- (a) an agreement by a future customer to pay an above market rate for use of the asset;
 - (b) the introduction of new technology that is not substantially developed at inception of the contract;
 - (c) a substantial difference between the customer's use of the asset, or the performance of the asset, and the use or performance considered likely at inception of the contract; and
 - (d) a substantial difference between the market price of the asset during the period of use, and the market price considered likely at inception of the contract.
- B17 If the asset is located at the customer's premises or elsewhere, the costs associated with substitution are generally higher than when located at the supplier's premises and, therefore, are more likely to exceed the benefits associated with substituting the asset.
- B18 The supplier's right or obligation to substitute the asset for repairs and maintenance, if the asset is not operating properly or if a technical upgrade becomes available does not preclude the customer from having the right to use an identified asset.
- B19 If the customer cannot readily determine whether the supplier has a substantive substitution right, the customer shall presume that any substitution right is not substantive.

Portions of assets

- B20 A capacity portion of an asset is an identified asset if it is physically distinct (for example, a floor of a building). A capacity or other portion of an asset that is not physically distinct (for example, a capacity portion of a fibre optic cable) is not an identified asset, unless it represents substantially all of the capacity of the asset and thereby provides the customer with the right to obtain substantially all of the economic benefits from use of the asset.

Right to obtain economic benefits from use

- B21 To control the use of an identified asset, a customer is required to have the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use (for example, by having exclusive use of the asset throughout that period). A customer can obtain economic benefits from use of an asset directly or indirectly in many ways, such as by using, holding or sub-leasing the asset. The economic benefits from use of an asset include its primary output and by-products (including potential cash flows derived from these items), and other economic benefits from using the asset that could be realised from a commercial transaction with a third party.
- B22 When assessing the right to obtain substantially all of the economic benefits from use of an asset, an entity shall consider the economic benefits that result from use of the asset within the defined scope of a customer's right to use the asset (see paragraph B30). For example:
- (a) if a contract limits the use of a motor vehicle to only one particular territory during the period of use, an entity shall consider only the economic benefits from use of the motor vehicle within that territory, and not beyond.
 - (b) if a contract specifies that a customer can drive a motor vehicle only up to a particular number of miles during the period of use, an entity shall consider only the economic benefits from use of the motor vehicle for the permitted mileage, and not beyond.
- B23 If a contract requires a customer to pay the supplier or another party a portion of the cash flows derived from use of an asset as consideration, those cash flows paid as consideration shall be considered to be part of the economic benefits that the customer obtains from use of the asset. For example, if the customer is required to pay the supplier a percentage of sales from use of retail space as consideration for that use, that requirement does not prevent the customer from having the right to obtain substantially all of the economic benefits from use of the retail space. This is because the cash flows arising from those sales are considered to be economic benefits that the customer obtains from use of the retail space, a portion of which it then pays to the supplier as consideration for the right to use that space.

Right to direct the use

- B24 A customer has the right to direct the use of an identified asset throughout the period of use only if either:
- (a) the customer has the right to direct how and for what purpose the asset is used throughout the period of use (as described in paragraphs B25–B30); or
 - (b) the relevant decisions about how and for what purpose the asset is used are predetermined and:
 - (i) the customer has the right to operate the asset (or to direct others to operate the asset in a manner that it determines) throughout the period of use, without the supplier having the right to change those operating instructions; or
 - (ii) the customer designed the asset (or specific aspects of the asset) in a way that predetermines how and for what purpose the asset will be used throughout the period of use.

How and for what purpose the asset is used

- B25 A customer has the right to direct how and for what purpose the asset is used if, within the scope of its right of use defined in the contract, it can change how and for what purpose the asset is used throughout the period of use. In making this assessment, an entity considers the decision-making rights that are most relevant to changing how and for what purpose the asset is used throughout the period of use. Decision-making rights are relevant when they affect the economic benefits to be derived from use. The decision-making rights that are most relevant are likely to be different for different contracts, depending on the nature of the asset and the terms and conditions of the contract.
- B26 Examples of decision-making rights that, depending on the circumstances, grant the right to change how and for what purpose the asset is used, within the defined scope of the customer's right of use, include:
- (a) rights to change the type of output that is produced by the asset (for example, to decide whether to use a shipping container to transport goods or for storage, or to decide upon the mix of products sold from retail space);
 - (b) rights to change when the output is produced (for example, to decide when an item of machinery or a power plant will be used);
 - (c) rights to change where the output is produced (for example, to decide upon the destination of a truck or a ship, or to decide where an item of equipment is used); and
 - (d) rights to change whether the output is produced, and the quantity of that output (for example, to decide whether to produce energy from a power plant and how much energy to produce from that power plant).
- B27 Examples of decision-making rights that do not grant the right to change how and for what purpose the asset is used include rights that are limited to operating or maintaining the asset. Such rights can be held by the customer or the supplier. Although rights such as those to operate or maintain an asset are often essential to the efficient use of an asset, they are not rights to direct how and for what purpose the asset is used and are often dependent on the decisions about how and for what purpose the asset is used. However, rights to operate an asset may grant the customer the right to direct the use of the asset if the relevant decisions about how and for what purpose the asset is used are predetermined (see paragraph B24(b)(i)).

Decisions determined during and before the period of use

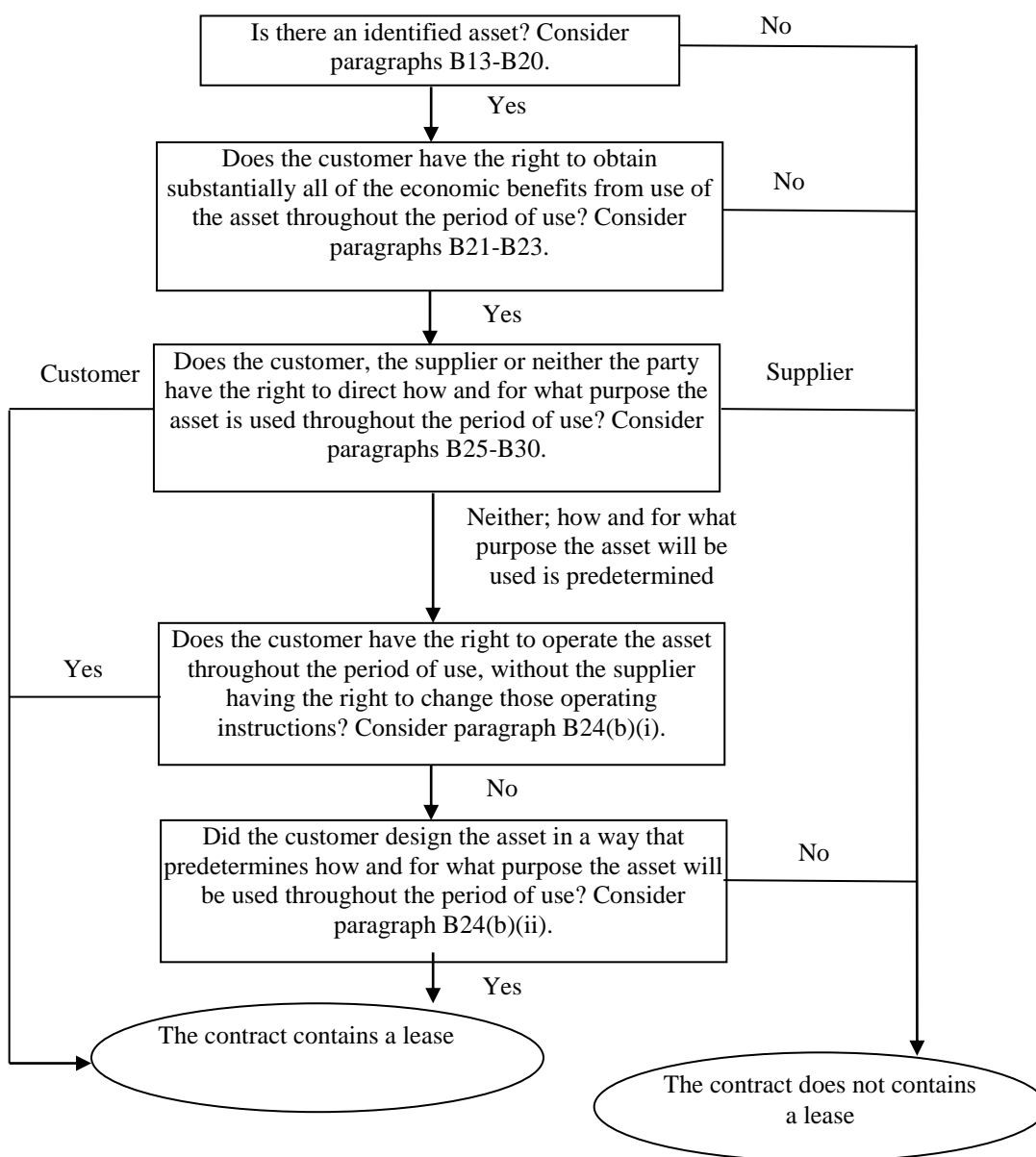
- B28 The relevant decisions about how and for what purpose the asset is used can be predetermined in a number of ways. For example, the relevant decisions can be predetermined by the design of the asset or by contractual restrictions on the use of the asset.
- B29 In assessing whether a customer has the right to direct the use of an asset, an entity shall consider only rights to make decisions about the use of the asset during the period of use, unless the customer designed the asset (or specific aspects of the asset) as described in paragraph B24(b)(ii). Consequently, unless the conditions in paragraph B24(b)(ii) exist, an entity shall not consider decisions that are predetermined before the period of use. For example, if a customer is able only to specify the output of an asset before the period of use, the customer does not have the right to direct the use of that asset. The ability to specify the output in a contract before the period of use, without any other decision-making rights relating to the use of the asset, gives a customer the same rights as any customer that purchases goods or services.

Protective rights

- B30 A contract may include terms and conditions designed to protect the supplier's interest in the asset or other assets, to protect its personnel, or to ensure the supplier's compliance with laws or regulations. These are examples of protective rights. For example, a contract may (i) specify the maximum amount of use of an asset or limit where or when the customer can use the asset, (ii) require a customer to follow particular operating

practices, or (iii) require a customer to inform the supplier of changes in how an asset will be used. Protective rights typically define the scope of the customer’s right of use but do not, in isolation, prevent the customer from having the right to direct the use of an asset.

B31 The following flowchart may assist entities in making the assessment of whether a contract is, or contains, a lease.



Separating components of a contract (paragraphs 12–17)

B32 The right to use an underlying asset is a separate lease component if both:

- (a) the lessee can benefit from use of the underlying asset either on its own or together with other resources that are readily available to the lessee. Readily available resources are goods or services that are sold or leased separately (by the lessor or other suppliers) or resources that the lessee has already obtained (from the lessor or from other transactions or events); and
- (b) the underlying asset is neither highly dependent on, nor highly interrelated with, the other underlying assets in the contract. For example, the fact that a lessee could decide not to lease the underlying asset without significantly affecting its rights to use other underlying assets in the contract might indicate that the underlying asset is not highly dependent on, or highly interrelated with, those other underlying assets.

B33 A contract may include an amount payable by the lessee for activities and costs that do not transfer a good or service to the lessee. For example, a lessor may include in the total amount payable a charge for administrative tasks, or other costs it incurs associated with the lease, that do not transfer a good or service to the lessee. Such amounts payable do not give rise to a separate component of the contract, but are considered to be part of the total consideration that is allocated to the separately identified components of the contract.

Lease term (paragraphs 18–21)

B34 In determining the lease term and assessing the length of the non-cancellable period of a lease, an entity shall apply the definition of a contract and determine the period for which the contract is enforceable. A lease is no longer enforceable when the lessee and the lessor each has the right to terminate the lease without permission from the other party with no more than an insignificant penalty.

B35 If only a lessee has the right to terminate a lease, that right is considered to be an option to terminate the lease available to the lessee that an entity considers when determining the lease term. If only a lessor has the right to terminate a lease, the non-cancellable period of the lease includes the period covered by the option to terminate the lease.

B36 The lease term begins at the commencement date and includes any rent-free periods provided to the lessee by the lessor.

B37 At the commencement date, an entity assesses whether the lessee is reasonably certain to exercise an option to extend the lease or to purchase the underlying asset, or not to exercise an option to terminate the lease. The entity considers all relevant facts and circumstances that create an economic incentive for the lessee to exercise, or not to exercise, the option, including any expected changes in facts and circumstances from the commencement date until the exercise date of the option. Examples of factors to consider include, but are not limited to:

- (a) contractual terms and conditions for the optional periods compared with market rates, such as:
 - (i) the amount of payments for the lease in any optional period;
 - (ii) the amount of any variable payments for the lease or other contingent payments, such as payments resulting from termination penalties and residual value guarantees; and
 - (iii) the terms and conditions of any options that are exercisable after initial optional periods (for example, a purchase option that is exercisable at the end of an extension period at a rate that is currently below market rates).
- (b) significant leasehold improvements undertaken (or expected to be undertaken) over the term of the contract that are expected to have significant economic benefit for the lessee when the option to extend or terminate the lease, or to purchase the underlying asset, becomes exercisable;
- (c) costs relating to the termination of the lease, such as negotiation costs, relocation costs, costs of identifying another underlying asset suitable for the lessee's needs, costs of integrating a new asset into the lessee's operations, or termination penalties and similar costs, including costs associated with returning the underlying asset in a contractually specified condition or to a contractually specified location;
- (d) the importance of that underlying asset to the lessee's operations, considering, for example, whether the underlying asset is a specialised asset, the location of the underlying asset and the availability of suitable alternatives; and
- (e) conditionality associated with exercising the option (ie when the option can be exercised only if one or more conditions are met), and the likelihood that those conditions will exist.

B38 An option to extend or terminate a lease may be combined with one or more other contractual features (for example, a residual value guarantee) such that the lessee guarantees the lessor a minimum or fixed cash return that is substantially the same regardless of whether the option is exercised. In such cases, and notwithstanding the guidance on in-substance fixed payments in paragraph B42, an entity shall assume that the lessee is reasonably certain to exercise the option to extend the lease, or not to exercise the option to terminate the lease.

B39 The shorter the non-cancellable period of a lease, the more likely a lessee is to exercise an option to extend the lease or not to exercise an option to terminate the lease. This is because the costs associated with obtaining a replacement asset are likely to be proportionately higher the shorter the non-cancellable period.

B40 A lessee's past practice regarding the period over which it has typically used particular types of assets (whether leased or owned), and its economic reasons for doing so, may provide information that is helpful in assessing whether the lessee is reasonably certain to exercise, or not to exercise, an option. For example, if a lessee has typically used particular types of assets for a particular period of time or if the lessee has a practice of frequently exercising options on leases of particular types of underlying assets, the lessee shall consider the economic reasons for that past practice in assessing whether it is reasonably certain to exercise an option on leases of those assets.

B41 Paragraph 20 specifies that, after the commencement date, a lessee reassesses the lease term upon the occurrence of a significant event or a significant change in circumstances that is within the control of the lessee and affects whether the lessee is reasonably certain to exercise an option not previously included in its determination of the lease term, or not to exercise an option previously included in its determination of the lease term. Examples of significant events or changes in circumstances include:

- (a) significant leasehold improvements not anticipated at the commencement date that are expected to have significant economic benefit for the lessee when the option to extend or terminate the lease, or to purchase the underlying asset, becomes exercisable;
- (b) a significant modification to, or customisation of, the underlying asset that was not anticipated at the commencement date;
- (c) the inception of a sublease of the underlying asset for a period beyond the end of the previously determined lease term; and
- (d) a business decision of the lessee that is directly relevant to exercising, or not exercising, an option (for example, a decision to extend the lease of a complementary asset, to dispose of an alternative asset or to dispose of a business unit within which the right-of-use asset is employed).

In-substance fixed lease payments (paragraphs 27(a), 36(c) and 70(a))

B42 Lease payments include any in-substance fixed lease payments. In-substance fixed lease payments are payments that may, in form, contain variability but that, in substance, are unavoidable. In-substance fixed lease payments exist, for example, if:

- (a) payments are structured as variable lease payments, but there is no genuine variability in those payments. Those payments contain variable clauses that do not have real economic substance. Examples of those types of payments include:
 - (i) payments that must be made only if an asset is proven to be capable of operating during the lease, or only if an event occurs that has no genuine possibility of not occurring; or
 - (ii) payments that are initially structured as variable lease for which the variability will be resolved at some point after the commencement date so that the payments become fixed for the remainder of the lease term. Those payments become in-substance fixed payments when the variability is resolved.
- (b) there is more than one set of payments that a lessee could make, but only one of those sets of payments is realistic. In this case, an entity shall consider the realistic set of payments to be lease payments.
- (c) there is more than one realistic set of payments that a lessee could make, but it must make at least one of those sets of payments. In this case, an entity shall consider the set of payments that aggregates to the lowest amount (on a discounted basis) to be lease payments.

Lessee involvement with the underlying asset before the commencement date

Costs of the lessee relating to the construction or design of the underlying asset

B43 An entity may negotiate a lease before the underlying asset is available for use by the lessee. For some leases, the underlying asset may need to be constructed or redesigned for use by the lessee. Depending on the terms and conditions of the contract, a lessee may be required to make payments relating to the construction or design of the asset.

B44 If a lessee incurs costs relating to the construction or design of an underlying asset, the lessee shall account for those costs applying other applicable Standards, such as Ind AS 16. Costs relating to the construction or design of an underlying asset do not include payments made by the lessee for the right to use the underlying asset. Payments for the right to use an underlying asset are payments for a lease, regardless of the timing of those payments.

Legal title to the underlying asset

B45 A lessee may obtain legal title to an underlying asset before that legal title is transferred to the lessor and the asset is leased to the lessee. Obtaining legal title does not in itself determine how to account for the transaction.

B46 If the lessee controls (or obtains control of) the underlying asset before that asset is transferred to the lessor, the transaction is a sale and leaseback transaction that is accounted for applying paragraphs 98–103.

B47 However, if the lessee does not obtain control of the underlying asset before the asset is transferred to the lessor, the transaction is not a sale and leaseback transaction. For example, this may be the case if a manufacturer, a lessor and a lessee negotiate a transaction for the purchase of an asset from the manufacturer by the lessor, which is in turn leased to the lessee. The lessee may obtain legal title to the underlying asset before

legal title transfers to the lessor. In this case, if the lessee obtains legal title to the underlying asset but does not obtain control of the asset before it is transferred to the lessor, the transaction is not accounted for as a sale and leaseback transaction, but as a lease.

Lessee disclosures (paragraph 59)

- B48 In determining whether additional information about leasing activities is necessary to meet the disclosure objective in paragraph 51, a lessee shall consider:
- (a) whether that information is relevant to users of financial statements. A lessee shall provide additional information specified in paragraph 59 only if that information is expected to be relevant to users of financial statements. In this context, this is likely to be the case if it helps those users to understand:
 - (i) the flexibility provided by leases. Leases may provide flexibility if, for example, a lessee can reduce its exposure by exercising termination options or renewing leases with favourable terms and conditions.
 - (ii) restrictions imposed by leases. Leases may impose restrictions, for example, by requiring the lessee to maintain particular financial ratios.
 - (iii) sensitivity of reported information to key variables. Reported information may be sensitive to, for example, future variable lease payments.
 - (iv) exposure to other risks arising from leases.
 - (v) deviations from industry practice. Such deviations may include, for example, unusual or unique lease terms and conditions that affect a lessee's lease portfolio.
 - (b) whether that information is apparent from information either presented in the primary financial statements or disclosed in the notes. A lessee need not duplicate information that is already presented elsewhere in the financial statements.
- B49 Additional information relating to variable lease payments that, depending on the circumstances, may be needed to satisfy the disclosure objective in paragraph 51 could include information that helps users of financial statements to assess, for example:
- (a) the lessee's reasons for using variable lease payments and the prevalence of those payments;
 - (b) the relative magnitude of variable lease payments to fixed payments;
 - (c) key variables upon which variable lease payments depend and how payments are expected to vary in response to changes in those key variables; and
 - (d) other operational and financial effects of variable lease payments.
- B50 Additional information relating to extension options or termination options that, depending on the circumstances, may be needed to satisfy the disclosure objective in paragraph 51 could include information that helps users of financial statements to assess, for example:
- (a) the lessee's reasons for using extension options or termination options and the prevalence of those options;
 - (b) the relative magnitude of *optional lease payments* to lease payments;
 - (c) the prevalence of the exercise of options that were not included in the measurement of lease liabilities; and
 - (d) other operational and financial effects of those options.
- B51 Additional information relating to residual value guarantees that, depending on the circumstances, may be needed to satisfy the disclosure objective in paragraph 51 could include information that helps users of financial statements to assess, for example:
- (a) the lessee's reasons for providing residual value guarantees and the prevalence of those guarantees;
 - (b) the magnitude of a lessee's exposure to residual value risk;
 - (c) the nature of underlying assets for which those guarantees are provided; and
 - (d) other operational and financial effects of those guarantees.
- B52 Additional information relating to sale and leaseback transactions that, depending on the circumstances, may be needed to satisfy the disclosure objective in paragraph 51 could include information that helps users of financial statements to assess, for example:
- (a) the lessee's reasons for sale and leaseback transactions and the prevalence of those transactions;
 - (b) key terms and conditions of individual sale and leaseback transactions;

- (c) payments not included in the measurement of lease liabilities; and
- (d) the cash flow effect of sale and leaseback transactions in the reporting period.

Lessor lease classification (paragraphs 61–66)

- B53 The classification of leases for lessors in this Standard is based on the extent to which the lease transfers the risks and rewards incidental to ownership of an underlying asset. Risks include the possibilities of losses from idle capacity or technological obsolescence and of variations in return because of changing economic conditions. Rewards may be represented by the expectation of profitable operation over the underlying asset's economic life and of gain from appreciation in value or realisation of a residual value.
- B54 A lease contract may include terms and conditions to adjust the lease payments for particular changes that occur between the inception date and the commencement date (such as a change in the lessor's cost of the underlying asset or a change in the lessor's cost of financing the lease). In that case, for the purposes of classifying the lease, the effect of any such changes shall be deemed to have taken place at the inception date.
- B55 When a lease includes both land and buildings elements, a lessor shall assess the classification of each element as a finance lease or an operating lease separately applying paragraphs 62–66 and B53–B54. In determining whether the land element is an operating lease or a finance lease, an important consideration is that land normally has an indefinite economic life.
- B56 Whenever necessary in order to classify and account for a lease of land and buildings, a lessor shall allocate lease payments (including any lump-sum upfront payments) between the land and the buildings elements in proportion to the relative fair values of the leasehold interests in the land element and buildings element of the lease at the inception date. If the lease payments cannot be allocated reliably between these two elements, the entire lease is classified as a finance lease, unless it is clear that both elements are operating leases, in which case the entire lease is classified as an operating lease.
- B57 For a lease of land and buildings in which the amount for the land element is immaterial to the lease, a lessor may treat the land and buildings as a single unit for the purpose of lease classification and classify it as a finance lease or an operating lease applying paragraphs 62–66 and B53–B54. In such a case, a lessor shall regard the economic life of the buildings as the economic life of the entire underlying asset.

Sublease classification

- B58 In classifying a sublease, an intermediate lessor shall classify the sublease as a finance lease or an operating lease as follows:
- (a) if the head lease is a short-term lease that the entity, as a lessee, has accounted for applying paragraph 6, the sublease shall be classified as an operating lease.
 - (b) otherwise, the sublease shall be classified by reference to the right-of-use asset arising from the head lease, rather than by reference to the underlying asset (for example, the item of property, plant or equipment that is the subject of the lease).

Appendix C

Effective date and transition

This appendix is an integral part of the Standard and has the same authority as the other parts of the Standard.

Effective date

- C1 An entity shall apply this Standard for annual reporting periods beginning on or after 1st April, 2019.
- C1A *Covid-19-Related Rent Concessions*, added paragraphs 46A, 46B, 60A, C20A and C20B. A lessee shall apply that amendment for annual reporting periods beginning on or after the April 1st, 2020. In case a lessee has not yet approved the financial statements for issue before the issuance of this amendment, then the same may be applied for annual reporting periods beginning on or after the April 1st, 2019.
- C1B *Interest Rate Benchmark Reform—Phase 2*, which amended Ind AS 109, Ind AS 107, Ind AS 104 and Ind AS 116, added paragraphs 104–106 and C20C–C20D. An entity shall apply these amendments for annual reporting periods beginning on or after the 1st April 2021.
- C1C *Covid-19-Related Rent Concessions beyond 30 June 2021*, amended paragraph 46B and added paragraphs C20BA–C20BC. A lessee shall apply that amendment for annual reporting periods beginning on or after the 1st April 2021. In case a lessee has not yet approved the financial statements for issue before the issuance of this amendment, then the same may be applied for annual reporting periods beginning on or after April 1, 2020.

Transition

C2 For the purposes of the requirements in paragraphs C1–C19, the date of initial application is the beginning of the annual reporting period in which an entity first applies this Standard.

Definition of a lease

C3 As a practical expedient, an entity is not required to reassess whether a contract is, or contains, a lease at the date of initial application. Instead, the entity is permitted:

- (a) to apply this Standard to contracts that were previously identified as leases applying Ind AS 17, *Leases*. The entity shall apply the transition requirements in paragraphs C5–C18 to those leases.
- (b) not to apply this Standard to contracts that were not previously identified as containing a lease applying Ind AS 17.

C4 If an entity chooses the practical expedient in paragraph C3, it shall disclose that fact and apply the practical expedient to all of its contracts. As a result, the entity shall apply the requirements in paragraphs 9–11 only to contracts entered into (or changed) on or after the date of initial application.

Lessees

C5 A lessee shall apply this Standard to its leases either:

- (a) retrospectively to each prior reporting period presented applying Ind AS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*; or
- (b) retrospectively with the cumulative effect of initially applying the Standard recognised at the date of initial application in accordance with paragraphs C7–C13.

C6 A lessee shall apply the election described in paragraph C5 consistently to all of its leases in which it is a lessee.

C7 If a lessee elects to apply this Standard in accordance with paragraph C5(b), the lessee shall not restate comparative information. Instead, the lessee shall recognise the cumulative effect of initially applying this Standard as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the date of initial application.

Leases previously classified as operating leases

C8 If a lessee elects to apply this Standard in accordance with paragraph C5(b), the lessee shall:

- (b) recognise a lease liability at the date of initial application for leases previously classified as an operating lease applying Ind AS 17. The lessee shall measure that lease liability at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate at the date of initial application.
- (c) recognise a right-of-use asset at the date of initial application for leases previously classified as an operating lease applying Ind AS 17. The lessee shall choose, on a lease-by-lease basis, to measure that right-of-use asset at either:
 - (i) its carrying amount as if the Standard had been applied since the commencement date, but discounted using the lessee's incremental borrowing rate at the date of initial application; or
 - (ii) an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet immediately before the date of initial application.
- (d) apply Ind AS 36, *Impairment of Assets*, to right-of-use assets at the date of initial application, unless the lessee applies the practical expedient in paragraph C10(b).

C9 Notwithstanding the requirements in paragraph C8, for leases previously classified as operating leases applying Ind AS 17, a lessee:

- (a) is not required to make any adjustments on transition for leases for which the underlying asset is of low value (as described in paragraphs B3–B8) that will be accounted for applying paragraph 6. The lessee shall account for those leases applying this Standard from the date of initial application.
- (b) [Refer Appendix 1].
- (c) [Refer Appendix 1].

C10 A lessee may use one or more of the following practical expedients when applying this Standard retrospectively in accordance with paragraph C5(b) to leases previously classified as operating leases applying Ind AS 17. A lessee is permitted to apply these practical expedients on a lease-by-lease basis:

- (a) a lessee may apply a single discount rate to a portfolio of leases with reasonably similar characteristics (such as leases with a similar remaining lease term for a similar class of underlying asset in a similar economic environment).

- (b) a lessee may rely on its assessment of whether leases are onerous applying Ind AS 37, *Provisions, Contingent Liabilities and Contingent Assets*, immediately before the date of initial application as an alternative to performing an impairment review. If a lessee chooses this practical expedient, the lessee shall adjust the right-of-use asset at the date of initial application by the amount of any provision for onerous leases recognised in the balance sheet immediately before the date of initial application.
- (c) a lessee may elect not to apply the requirements in paragraph C8 to leases for which the lease term ends within 12 months of the date of initial application. In this case, a lessee shall:
 - (i) account for those leases in the same way as short-term leases as described in paragraph 6; and
 - (ii) include the cost associated with those leases within the disclosure of short-term lease expense in the annual reporting period that includes the date of initial application.
- (d) a lessee may exclude initial direct costs from the measurement of the right-of-use asset at the date of initial application.
- (e) a lessee may use hindsight, such as in determining the lease term if the contract contains options to extend or terminate the lease.

Leases previously classified as finance leases

- C11 If a lessee elects to apply this Standard in accordance with paragraph C5(b), for leases that were classified as finance leases applying Ind AS 17, the carrying amount of the right-of-use asset and the lease liability at the date of initial application shall be the carrying amount of the lease asset and lease liability immediately before that date measured applying Ind AS 17. For those leases, a lessee shall account for the right-of-use asset and the lease liability applying this Standard from the date of initial application.

Disclosure

- C12 If a lessee elects to apply this Standard in accordance with paragraph C5(b), the lessee shall disclose information about initial application required by paragraph 28 of Ind AS 8, except for the information specified in paragraph 28(f) of Ind AS 8. Instead of the information specified in paragraph 28(f) of Ind AS 8, the lessee shall disclose:
- (a) the weighted average lessee's incremental borrowing rate applied to lease liabilities recognised in the balance sheet at the date of initial application; and
 - (b) an explanation of any difference between:
 - (i) operating lease commitments disclosed applying Ind AS 17 at the end of the annual reporting period immediately preceding the date of initial application, discounted using the incremental borrowing rate at the date of initial application as described in paragraph C8(a); and
 - (ii) lease liabilities recognised in the balance sheet at the date of initial application.
- C13 If a lessee uses one or more of the specified practical expedients in paragraph C10, it shall disclose that fact.

Lessors

- C14 Except as described in paragraph C15, a lessor is not required to make any adjustments on transition for leases in which it is a lessor and shall account for those leases applying this Standard from the date of initial application.
- C15 An intermediate lessor shall:
- (a) reassess subleases that were classified as operating leases applying Ind AS 17 and are ongoing at the date of initial application, to determine whether each sublease should be classified as an operating lease or a finance lease applying this Standard. The intermediate lessor shall perform this assessment at the date of initial application on the basis of the remaining contractual terms and conditions of the head lease and sublease at that date.
 - (b) for subleases that were classified as operating leases applying Ind AS 17 but finance leases applying this Standard, account for the sublease as a new finance lease entered into at the date of initial application.

Sale and leaseback transactions before the date of initial application

- C16 An entity shall not reassess sale and leaseback transactions entered into before the date of initial application to determine whether the transfer of the underlying asset satisfies the requirements in Ind AS 115 to be accounted for as a sale.
- C17 If a sale and leaseback transaction was accounted for as a sale and a finance lease applying Ind AS 17, the seller-lessee shall:
- (a) account for the leaseback in the same way as it accounts for any other finance lease that exists at the date of initial application; and
 - (b) continue to amortise any gain on sale over the lease term.

- C18 If a sale and leaseback transaction was accounted for as a sale and operating lease applying Ind AS 17, the seller-lessee shall:
- (a) account for the leaseback in the same way as it accounts for any other operating lease that exists at the date of initial application; and
 - (b) adjust the leaseback right-of-use asset for any deferred gains or losses that relate to off-market terms recognised in the balance sheet immediately before the date of initial application.

Amounts previously recognised in respect of business combinations

- C19 If a lessee previously recognised an asset or a liability applying Ind AS 103, *Business Combinations*, relating to favourable or unfavourable terms of an operating lease acquired as part of a business combination, the lessee shall derecognise that asset or liability and adjust the carrying amount of the right-of-use asset by a corresponding amount at the date of initial application.
- C20 [Refer Appendix 1]

Covid-19-related rent concessions for lessees

- C20A A lessee shall apply *Covid-19-Related Rent Concessions* (see paragraph C1A) retrospectively, recognising the cumulative effect of initially applying that amendment as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the beginning of the annual reporting period in which the lessee first applies the amendment.
- C20B In the reporting period in which a lessee first applies *Covid-19-Related Rent Concessions*, a lessee is not required to disclose the information required by paragraph 28(f) of Ind AS 8.
- C20BA A lessee shall apply *Covid-19-Related Rent Concessions beyond 30 June 2021* (see paragraph C1C) retrospectively, recognising the cumulative effect of initially applying that amendment as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the beginning of the annual reporting period in which the lessee first applies the amendment.
- C20BB In the reporting period in which a lessee first applies *Covid-19-Related Rent Concessions beyond 30 June 2021*, a lessee is not required to disclose the information required by paragraph 28(f) of Ind AS 8.
- C20BC Applying paragraph 2 of this Standard, a lessee shall apply the practical expedient in paragraph 46A consistently to eligible contracts with similar characteristics and in similar circumstances, irrespective of whether the contract became eligible for the practical expedient as a result of the lessee applying *Covid-19-Related Rent Concessions* (see paragraph C1A) or *Covid-19-Related Rent Concessions beyond 30 June 2021* (see paragraph C1C).

Interest Rate Benchmark Reform — Phase 2

- C20C An entity shall apply these amendments retrospectively in accordance with Ind AS 8, except as specified in paragraph C20D.
- C20D An entity is not required to restate prior periods to reflect the application of these amendments. The entity may restate prior periods if, and only if, it is possible without the use of hindsight. If an entity does not restate prior periods, the entity shall recognise any difference between the previous carrying amount and the carrying amount at the beginning of the annual reporting period that includes the date of initial application of these amendments in the opening retained earnings (or other component of equity, as appropriate) of the annual reporting period that includes the date of initial application of these amendments.

Withdrawal of other Standards

- C21 This Standard supersedes Ind AS 17, *Leases*.

Appendix 1

Note: This Appendix is not a part of the Indian Accounting Standard. The purpose of this Appendix is only to bring out the major differences, if any, between Indian Accounting Standard (Ind AS) 116 and the corresponding International Financial Reporting Standard (IFRS) 16, Leases, issued by the International Accounting Standards Board.

Comparison with IFRS 16, Leases

1. With regard to subsequent measurement, paragraph 34 of IFRS 16 provides that if lessee applies fair value model in IAS 40 to its investment property, it shall apply that fair value model to the right-of-use assets that meet the definition of investment property. Since Ind AS 40, *Investment Property*, does not allow the use of fair value model, paragraph 34 has been deleted in Ind AS 116. Accordingly, reference to paragraph 34 has been deleted in paragraph 29. Paragraph C9(b) and paragraph C9(c) of Appendix C, *Effective Date and Transition*, given in context of fair value model of investment property have been deleted. However, paragraph numbers have been retained in Ind AS 116 to maintain consistency with paragraph numbers of IFRS 16.
2. Paragraph 50(b) of IFRS 16 requires to classify cash payments for interest portion of lease liability applying requirements of IAS 7, *Statement of Cash Flows*. IAS 7 provides option of treating interest paid as operating or financing activity. However, Ind AS 7 requires interest paid to be treated as financing activity only. Accordingly, paragraph 50(b) has been modified in Ind AS 116 to specify that cash payments for interest portion of lease liability will be classified as financing activities applying Ind AS 7.
3. Different terminology is used in this standard, eg, the term ‘balance sheet’ is used instead of ‘Statement of financial position’ and ‘Statement of profit and loss’ is used instead of ‘Statement of comprehensive income’.
4. Paragraph C20 of Appendix C, *Effective Date and Transition*, dealing with interchange of reference of IFRS 9 to IAS 39 if entity does not apply IFRS 9 has been deleted since India has early adopted Ind AS 109, corresponding to IFRS 9.

Indian Accounting Standard (Ind AS) 1

Presentation of Financial Statements

(This Indian Accounting Standard includes paragraphs set in **bold** type and plain type, which have equal authority. Paragraphs in bold type indicate the main principles).

Objective

- 1 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.

Scope

- 2 **An entity shall apply this Standard in preparing and presenting general purpose financial statements in accordance with Indian Accounting Standards (Ind ASs).**
- 3 Other Ind ASs set out the recognition, measurement and disclosure requirements for specific transactions and other events.
- 4 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, paragraphs 15–35 apply to such financial statements. This Standard applies equally to all entities, including those that present consolidated financial statements in accordance with Ind AS 110, *Consolidated Financial Statements*, and those that present separate financial statements in accordance with Ind AS 27, *Separate Financial Statements*.
- 5 This Standard uses terminology that is suitable for profit-oriented entities, including public sector business entities. If entities with not-for-profit activities in the private sector or the public sector apply this Standard, they may need to amend the descriptions used for particular line items in the financial statements and for the financial statements themselves.
- 6 Similarly, entities whose share capital is not equity may need to adapt the financial statement presentation of members' interests.

Definitions

- 7 **The following terms are used in this Standard with the meanings specified:**

General purpose financial statements (referred to as 'financial statements') are those intended to meet the needs of users who are not in a position to require an entity to prepare reports tailored to their particular information needs.

Impracticable Applying a requirement is impracticable when the entity cannot apply it after making every reasonable effort to do so.

Indian Accounting Standards (Ind ASs) are Standards prescribed under Section 133 of the Companies Act, 2013.

Material: Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

Materiality depends on the nature or magnitude of information, or both. An entity assesses whether information, either individually or in combination with other information, is material in the context of its financial statements taken as a whole.

Information is obscured if it is communicated in a way that would have a similar effect for primary users of financial statements to omitting or misstating that information. The following are examples of circumstances that may result in material information being obscured:—

- (a) information regarding a material item, transaction or other event is disclosed in the financial statements but the language used is vague or unclear;
- (b) information regarding a material item, transaction or other event is scattered throughout the financial statements;
- (c) dissimilar items, transactions or other events are inappropriately aggregated;
- (d) similar items, transactions or other events are inappropriately disaggregated; and

- (e) the understandability of the financial statements is reduced as a result of material information being hidden by immaterial information to the extent that a primary user is unable to determine what information is material.

Assessing whether information could reasonably be expected to influence decisions made by the primary users of a specific reporting entity's general purpose financial statements requires an entity to consider the characteristics of those users while also considering the entity's own circumstances.

Many existing and potential investors, lenders and other creditors cannot require reporting entities to provide information directly to them and must rely on general purpose financial statements for much of the financial information they need. Consequently, they are the primary users to whom general purpose financial statements are directed. Financial statements are prepared for users who have a reasonable knowledge of business and economic activities and who review and analyse the information diligently. At times, even well-informed and diligent users may need to seek the aid of an adviser to understand information about complex economic phenomena.

Notes contain information in addition to that presented in the balance sheet), statement of profit and loss, statement of changes in equity and statement of cash flows. Notes provide narrative descriptions or disaggregations of items presented in those statements and information about items that do not qualify for recognition in those statements.

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

The components of other comprehensive income include:

- (a) changes in revaluation surplus (see Ind AS 16, *Property, Plant and Equipment* and Ind AS 38, *Intangible Assets*);
- (b) reameasurements of defined benefit plans (see Ind AS 19, *Employee Benefits*);
- (c) gains and losses arising from translating the financial statements of a foreign operation (see Ind AS 21, *The Effects of Changes in Foreign Exchange Rates*);
- (d) gains and losses from investments in equity instruments designated at fair value through other comprehensive income in accordance with paragraph 5.7.5 of Ind AS 109, *Financial Instruments*;
- (da) gains and losses on financial assets measured at fair value through other comprehensive income in accordance with paragraph 4.1.2A of Ind AS 109.
- (e) the effective portion of gains and losses on hedging instruments in a cash flow hedge and the gains and losses on hedging instruments that hedge investments in equity instruments measured at fair value through other comprehensive income in accordance with paragraph 5.7.5 of Ind AS 109 (see Chapter 6 of Ind AS 109);
- (f) for particular liabilities designated as at fair value through profit or loss, the amount of the change in fair value that is attributable to changes in the liability's credit risk (see paragraph 5.7.7 of Ind AS 109);
- (g) changes in the value of the time value of options when separating the intrinsic value and time value of an option contract and designating as the hedging instrument only the changes in the intrinsic value (see Chapter 6 of Ind AS 109);
- (h) changes in the value of the forward elements of forward contracts when separating the forward element and spot element of a forward contract and designating as the hedging instrument only the changes in the spot element, and changes in the value of the foreign currency basis spread of a financial instrument when excluding it from the designation of that financial instrument as the hedging instrument (see Chapter 6 of Ind AS 109).

Owners are holders of instruments classified as equity.

Profit or loss is the total of income less expenses, excluding the components of other comprehensive income.

Reclassification adjustments are amounts reclassified to profit or loss in the current period that were recognised in other comprehensive income in the current or previous periods.

Total comprehensive income is the change in equity during a period resulting from transactions and other events, other than those changes resulting from transactions with owners in their capacity as owners.

Total comprehensive income comprises all components of 'profit or loss' and of 'other comprehensive income'.

8 [Refer Appendix 1]

8A The following terms are described in Ind AS 32, *Financial Instruments: Presentation*, and are used in this Standard with the meaning specified in Ind AS 32:

- (a) puttable financial instrument classified as an equity instrument (described in paragraphs 16A and 16B of Ind AS 32)
- (b) an instrument that imposes on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation and is classified as an equity instrument (described in paragraphs 16C and 16D of Ind AS 32).

Financial statements

Purpose of financial statements

9 Financial statements are a structured representation of the financial position and financial performance of an entity. The objective of financial statements is to provide information about the financial position, financial performance and cash flows of an entity that is useful to a wide range of users in making economic decisions. Financial statements also show the results of the management's stewardship of the resources entrusted to it. To meet this objective, financial statements provide information about an entity's:

- (a) assets;
- (b) liabilities;
- (c) equity;
- (d) income and expenses, including gains and losses;
- (e) contributions by and distributions to owners in their capacity as owners; and
- (f) cash flows.

This information, along with other information in the notes, assists users of financial statements in predicting the entity's future cash flows and, in particular, their timing and certainty.

Complete set of financial statements

10 **A complete set of financial statements comprises:**

- (a) **a balance sheet as at the end of the period;**
- (b) **a statement of profit and loss for the period;**
- (c) **Statement of changes in equity for the period;**
- (d) **a statement of cash flows for the period;**
- (e) **notes, comprising significant accounting policies and other explanatory information;**
- (ea) **comparative information in respect of the preceding period as specified in paragraphs 38 and 38A; and**
- (f) **a balance sheet as at the beginning of the preceding period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements in accordance with paragraphs 40A–40D.**

10A **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.**

11 **An entity shall present with equal prominence all of the financial statements in a complete set of financial statements.**

12 [Refer Appendix 1]

13 Many entities present, outside the financial statements, a financial review by management that describes and explains the main features of the entity's financial performance and financial position, and the principal uncertainties it faces. Such a report may include a review of:

- (a) the main factors and influences determining financial performance, including changes in the environment in which the entity operates, the entity's response to those changes and their effect, and the entity's policy for investment to maintain and enhance financial performance, including its dividend policy;
- (b) the entity's sources of funding and its targeted ratio of liabilities to equity; and
- (c) the entity's resources not recognised in the balance sheet in accordance with Ind ASs.

14 Many entities also present, outside the financial statements, reports and statements such as environmental reports and value added statements, particularly in industries in which environmental factors are significant and when employees are regarded as an important user group. Reports and statements presented outside financial statements are outside the scope of Ind ASs.

General features

Presentation of True and Fair View and compliance with Ind ASs

15 **Financial statements shall present a true and fair view of the financial position, financial performance and cash flows of an entity. 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 *Conceptual Framework for Financial Reporting under Indian Accounting Standards (Conceptual Framework)* issued by the Institute of Chartered Accountants of**

India (ICAI). The application of Ind ASs, with additional disclosure when necessary, is presumed to result in financial statements that present a true and fair view.

- 16 An entity whose financial statements comply with Ind ASs shall make an explicit and unreserved statement of such compliance in the notes. An entity shall not describe financial statements as complying with Ind ASs unless they comply with all the requirements of Ind ASs.**
- 17 In virtually all circumstances, presentation of a true and fair view is achieved by compliance with applicable Ind ASs. Presentation of a true and fair view also requires an entity:
 - (a) to select and apply accounting policies in accordance with Ind AS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*. Ind AS 8 sets out a hierarchy of authoritative guidance that management considers in the absence of an Ind AS that specifically applies to an item.
 - (b) to present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information.
 - (c) to provide additional disclosures when compliance with the specific requirements in Ind ASs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.
- 18 An entity cannot rectify inappropriate accounting policies either by disclosure of the accounting policies used or by notes or explanatory material.**
- 19 In the extremely rare circumstances in which management concludes that compliance with a requirement in an Ind AS would be so misleading that it would conflict with the objective of financial statements set out in the *Conceptual Framework*, the entity shall depart from that requirement in the manner set out in paragraph 20 if the relevant regulatory framework requires, or otherwise does not prohibit, such a departure.**
- 20 When an entity departs from a requirement of an Ind AS in accordance with paragraph 19, it shall disclose:**
 - (a) that management has concluded that the financial statements present a true and fair view of the entity's financial position, financial performance and cash flows;
 - (b) that it has complied with applicable Ind ASs, except that it has departed from a particular requirement to present a true and fair view;
 - (c) the title of the Ind AS from which the entity has departed, the nature of the departure, including the treatment that the Ind AS would require, the reason why that treatment would be so misleading in the circumstances that it would conflict with the objective of financial statements set out in the *Conceptual Framework*, and the treatment adopted; and
 - (d) for each period presented, the financial effect of the departure on each item in the financial statements that would have been reported in complying with the requirement.
- 21 When an entity has departed from a requirement of an Ind AS in a prior period, and that departure affects the amounts recognised in the financial statements for the current period, it shall make the disclosures set out in paragraph 20(c) and (d).**
- 22 Paragraph 21 applies, for example, when an entity departed in a prior period from a requirement in an Ind AS for the measurement of assets or liabilities and that departure affects the measurement of changes in assets and liabilities recognised in the current period's financial statements.
- 23 In the extremely rare circumstances in which management concludes that compliance with a requirement in an Ind AS would be so misleading that it would conflict with the objective of financial statements set out in the *Conceptual Framework*, but the relevant regulatory framework prohibits departure from the requirement, the entity shall, to the maximum extent possible, reduce the perceived misleading aspects of compliance by disclosing:**
 - (a) the title of the Ind AS in question, the nature of the requirement, and the reason why management has concluded that complying with that requirement is so misleading in the circumstances that it conflicts with the objective of financial statements set out in the *Framework*; and
 - (b) for each period presented, the adjustments to each item in the financial statements that management has concluded would be necessary to present a true and fair view.
- 24 For the purpose of paragraphs 19–23, an item of information would conflict with the objective of financial statements when it does not represent faithfully the transactions, other events and conditions that it either purports to represent or could reasonably be expected to represent and, consequently, it would be likely to influence economic decisions made by users of financial statements. When assessing whether complying with a specific requirement in an Ind AS would be so misleading that it would conflict with the objective of financial statements set out in the *Conceptual Framework*, management considers:

- (a) why the objective of financial statements is not achieved in the particular circumstances; and
- (b) how the entity's circumstances differ from those of other entities that comply with the requirement. If other entities in similar circumstances comply with the requirement, there is a rebuttable presumption that the entity's compliance with the requirement would not be so misleading that it would conflict with the objective of financial statements set out in the *Framework*.

Going concern

- 25 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.**
- 26 In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but is not limited to, twelve months from the end of the reporting period. The degree of consideration depends on the facts in each case. When an entity has a history of profitable operations and ready access to financial resources, the entity may reach a conclusion that the going concern basis of accounting is appropriate without detailed analysis. In other cases, management may need to consider a wide range of factors relating to current and expected profitability, debt repayment schedules and potential sources of replacement financing before it can satisfy itself that the going concern basis is appropriate.

Accrual basis of accounting

- 27 An entity shall prepare its financial statements, except for cash flow information, using the accrual basis of accounting.**
- 28 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 *Conceptual Framework*.

Materiality and aggregation

- 29 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.**
- 30 Financial statements result from processing large numbers of transactions or other events that are aggregated into classes according to their nature or function. The final stage in the process of aggregation and classification is the presentation of condensed and classified data, which form line items in the financial statements. If a line item is not individually material, it is aggregated with other items either in those statements or in the notes. An item that is not sufficiently material to warrant separate presentation in those statements may warrant separate presentation in the notes.
- 30A. When applying this and other Ind ASs an entity shall decide, taking into consideration all relevant facts and circumstances, how it aggregates information in the financial statements, which include the notes. An entity shall not reduce the understandability of its financial statements by obscuring material information with immaterial information or by aggregating material items that have different natures or functions.
- 31 Some Ind ASs specify information that is required to be included in the financial statements, which include the notes. An entity need not provide a specific disclosure required by an Ind AS if the information resulting from that disclosure is not material except when required by law. This is the case even if the Ind AS contains a list of specific requirements or describes them as minimum requirements. An entity shall also 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.

Offsetting

- 32 An entity shall not offset assets and liabilities or income and expenses, unless required or permitted by an Ind AS.**
- 33 An entity reports separately both assets and liabilities, and income and expenses. Offsetting in the statement 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.

34 Ind AS 115, *Revenue from Contracts with Customers*, requires an entity to measure revenue from contracts with customers at the amount of consideration to which the entity expects to be entitled in exchange for transferring promised goods or services. For example, the amount of revenue recognized reflects any trade discounts and volume rebates the entity allows. An entity undertakes, in the course of its ordinary activities, other transactions that do not generate revenue but are incidental to the main revenue-generating activities. An entity presents the results of such transactions, when this presentation reflects the substance of the transaction or other event, by netting any income with related expenses arising on the same transaction. For example:

- (a) an entity presents gains and losses on the disposal of non-current assets, including investments and operating assets, by deducting from the amount of consideration on disposal the carrying amount of the asset and related selling expenses; and
- (b) an entity may net expenditure related to a provision that is recognised in accordance with Ind AS 37, *Provisions, Contingent Liabilities and Contingent Assets*, and reimbursed under a contractual arrangement with a third party (for example, a supplier's warranty agreement) against the related reimbursement.

35 In addition, an entity presents on a net basis gains and losses arising from a group of similar transactions, for example, foreign exchange gains and losses or gains and losses arising on financial instruments held for trading. However, an entity presents such gains and losses separately if they are material.

Frequency of reporting

36 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:

- (a) **the reason for using a longer or shorter period, and**
- (b) **the fact that amounts presented in the financial statements are not entirely comparable.**

37 [Refer Appendix 1]

Comparative information

Minimum comparative information

38 Except when Ind ASs 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.

38A An entity shall present, as a minimum, two balance sheets, two statements of profit and loss, two statements of cash flows and two statements of changes in equity, and related notes.

38B In some cases, narrative information provided in the financial statements for the preceding period(s) continues to be relevant in the current period. For example, an entity discloses in the current period details of a legal dispute, the outcome of which was uncertain at the end of the preceding period and is yet to be resolved. Users may benefit from the disclosure of information that the uncertainty existed at the end of the preceding period and from the disclosure of information about the steps that have been taken during the period to resolve the uncertainty.

Additional comparative information

38C An entity may present comparative information in addition to the minimum comparative financial statements required by Ind ASs, as long as that information is prepared in accordance with Ind ASs. This comparative information may consist of one or more statements referred to in paragraph 10, but need not comprise a complete set of financial statements. When this is the case, the entity shall present related note information for those additional statements.

38D For example, an entity may present a third statement of profit and loss (thereby presenting the current period, the preceding period and one additional comparative period). However, the entity is not required to present a third balance sheet, a third statement of cash flows or a third statement of changes in equity (ie an additional financial statement comparative). The entity is required to present, in the notes to the financial statements, the comparative information related to that additional statement of profit and loss.

39-40 [Refer Appendix 1]

Change in accounting policy, retrospective restatement or reclassification

40A An entity shall present a third balance sheet as at the beginning of the preceding period in addition to the minimum comparative financial statements required in paragraph 38A if:

- (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.**

40B In the circumstances described in paragraph 40A, an entity shall present three balance sheets as at:

- (a) the end of the current period;
- (b) the end of the preceding period; and
- (c) the beginning of the preceding period.

40C When an entity is required to present an additional balance sheet in accordance with paragraph 40A, it must disclose the information required by paragraphs 41-44 and Ind AS 8. However, it need not present the related notes to the opening balance sheet as at the beginning of the preceding period.

40D The date of that opening balance sheet shall be as at the beginning of the preceding period regardless of whether an entity's financial statements present comparative information for earlier periods (as permitted in paragraph 38C).

41 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.

42 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.

43 Enhancing the inter-period comparability of information assists users in making economic decisions, especially by allowing the assessment of trends in financial information for predictive purposes. In some circumstances, it is impracticable to reclassify comparative information for a particular prior period to achieve comparability with the current period. For example, an entity may not have collected data in the prior period(s) in a way that allows reclassification, and it may be impracticable to recreate the information.

44 Ind AS 8 sets out the adjustments to comparative information required when an entity changes an accounting policy or corrects an error.

Consistency of presentation

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

- (a) it is apparent, following a significant change in the nature of the entity's operations or a review of its financial statements, that another presentation or classification would be more appropriate having regard to the criteria for the selection and application of accounting policies in Ind AS 8; or
- (b) an Ind AS requires a change in presentation.

46 For example, a significant acquisition or disposal, or a review of the presentation of the financial statements, might suggest that the financial statements need to be presented differently. An entity changes the presentation of its financial statements only if the changed presentation provides information that is reliable and more relevant to users of the financial statements and the revised structure is likely to continue, so that comparability is not impaired. When making such changes in presentation, an entity reclassifies its comparative information in accordance with paragraphs 41 and 42.

Structure and content

Introduction

47 This Standard requires particular disclosures in the balance sheet or in the statement of profit and loss, or in the statement of changes in equity and requires disclosure of other line items either in those statements or in the notes. Ind AS 7, *Statement of Cash Flows*, sets out requirements for the presentation of cash flow information.

48 This Standard sometimes uses the term 'disclosure' in a broad sense, encompassing items presented in the financial statements. Disclosures are also required by other Ind ASs. Unless specified to the contrary elsewhere in this Standard or in another Ind AS, such disclosures may be made in the financial statements.

Identification of the financial statements

49 An entity shall clearly identify the financial statements and distinguish them from other information in the same published document.

50 Ind ASs apply only to financial statements, and not necessarily to other information presented in an annual report, a regulatory filing, or another document. Therefore, it is important that users can distinguish information that is prepared using Ind ASs from other information that may be useful to users but is not the subject of those requirements.

- 51 An entity shall clearly identify each financial statement and the notes. In addition, an entity shall display the following information prominently, and repeat it when necessary for the information presented to be understandable:**
- (a) the name of the reporting entity or other means of identification, and any change in that information from the end of the preceding reporting period;**
 - (b) whether the financial statements are of an individual entity or a group of entities;**
 - (c) the date of the end of the reporting period or the period covered by the set of financial statements or notes;**
 - (d) the presentation currency, as defined in Ind AS 21; and**
 - (e) the level of rounding used in presenting amounts in the financial statements.**
- 52 An entity meets the requirements in paragraph 51 by presenting appropriate headings for pages, statements, notes, columns and the like. Judgement is required in determining the best way of presenting such information. For example, when an entity presents the financial statements electronically, separate pages are not always used; an entity then presents the above items to ensure that the information included in the financial statements can be understood.**
- 53 An entity often makes financial statements more understandable by presenting information in thousands, lakhs, millions or crores of units of the presentation currency. This is acceptable as long as the entity discloses the level of rounding and does not omit material information.**

Balance Sheet

Information to be presented in the balance sheet

- 54 The balance sheet shall include line items that present the following amounts:**

- (a) property, plant and equipment;**
 - (b) investment property;**
 - (c) intangible assets;**
 - (d) financial assets (excluding amounts shown under (e), (h) and (i));**
 - (e) investments accounted for using the equity method;**
 - (f) biological assets within the scope of Ind AS 41 *Agriculture*;**
 - (g) inventories;**
 - (h) trade and other receivables;**
 - (i) cash and cash equivalents;**
 - (j) the total of assets classified as held for sale and assets included in disposal groups classified as held for sale in accordance with Ind AS 105, *Non-current Assets Held for Sale and Discontinued Operations*;**
 - (k) trade and other payables;**
 - (l) provisions;**
 - (m) financial liabilities (excluding amounts shown under (k) and (l));**
 - (n) liabilities and assets for current tax, as defined in Ind AS 12, *Income Taxes*;**
 - (o) deferred tax liabilities and deferred tax assets, as defined in Ind AS 12;**
 - (p) liabilities included in disposal groups classified as held for sale in accordance with Ind AS 105;**
 - (q) non-controlling interests, presented within equity; and**
 - (r) issued capital and reserves attributable to owners of the parent.**
- 55 An entity shall present additional line items (including by disaggregating the line items listed in paragraph 54), headings and sub-totals in the balance sheet when such presentation is relevant to an understanding of the entity's Financial position.**
- 55A** When an entity presents sub-totals in accordance with paragraph 55, those sub-totals shall:
- (a) be comprised of line items made up of amounts recognised and measured in accordance with Ind AS;**
 - (b) be presented and labelled in a manner that makes the line items that constitute the sub-total clear and understandable;**
 - (c) be consistent from period to period, in accordance with paragraph 45; and**
 - (d) not be displayed with more prominence than the sub-totals and totals required in Ind AS for the balance sheet.’’;**

- 56 When an entity presents current and non-current assets, and current and non-current liabilities, as separate classifications in its balance sheet, it shall not classify deferred tax assets (liabilities) as current assets (liabilities).**
- 57 This Standard does not prescribe the order or format in which an entity presents items. Paragraph 54 simply lists items that are sufficiently different in nature or function to warrant separate presentation in the balance sheet. In addition:
- (a) line items are included when the size, nature or function of an item or aggregation of similar items is such that separate presentation is relevant to an understanding of the entity's financial position; and
 - (b) the descriptions used and the ordering of items or aggregation of similar items may be amended according to the nature of the entity and its transactions, to provide information that is relevant to an understanding of the entity's financial position. For example, a financial institution may amend the above descriptions to provide information that is relevant to the operations of a financial institution.
- 58 An entity makes the judgement about whether to present additional items separately on the basis of an assessment of:
- (a) the nature and liquidity of assets;
 - (b) the function of assets within the entity; and
 - (c) the amounts, nature and timing of liabilities.
- 59 The use of different measurement bases for different classes of assets suggests that their nature or function differs and, therefore, that an entity presents them as separate line items. For example, different classes of property, plant and equipment can be carried at cost or at revalued amounts in accordance with Ind AS 16.

Current/non-current distinction

- 60 An entity shall present current and non-current assets, and current and non-current liabilities, as separate classifications in its balance sheet in accordance with paragraphs 66–76 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.**
- 61 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.**
- 62 When an entity supplies goods or services within a clearly identifiable operating cycle, separate classification of current and non-current assets and liabilities in the balance sheet provides useful information by distinguishing the net assets that are continuously circulating as working capital from those used in the entity's long-term operations. It also highlights assets that are expected to be realised within the current operating cycle, and liabilities that are due for settlement within the same period.
- 63 For some entities, such as financial institutions, a presentation of assets and liabilities in increasing or decreasing order of liquidity provides information that is reliable and more relevant than a current/non-current presentation because the entity does not supply goods or services within a clearly identifiable operating cycle.
- 64 In applying paragraph 60, an entity is permitted to present some of its assets and liabilities using a current/non-current classification and others in order of liquidity when this provides information that is reliable and more relevant. The need for a mixed basis of presentation might arise when an entity has diverse operations.
- 65 Information about expected dates of realisation of assets and liabilities is useful in assessing the liquidity and solvency of an entity. Ind AS 107, *Financial Instruments: Disclosures*, requires disclosure of the maturity dates of financial assets and financial liabilities. Financial assets include trade and other receivables, and financial liabilities include trade and other payables. Information on the expected date of recovery of non-monetary assets such as inventories and expected date of settlement for liabilities such as provisions is also useful, whether assets and liabilities are classified as current or as non-current. For example, an entity discloses the amount of inventories that are expected to be recovered more than twelve months after the reporting period.

Current assets

- 66 An entity shall classify an asset as current when:**
- (a) it expects to realise the asset, or intends to sell or consume it, in its normal operating cycle;**
 - (b) it holds the asset primarily for the purpose of trading;**
 - (c) it expects to realise the asset within twelve months after the reporting period; or**

(d) the asset is cash or a cash equivalent (as defined in Ind AS 7) unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

An entity shall classify all other assets as non-current.

67 This Standard uses the term ‘non-current’ to include tangible, intangible and financial assets of a long-term nature. It does not prohibit the use of alternative descriptions as long as the meaning is clear.

68 The operating cycle of an entity is the time between the acquisition of assets for processing and their realisation in cash or cash equivalents. When the entity’s normal operating cycle is not clearly identifiable, it is assumed to be twelve months. Current assets include assets (such as inventories and trade receivables) that are sold, consumed or realised as part of the normal operating cycle even when they are not expected to be realised within twelve months after the reporting period. Current assets also include assets held primarily for the purpose of trading (examples include some financial assets that meet the definition of held for trading in Ind AS 109) and the current portion of non-current financial assets.

Current liabilities

69 An entity shall classify a liability as current when:

(a) it expects to settle the liability in its normal operating cycle;

(b) it holds the liability primarily for the purpose of trading;

(c) the liability is due to be settled within twelve months after the reporting period; or

(d) it does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period (see paragraph 73). Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

An entity shall classify all other liabilities as non-current.

70 Some current liabilities, such as trade payables and some accruals for employee and other operating costs, are part of the working capital used in the entity’s normal operating cycle. An entity classifies such operating items as current liabilities even if they are due to be settled more than twelve months after the reporting period. The same normal operating cycle applies to the classification of an entity’s assets and liabilities. When the entity’s normal operating cycle is not clearly identifiable, it is assumed to be twelve months.

71 Other current liabilities are not settled as part of the normal operating cycle, but are due for settlement within twelve months after the reporting period or held primarily for the purpose of trading. Examples are some financial liabilities that meet the definition of held for trading in Ind AS 109, bank overdrafts, and the current portion of non-current financial liabilities, dividends payable, income taxes and other non-trade payables. Financial liabilities that provide financing on a long-term basis (ie are not part of the working capital used in the entity’s normal operating cycle) and are not due for settlement within twelve months after the reporting period are non-current liabilities, subject to paragraphs 74 and 75.

72 An entity classifies its financial liabilities as current when they are due to be settled within twelve months after the reporting period, even if:

(a) the original term was for a period longer than twelve months, and

(b) an agreement to refinance, or to reschedule payments, on a long-term basis is completed after the reporting period and before the financial statements are approved for issue.

73 If an entity expects, and has the discretion, to refinance or roll over an obligation for at least twelve months after the reporting period under an existing loan facility, it classifies the obligation as non-current, even if it would otherwise be due within a shorter period. However, when refinancing or rolling over the obligation is not at the discretion of the entity (for example, there is no arrangement for refinancing), the entity does not consider the potential to refinance the obligation and classifies the obligation as current.

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

75 However, an entity classifies the liability as non-current if the lender agreed by the end of the reporting period to provide a period of grace ending at least twelve months after the reporting period, within which the entity can rectify the breach and during which the lender cannot demand immediate repayment.

76 [Refer Appendix 1]

Information to be presented either in the balance sheet or in the notes

77 An entity shall disclose, either in the balance sheet or in the notes, further sub-classifications of the line items presented, classified in a manner appropriate to the entity’s operations.

78 The detail provided in sub-classifications depends on the requirements of Ind ASs and on the size, nature and function of the amounts involved. An entity also uses the factors set out in paragraph 58 to decide the basis of sub-classification. The disclosures vary for each item, for example:

- (a) items of property, plant and equipment are disaggregated into classes in accordance with Ind AS 16;
- (b) receivables are disaggregated into amounts receivable from trade customers, receivables from related parties, prepayments and other amounts;
- (c) inventories are disaggregated, in accordance with Ind AS 2, *Inventories*, into classifications such as merchandise, production supplies, materials, work in progress and finished goods;
- (d) provisions are disaggregated into provisions for employee benefits and other items; and
- (e) equity capital and reserves are disaggregated into various classes, such as paid-in capital, share premium and reserves.

79 An entity shall disclose the following, either in the balance sheet or the statement of changes in equity, or in the notes:

(a) for each class of share capital:

- (i) the number of shares authorised;
- (ii) the number of shares issued and fully paid, and issued but not fully paid;
- (iii) par value per share, or that the shares have no par value;
- (iv) a reconciliation of the number of shares outstanding at the beginning and at the end of the period;
- (v) the rights, preferences and restrictions attaching to that class including restrictions on the distribution of dividends and the repayment of capital;
- (vi) shares in the entity held by the entity or by its subsidiaries or associates; and
- (vii) shares reserved for issue under options and contracts for the sale of shares, including terms and amounts; and

(b) a description of the nature and purpose of each reserve within equity.

80 An entity whose capital is not limited by shares eg, a company limited by guarantee, shall disclose information equivalent to that required by paragraph 79(a), showing changes during the period in each category of equity interest, and the rights, preferences and restrictions attaching to each category of equity interest.

80A If an entity has reclassified

- (a) a puttable financial instrument classified as an equity instrument, or
- (b) an instrument that imposes on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation and is classified as an equity instrument

between financial liabilities and equity, it shall disclose the amount reclassified into and out of each category (financial liabilities or equity), and the timing and reason for that reclassification.

Statement of Profit and Loss

81 [Refer Appendix 1]

81A The statement of profit and loss shall present, in addition to the profit or loss and other comprehensive income sections:

- (a) profit or loss;
- (b) total other comprehensive income;
- (c) comprehensive income for the period, being the total of profit or loss and other comprehensive income.

81B An entity shall present the following items, in addition to the profit or loss and other comprehensive income sections, as allocation of profit or loss and other comprehensive income for the period:

- (a) profit or loss for the period attributable to:
 - (i) non-controlling interests, and
 - (ii) owners of the parent.
- (b) comprehensive income for the period attributable to:
 - (i) non-controlling interests, and
 - (ii) owners of the parent.

Information to be presented in the profit or loss section of the statement of profit and loss

82 In addition to items required by other Ind ASs, the profit or loss section of the statement of profit and loss shall include line items that present the following amounts for the period:

- (a) revenue, presenting separately interest revenue calculated using the effective interest method;
- (aa) gains and losses arising from the derecognition of financial assets measured at amortised cost;
- (b) finance costs;
- (ba) impairment losses (including reversals of impairment losses or impairment gains) determined in accordance with Section 5.5 of Ind AS 109;
- (c) share of the profit or loss of associates and joint ventures accounted for using the equity method;
- (ca) if a financial asset is reclassified out of the amortised cost measurement category so that it is measured at fair value through profit or loss, any gain or loss arising from a difference between the previous amortised cost of the financial asset and its fair value at the reclassification date (as defined in Ind AS 109);
- (cb) if a financial asset is reclassified out of the fair value through other comprehensive income measurement category so that it is measured at fair value through profit or loss, any cumulative gain or loss previously recognised in other comprehensive income that is reclassified to profit or loss;
- (d) tax expense;
- (e) [Refer Appendix 1]
- (ea) a single amount for the total of discontinued operations (see Ind AS 105).
- (f)-(i) [Refer Appendix 1]

Information to be presented in the other comprehensive income section

82A The other comprehensive income section shall present line items for the 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 ASs:
 - (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 ASs:
 - (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.’’;

83 [Refer Appendix 1]

84 [Refer Appendix 1]

85 An entity shall present additional line items (including by disaggregating the line items listed in paragraph 82), headings and sub-totals in the statement of profit and loss, when such presentation is relevant to an understanding of the entity’s Financial performance.

85A. When an entity presents sub-totals in accordance with paragraph 85, those sub-totals shall:

- (a) be comprised of line items made up of amounts recognised and measured in accordance with Ind AS;
- (b) be presented and labelled in a manner that makes the line items that constitute the sub-total clear and understandable;
- (c) be consistent from period to period, in accordance with paragraph 45; and
- (d) not be displayed with more prominence than the sub-totals and totals required in Ind AS for the statement of profit and loss.

85B. An entity shall present the line items in the statement of profit and loss that reconcile any sub-totals presented in accordance with paragraph 85 with the sub-totals or totals required in Ind AS for such statement.

86 Because the effects of an entity’s various activities, transactions and other events differ in frequency, potential for gain or loss and predictability, disclosing the components of financial performance assists users in understanding the financial performance achieved and in making projections of future financial performance. An entity includes additional line items in the statement of profit and loss, and it amends the descriptions used and the ordering of items when this is necessary to explain the elements of financial performance. An entity considers factors including materiality and the nature and function of the items of income and expense. For example, a financial institution may amend the descriptions to provide information that is relevant to the operations of a financial institution. An entity does not offset income and expense items unless the criteria in paragraph 32 are met.

87 An entity shall not present any items of income or expense as extraordinary items, in the statement of profit and loss or in the notes.

Profit or loss for the period

88 An entity shall recognise all items of income and expense in a period in profit or loss unless an Ind AS requires or permits otherwise.

89 Some Ind ASs specify circumstances when an entity recognises particular items outside profit or loss in the current period. Ind AS 8 specifies two such circumstances: the correction of errors and the effect of changes in accounting policies. Other Ind ASs require or permit components of other comprehensive income that meet the *Conceptual Framework's* definition of income or expense to be excluded from profit or loss (see paragraph 7).

Other comprehensive income for the period

90 An entity shall disclose the amount of income tax relating to each item of other comprehensive income, including reclassification adjustments, either in the statement of profit and loss or in the notes.

91 An entity may present items of other comprehensive income either:

- (a) net of related tax effects, or
- (b) before related tax effects with one amount shown for the aggregate amount of income tax relating to those items.

If an entity elects alternative (b), it shall allocate the tax between the items that might be reclassified subsequently to the profit or loss section and those that will not be reclassified subsequently to the profit or loss section.

92 An entity shall disclose reclassification adjustments relating to components of other comprehensive income.

93 Other Ind ASs specify whether and when amounts previously recognised in other comprehensive income are reclassified to profit or loss. Such reclassifications are referred to in this Standard as reclassification adjustments. A reclassification adjustment is included with the related component of other comprehensive income in the period that the adjustment is reclassified to profit or loss. These amounts may have been recognised in other comprehensive income as unrealised gains in the current or previous periods. Those unrealised gains must be deducted from other comprehensive income in the period in which the realised gains are reclassified to profit or loss to avoid including them in total comprehensive income twice.

94 An entity may present reclassification adjustments in the statement of profit and loss or in the notes. An entity presenting reclassification adjustments in the notes presents the items of other comprehensive income after any related reclassification adjustments.

95 Reclassification adjustments arise, for example, on disposal of a foreign operation (see Ind AS 21) and when some hedged forecast cash flows affect profit or loss (see paragraph 6.5.11(d) of Ind AS109 in relation to cash flow hedges).

96 Reclassification adjustments do not arise on changes in revaluation surplus recognised in accordance with Ind AS 16 or Ind AS 38 or on reameasurements of defined benefit plans recognised in accordance with Ind AS 19. These components are recognised in other comprehensive income and are not reclassified to profit or loss in subsequent periods. Changes in revaluation surplus may be transferred to retained earnings in subsequent periods as the asset is used or when it is derecognised (see Ind AS 16 and Ind AS 38). In accordance with Ind AS 109, reclassification adjustments do not arise if a cash flow hedge or the accounting for the time value of an option (or the forward element of a forward contract or the foreign currency basis spread of a financial instrument) result in amounts that are removed from the cash flow hedge reserve or a separate component of equity, respectively, and included directly in the initial cost or other carrying amount of an asset or a liability. These amounts are directly transferred to assets or liabilities.

Information to be presented in the statement of profit and loss or in the notes

97 When items of income or expense are material, an entity shall disclose their nature and amount separately.

98 Circumstances that would give rise to the separate disclosure of items of income and expense include:

- (a) write-downs of inventories to net realisable value or of property, plant and equipment to recoverable amount, as well as reversals of such write-downs;
- (b) restructurings of the activities of an entity and reversals of any provisions for the costs of restructuring;
- (c) disposals of items of property, plant and equipment;
- (d) disposals of investments;
- (e) discontinued operations;
- (f) litigation settlements; and
- (g) other reversals of provisions.

99 An entity shall present an analysis of expenses recognised in profit or loss using a classification based on the nature of expense method.

100 Entities are encouraged to present the analysis in paragraph 99 in the statement of profit and loss.

101 Expenses are sub-classified to highlight components of financial performance that may differ in terms of frequency, potential for gain or loss and predictability. This analysis is provided in the form as described in paragraph 102.

102 In the analysis based on the 'nature of expense' method, an entity aggregates expenses within profit or loss according to their nature (for example, depreciation, purchases of materials, transport costs, employee benefits and advertising costs), and does not reallocate them among functions within the entity. This method is simple to apply because no allocations of expenses to functional classifications are necessary. An example of a classification using the nature of expense method is as follows:

Revenue	X
Other income	X
Changes in inventories of finished goods and work in progress	X
Raw materials and consumables used	X
Employee benefits expense	X
Depreciation and amortisation expense	X
Other expenses	X
Total expenses	(X)
Profit before tax	X

103 [Refer Appendix 1]

104 [Refer Appendix 1]

105 [Refer Appendix 1]

Statement of changes in equity

Information to be presented in the statement of changes in equity

106 An entity shall present a statement of changes in equity as required by paragraph 10. The statement of changes in equity includes the following information:

- (a) total comprehensive income for the period, showing separately the total amounts attributable to owners of the parent and to non- controlling interests;
- (b) for each component of equity, the effects of retrospective application or retrospective restatement recognised in accordance with Ind AS 8;
- (c) [Refer Appendix 1]
- (d) for each component of equity, a reconciliation between the carrying amount at the beginning and the end of the period, separately (as a minimum) disclosing changes resulting from:
 - (i) profit or loss;
 - (ii) other comprehensive income;
 - (iii) transactions with owners in their capacity as owners, showing separately contributions by and distributions to owners and changes in ownership interests in subsidiaries that do not result in a loss of control; and
 - (iv) any item recognised directly in equity such as amount recognised directly in equity as capital reserve with paragraph 36A of Ind AS 103.

Information to be presented in the statement of changes in equity or in the notes

106A For each component of equity an entity shall present, either in the statement of changes in equity or in the notes, an analysis of other comprehensive income by item (see paragraph 106 (d) (ii)).

107 An entity shall present, either in the statement of changes in equity or in the notes, the amount of dividends recognised as distributions to owners during the period, and the related amount of dividends per share.

108 In paragraph 106, the components of equity include, for example, each class of contributed equity, the accumulated balance of each class of other comprehensive income and retained earnings.

109 Changes in an entity's equity between the beginning and the end of the reporting period reflect the increase or decrease in its net assets during the period. Except for changes resulting from transactions with owners in their capacity as owners (such as equity contributions, reacquisitions of the entity's own equity instruments and

dividends) and transaction costs directly related to such transactions, the overall change in equity during a period represents the total amount of income and expense, including gains and losses, generated by the entity's activities during that period.

- 110 Ind AS 8 requires retrospective adjustments to effect changes in accounting policies, to the extent practicable, except when the transition provisions in another Ind AS require otherwise. Ind AS 8 also requires restatements to correct errors to be made retrospectively, to the extent practicable. Retrospective adjustments and retrospective restatements are not changes in equity but they are adjustments to the opening balance of retained earnings, except when an Ind AS requires retrospective adjustment of another component of equity. Paragraph 106(b) requires disclosure in the statement of changes in equity of the total adjustment to each component of equity resulting from changes in accounting policies and, separately, from corrections of errors. These adjustments are disclosed for each prior period and the beginning of the period.

Statement of cash flows

- 111 Cash flow information provides users of financial statements with a basis to assess the ability of the entity to generate cash and cash equivalents and the needs of the entity to utilise those cash flows. Ind AS 7 sets out requirements for the presentation and disclosure of cash flow information.

Notes

Structure

- 112 **The notes shall:**

- (a) **present information about the basis of preparation of the financial statements and the specific accounting policies used in accordance with paragraphs 117–124;**
- (b) **disclose the information required by Ind ASs that is not presented elsewhere in the financial statements; and**
- (c) **provide information that is not presented elsewhere in the financial statements, but is relevant to an understanding of any of them.**

- 113 **An entity shall present notes in a systematic manner. In determining a systematic manner, the entity shall consider the effect on the understandability and comparability of its Financial statements. An entity shall cross-reference each item in the balance sheet and in the statement of profit and loss, and in the statements of changes in equity and of cash flows to any related information in the notes.**

- 114 Examples of systematic ordering or grouping of the notes include:

- (a) giving prominence to the areas of its activities that the entity considers to be most relevant to an understanding of its financial performance and financial position, such as grouping together information about particular operating activities;
- (b) grouping together information about items measured similarly such as assets measured at fair value; or
- (c) following the order of the line items in the statement of profit and loss and the balance sheet, such as:
 - (i) statement of compliance with Ind ASs (see paragraph 16);
 - (ii) significant accounting policies applied (see paragraph 117);
 - (iii) supporting information for items presented in the balance sheet and in the statement of profit and loss, and in the statements of changes in equity and of cash flows, in the order in which each statement and each line item is presented; and
 - (iv) other disclosures, including:
 - (1) contingent liabilities (see Ind AS 37) and unrecognised contractual commitments; and
 - (2) non-financial disclosures, *e.g.* the entity's financial risk management objectives and policies (see Ind AS 107).

- 115 Omitted

- 116 An entity may present notes providing information about the basis of preparation of the financial statements and specific accounting policies as a separate section of the financial statements.

Disclosure of accounting policies

- 117 **An entity shall disclose its significant accounting policies comprising:**

- (a) **the measurement basis (or bases) used in preparing the financial statements; and**
- (b) **the other accounting policies used that are relevant to an understanding of the financial statements.**

- 118 It is important for an entity to inform users of the measurement basis or bases used in the financial statements (for example, historical cost, current cost, net realisable value, fair value or recoverable amount) because the basis on which an entity prepares the financial statements significantly affects users' analysis. When an entity uses more than one measurement basis in the financial statements, for example when particular classes of assets are revalued, it is sufficient to provide an indication of the categories of assets and liabilities to which each measurement basis is applied.
- 119 In deciding whether a particular accounting policy should be disclosed, management considers whether disclosure would assist users in understanding how transactions, other events and conditions are reflected in reported financial performance and financial position. Each entity considers the nature of its operations and the policies that the users of its financial statements would expect to be disclosed for that type of entity. Disclosure of particular accounting policies is especially useful to users when those policies are selected from alternatives allowed in Ind ASs. An example is disclosure of a regular way purchase or sale of financial assets using either trade date accounting or settlement date accounting (see Ind AS 109, *Financial Instruments*). Some Ind Ass specifically require disclosure of particular accounting policies, including choices made by management between different policies they allow. For example, Ind AS 16 requires disclosure of the measurement bases used for classes of property, plant and equipment.
- 120 Omitted.
- 121 An accounting policy may be significant because of the nature of the entity's operations even if amounts for current and prior periods are not material. It is also appropriate to disclose each significant accounting policy that is not specifically required by Ind ASs but the entity selects and applies in accordance with Ind AS 8.
- 122 An entity shall disclose, along with its significant accounting policies or other notes, the judgements, apart from those involving estimations (see paragraph 125), 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.**
- 123 In the process of applying the entity's accounting policies, management makes various judgements, apart from those involving estimations, that can significantly affect the amounts it recognises in the financial statements. For example, management makes judgements in determining:
- [Refer Appendix 1]
 - when substantially all the significant risks and rewards of ownership of financial assets and, for lessor, assets subject to leases, are transferred to other entities;
 - whether, in substance, particular sales of goods are financing arrangements and therefore do not give rise to revenue. and
 - whether the contractual terms of a financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.
- 124 Some of the disclosures made in accordance with paragraph 122 are required by other Ind ASs. For example, Ind AS 112, *Disclosure of Interests in Other Entities*, requires an entity to disclose the judgments it has made in determining whether it controls another entity. Ind AS 40, *Investment Property*, requires disclosure of the criteria developed by the entity to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of business, when classification of the property is difficult.

Sources of estimation uncertainty

- 125 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. In respect of those assets and liabilities, the notes shall include details of:**
- their nature, and**
 - their carrying amount as at the end of the reporting period.**
- 126 Determining the carrying amounts of some assets and liabilities requires estimation of the effects of uncertain future events on those assets and liabilities at the end of the reporting period. For example, in the absence of recently observed market prices, future-oriented estimates are necessary to measure the recoverable amount of classes of property, plant and equipment, the effect of technological obsolescence on inventories, provisions subject to the future outcome of litigation in progress, and long-term employee benefit liabilities such as pension obligations. These estimates involve assumptions about such items as the risk adjustment to cash flows or discount rates, future changes in salaries and future changes in prices affecting other costs.
- 127 The assumptions and other sources of estimation uncertainty disclosed in accordance with paragraph 125 relate to the estimates that require management's most difficult, subjective or complex judgements. As the number of variables and assumptions affecting the possible future resolution of the uncertainties increases, those judgements become more subjective and complex, and the potential for a consequential material adjustment to the carrying amounts of assets and liabilities normally increases accordingly.

- 128 The disclosures in paragraph 125 are not required for assets and liabilities with a significant risk that their carrying amounts might change materially within the next financial year if, at the end of the reporting period, they are measured at fair value based on a quoted price in an active market for an identical asset or liability. Such fair values might change materially within the next financial year but these changes would not arise from assumptions or other sources of estimation uncertainty at the end of the reporting period.
- 129 An entity presents the disclosures in paragraph 125 in a manner that helps users of financial statements to understand the judgements that management makes about the future and about other sources of estimation uncertainty. The nature and extent of the information provided vary according to the nature of the assumption and other circumstances. Examples of the types of disclosures an entity makes are:
- (a) the nature of the assumption or other estimation uncertainty;
 - (b) the sensitivity of carrying amounts to the methods, assumptions and estimates underlying their calculation, including the reasons for the sensitivity;
 - (c) the expected resolution of an uncertainty and the range of reasonably possible outcomes within the next financial year in respect of the carrying amounts of the assets and liabilities affected; and
 - (d) an explanation of changes made to past assumptions concerning those assets and liabilities, if the uncertainty remains unresolved.
- 130 This Standard does not require an entity to disclose budget information or forecasts in making the disclosures in paragraph 125.
- 131 Sometimes it is impracticable to disclose the extent of the possible effects of an assumption or another source of estimation uncertainty at the end of the reporting period. In such cases, the entity discloses that it is reasonably possible, on the basis of existing knowledge, that outcomes within the next financial year that are different from the assumption could require a material adjustment to the carrying amount of the asset or liability affected. In all cases, the entity discloses the nature and carrying amount of the specific asset or liability (or class of assets or liabilities) affected by the assumption.
- 132 The disclosures in paragraph 122 of particular judgements that management made in the process of applying the entity's accounting policies do not relate to the disclosures of sources of estimation uncertainty in paragraph 125.
- 133 Other Ind ASs require the disclosure of some of the assumptions that would otherwise be required in accordance with paragraph 125. For example, Ind AS 37 requires disclosure, in specified circumstances, of major assumptions concerning future events affecting classes of provisions. Ind AS 113, *Fair Value Measurement*, requires disclosure of significant assumptions (including the valuation technique(s) and inputs) the entity uses when measuring the fair values of assets and liabilities that are carried at fair value.

Capital

- 134 An entity shall disclose information that enables users of its financial statements to evaluate the entity's objectives, policies and processes for managing capital.**
- 135 To comply with paragraph 134, the entity discloses the following:
- (a) qualitative information about its objectives, policies and processes for managing capital, including:
 - (i) a description of what it manages as capital;
 - (ii) when an entity is subject to externally imposed capital requirements, the nature of those requirements and how those requirements are incorporated into the management of capital; and
 - (iii) how it is meeting its objectives for managing capital.
 - (b) summary quantitative data about what it manages as capital. Some entities regard some financial liabilities (eg some forms of subordinated debt) as part of capital. Other entities regard capital as excluding some components of equity (eg components arising from cash flow hedges).
 - (c) any changes in (a) and (b) from the previous period.
 - (d) whether during the period it complied with any externally imposed capital requirements to which it is subject.
 - (e) when the entity has not complied with such externally imposed capital requirements, the consequences of such non-compliance.

The entity bases these disclosures on the information provided internally to key management personnel.

- 136 An entity may manage capital in a number of ways and be subject to a number of different capital requirements. For example, a conglomerate may include entities that undertake insurance activities and banking activities and those entities may operate in several jurisdictions. When an aggregate disclosure of capital requirements and how capital is managed would not provide useful information or distorts a financial statement user's understanding of an entity's capital resources, the entity shall disclose separate information for each capital requirement to which the entity is subject.

Puttable financial instruments classified as equity

136A For puttable financial instruments classified as equity instruments, an entity shall disclose (to the extent not disclosed elsewhere):

- (a) summary quantitative data about the amount classified as equity;
- (b) its objectives, policies and processes for managing its obligation to repurchase or redeem the instruments when required to do so by the instrument holders, including any changes from the previous period;
- (c) the expected cash outflow on redemption or repurchase of that class of financial instruments; and
- (d) information about how the expected cash outflow on redemption or repurchase was determined.

Other disclosures

137 An entity shall disclose in the notes:

- (a) the amount of dividends proposed or declared before the financial statements were approved for issue but not recognised as a distribution to owners during the period, and the related amount per share; and
- (b) the amount of any cumulative preference dividends not recognised.

138 An entity shall disclose the following, if not disclosed elsewhere in information published with the financial statements:

- (a) the domicile and legal form of the entity, its country of incorporation and the address of its registered office (or principal place of business, if different from the registered office);
- (b) a description of the nature of the entity's operations and its principal activities;
- (c) the name of the parent and the ultimate parent of the group; and
- (d) if it is a limited life entity, information regarding the length of its life.

Transition and Effective Date

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139N As a consequence of issuance of Ind AS 115, *Revenue from Contracts with Customers*, paragraph 34 is amended. An entity shall apply those amendments when it applies Ind AS 115.

139-O-139P *Omitted**

139Q Ind AS 116, *Leases*, amended paragraph 123. An entity shall apply that amendment when it applies Ind AS 116.

139R [Refer Appendix 1]

139S *Amendments to References to the Conceptual Framework in Ind AS* issued in 2021, amended paragraphs 15, 19–20, 23–24, 28 and 89. An entity shall apply those amendments for annual periods beginning on or after the 1st April, 2021. An entity shall apply the amendments to Ind AS 1 retrospectively in accordance with Ind AS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*. However, if an entity determines that retrospective application would be impracticable or would involve undue cost or effort, it shall apply the amendments to Ind AS 1 by reference to paragraphs 23–28, 50–53 and 54F of Ind AS 8.

139T *Definition of Material* (Amendments to Ind AS 1 and Ind AS 8) amended paragraph 7 of Ind AS 1 and paragraph 5 of Ind AS 8, and deleted paragraph 6 of Ind AS 8. An entity shall apply those amendments prospectively for annual periods beginning on or after the 1st April, 2020.

* Refer Appendix 1

* Refer Appendix 1

Appendix A

References to matters contained in other Indian Accounting Standards

This Appendix is an integral part of the Ind AS.

This appendix lists the different appendices which are the part of other Indian Accounting Standards and make reference to Ind AS 1.

- 1 Appendix A, *Distributions of Non-cash Assets to Owners*, contained in *Ind AS 10, Events after the Reporting Period*
- 2 Appendix A, *Changes in Existing Decommissioning, Restoration and Similar Liabilities*, contained in *Ind AS 16, Property, Plant and Equipment*
- 3 Appendix B, *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*, contained in *Ind AS 19, Employee Benefits*
- 4 Appendix A, *Intangible Assets—Web Site Costs*, contained in *Ind AS 38, Intangible Assets*
- 5 Appendix D, *Extinguishing Financial Liabilities with Equity Instruments* contained in *Ind AS 109, Financial Instruments*.
- 6 Appendix C, *Levies*, contained in *Ind AS 37, Provisions, Contingent Liabilities and Contingent Assets*.
- 7 Appendix B, *Stripping Costs in the Production Phase of a Surface Mine*, contained in *Ind AS 16, Property, Plant and Equipment*.

Appendix 1

Note: This Appendix is not a part of the Indian Accounting Standard. The purpose of this Appendix is only to bring out the major differences, if any, between Indian Accounting Standard (Ind AS) 1 and the corresponding International Accounting Standard (IAS) 1, Presentation of Financial Statements, issued by the International Accounting Standards Board.

Comparison with IAS 1, *Presentation of Financial Statements*

1. With regard to preparation of Statement of profit and loss, International Accounting Standard (IAS) 1, *Presentation of Financial Statements*, provides an option either to follow the single statement approach or to follow the two statement approach. Paragraph 10A of IAS 1 provides that 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, which shall begin with profit or loss. Ind AS 1 allows only the single statement approach. Accordingly paragraph 10A has been modified.
2. Different terminology is used in Ind AS 1 eg, the term ‘balance sheet’ is used instead of ‘Statement of financial position’ and ‘Statement of Profit and Loss’ is used instead of ‘Statement of profit and loss and other comprehensive income’. The words ‘approval of the financial statements for issue’ have been used instead of ‘authorisation of the financial statements for issue’ in the context of financial statements considered for the purpose of events after the reporting period. The words ‘true and fair view’ have been used instead of ‘fair presentation’.
3. Paragraph 8 of 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. However, paragraph number 8 has been retained in Ind AS 1 to maintain consistency with paragraph numbers of IAS 1. Similar changes has been made in paragraph 10 also.
4. Paragraph 37 of IAS 1 permits the periodicity, for example, of 52 weeks for preparation of financial statements. As Ind AS 1 does not permit it, the same is deleted. However, paragraph number 37 has been retained in Ind AS 1 to maintain consistency with paragraph numbers of IAS 1.
5. Paragraph 99 of 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. In IAS 1 the following paragraphs are with reference to function-wise classification of expense. In order to maintain consistency with paragraph numbers of IAS 1, the paragraph numbers are retained in Ind AS 1:
 - (i) Paragraph 103
 - (ii) Paragraph 104
 - (iii) Paragraph 105
6. Following paragraph numbers appear as ‘Deleted’ in IAS 1. In order to maintain consistency with paragraph numbers of IAS 1, the paragraph numbers are retained in Ind AS 1.
 - (i) paragraph 12
 - (ii) paragraphs 39-40
 - (iii) paragraph 81
 - (iv) paragraph 82(e)
 - (v) paragraphs 82(f)-(i)
 - (vi) paragraphs 83-84
 - (vii) paragraph 106(c)
 - (viii) paragraph 123(a)
 - (ix) paragraph 115
 - (x) paragraph 120
7. Paragraph 29 and 31 dealing with materiality and aggregation has been modified to include words ‘except when required by law’.
8. 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.

9. Paragraph 74 has been modified to clarify 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. Consequential to this Paragraph 76 has been deleted.
10. Paragraphs 139 to 139M and 139O-139P related to Transition and Effective Date have not been included in Ind AS 1 as these are not relevant in Indian context. Paragraph 139R relates to IFRS 17, *Insurance Contracts*, for which corresponding Ind AS is under formulation. However, in order to maintain consistency with paragraph numbers of IAS 1, these paragraph numbers are retained in Ind AS 1.

Indian Accounting Standard (Ind AS) 2

Inventories

(This Indian Accounting Standard includes paragraphs set in **bold** type and plain type, which have equal authority. Paragraphs in bold italic type indicate the main principles.)

Objective

- 1 The objective of this Standard is to prescribe the accounting treatment for inventories. A primary issue in accounting for inventories is the amount of cost to be recognised as an asset and carried forward until the related revenues are recognised. This Standard deals with the determination of cost and its subsequent recognition as an expense, including any write-down to net realisable value. It also provides guidance on the cost formulas that are used to assign costs to inventories.

Scope

- 2 **This Standard applies to all inventories, except:**
 - (a) ~~[Omitted by the Companies (Indian Accounting Standards) Amendment Rules, 2018, dated 28-3-2018] work in progress arising under construction contracts, including directly related service contracts (see Ind AS 11, Construction Contracts);~~
 - (b) financial instruments (Ind AS 32, *Financial Instruments: Presentation* and Ind AS 109, *Financial Instruments* and); and
 - (c) biological assets (ie living animals or plants) related to agricultural activity and agricultural produce at the point of harvest (See Ind AS 41, *Agriculture*).
- 3 **This Standard does not apply to the measurement of inventories held by:**
 - (a) producers of agricultural and forest products, agricultural produce after harvest, and minerals and mineral products, to the extent that they are measured at net realisable value in accordance with well-established practices in those industries. When such inventories are measured at net realisable value, changes in that value are recognised in profit or loss in the period of the change.
 - (b) commodity broker-traders who measure their inventories at fair value less costs to sell. When such inventories are measured at fair value less costs to sell, changes in fair value less costs to sell are recognised in profit or loss in the period of the change.
- 4 The inventories referred to in paragraph 3(a) are measured at net realisable value at certain stages of production. This occurs, for example, when agricultural crops have been harvested or minerals have been extracted and sale is assured under a forward contract or a government guarantee, or when an active market exists and there is a negligible risk of failure to sell. These inventories are excluded from only the measurement requirements of this Standard.
- 5 Broker-traders are those who buy or sell commodities for others or on their own account. The inventories referred to in paragraph 3(b) are principally acquired with the purpose of selling in the near future and generating a profit from fluctuations in price or broker-traders' margin. When these inventories are measured at fair value less costs to sell, they are excluded from only the measurement requirements of this Standard.

Definitions

- 6 **The following terms are used in this Standard with the meanings specified:**

Inventories are assets:

- (a) held for sale in the ordinary course of business;
- (b) in the process of production for such sale; or
- (c) in the form of materials or supplies to be consumed in the production process or in the rendering of services.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

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. (See Ind AS 113, *Fair Value Measurement*.)

- 7 Net realisable value refers to the net amount that an entity expects to realise from the sale of inventory in the ordinary course of business. Fair value reflects the price at which an orderly transaction to sell the same inventory in the principal (or most advantageous) market for that inventory would take place between market participants at

the measurement date. The former is an entity-specific value; the latter is not. Net realisable value for inventories may not equal fair value less costs to sell.

- 8 Inventories encompass goods purchased and held for resale including, for example, merchandise purchased by a retailer and held for resale, or land and other property held for resale. Inventories also encompass finished goods produced, or work in progress being produced, by the entity and include materials and supplies awaiting use in the production process. Costs incurred to fulfil a contract with a customer that do not give rise to inventories (or assets within the scope of another Standard) are accounted for in accordance with Ind AS 115, *Revenue from Contracts with Customers*.

Measurement of inventories

9 Inventories shall be measured at the lower of cost and net realisable value.

Cost of inventories

- 10 The cost of inventories shall comprise all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Costs of purchase

- 11 The costs of purchase of inventories comprise the purchase price, import duties and other taxes (other than those subsequently recoverable by the entity from the taxing authorities), and transport, handling and other costs directly attributable to the acquisition of finished goods, materials and services. Trade discounts, rebates and other similar items are deducted in determining the costs of purchase.

Costs of conversion

- 12 The costs of conversion of inventories include costs directly related to the units of production, such as direct labour. They also include a systematic allocation of fixed and variable production overheads that are incurred in converting materials into finished goods. Fixed production overheads are those indirect costs of production that remain relatively constant regardless of the volume of production, such as depreciation and maintenance of factory buildings, equipment and right-of-use assets used in the production process, and the cost of factory management and administration. Variable production overheads are those indirect costs of production that vary directly, or nearly directly, with the volume of production, such as indirect materials and indirect labour.
- 13 The allocation of fixed production overheads to the costs of conversion is based on the normal capacity of the production facilities. Normal capacity is the production expected to be achieved on average over a number of periods or seasons under normal circumstances, taking into account the loss of capacity resulting from planned maintenance. The actual level of production may be used if it approximates normal capacity. The amount of fixed overhead allocated to each unit of production is not increased as a consequence of low production or idle plant. Unallocated overheads are recognised as an expense in the period in which they are incurred. In periods of abnormally high production, the amount of fixed overhead allocated to each unit of production is decreased so that inventories are not measured above cost. Variable production overheads are allocated to each unit of production on the basis of the actual use of the production facilities.
- 14 A production process may result in more than one product being produced simultaneously. This is the case, for example, when joint products are produced or when there is a main product and a by-product. When the costs of conversion of each product are not separately identifiable, they are allocated between the products on a rational and consistent basis. The allocation may be based, for example, on the relative sales value of each product either at the stage in the production process when the products become separately identifiable, or at the completion of production. Most by-products, by their nature, are immaterial. When this is the case, they are often measured at net realisable value and this value is deducted from the cost of the main product. As a result, the carrying amount of the main product is not materially different from its cost.

Other costs

- 15 Other costs are included in the cost of inventories only to the extent that they are incurred in bringing the inventories to their present location and condition. For example, it may be appropriate to include non-production overheads or the costs of designing products for specific customers in the cost of inventories.
- 16 Examples of costs excluded from the cost of inventories and recognised as expenses in the period in which they are incurred are:
- (a) abnormal amounts of wasted materials, labour or other production costs;
 - (b) storage costs, unless those costs are necessary in the production process before a further production stage;
 - (c) administrative overheads that do not contribute to bringing inventories to their present location and condition; and
 - (d) selling costs.

- 17 Ind AS 23, *Borrowing Costs*, identifies limited circumstances where borrowing costs are included in the cost of inventories.
- 18 An entity may purchase inventories on deferred settlement terms. When the arrangement effectively contains a financing element, that element, for example a difference between the purchase price for normal credit terms and the amount paid, is recognised as interest expense over the period of the financing.

Cost of inventories of a service provider

- 19 ~~[Omitted by the Companies (Indian Accounting Standards) Amendment Rules, 2018, dated 28-3-2018] To the extent that service providers have inventories, they measure them at the costs of their production. These costs consist primarily of the labour and other costs of personnel directly engaged in providing the service, including supervisory personnel, and attributable overheads. Labour and other costs relating to sales and general administrative personnel are not included but are recognised as expenses in the period in which they are incurred. The cost of inventories of a service provider does not include profit margins or non-attributable overheads that are often factored into prices charged by service providers.~~

Cost of agricultural produce harvested from biological assets

- 20 In accordance with Ind AS 41, *Agriculture*, inventories comprising agricultural produce that an entity has harvested from its biological assets are measured on initial recognition at their fair value less costs to sell at the point of harvest. This is the cost of the inventories at that date for application of this Standard.

Techniques for the measurement of cost

- 21 Techniques for the measurement of the cost of inventories, such as the standard cost method or the retail method, may be used for convenience if the results approximate cost. Standard costs take into account normal levels of materials and supplies, labour, efficiency and capacity utilisation. They are regularly reviewed and, if necessary, revised in the light of current conditions.
- 22 The retail method is often used in the retail industry for measuring inventories of large numbers of rapidly changing items with similar margins for which it is impracticable to use other costing methods. The cost of the inventory is determined by reducing the sales value of the inventory by the appropriate percentage gross margin. The percentage used takes into consideration inventory that has been marked down to below its original selling price. An average percentage for each retail department is often used.

Cost Formulas

- 23 **The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects shall be assigned by using specific identification of their individual costs.**
- 24 Specific identification of cost means that specific costs are attributed to identified items of inventory. This is the appropriate treatment for items that are segregated for a specific project, regardless of whether they have been bought or produced. However, specific identification of costs is inappropriate when there are large numbers of items of inventory that are ordinarily interchangeable. In such circumstances, the method of selecting those items that remain in inventories could be used to obtain predetermined effects on profit or loss.
- 25 **The cost of inventories, other than those dealt with in paragraph 23, shall be assigned by using the first-in, first-out (FIFO) or weighted average cost formula. An entity shall use the same cost formula for all inventories having a similar nature and use to the entity. For inventories with a different nature or use, different cost formulas may be justified.**
- 26 For example, inventories used in one operating segment may have a use to the entity different from the same type of inventories used in another operating segment. However, a difference in geographical location of inventories (or in the respective tax rules), by itself, is not sufficient to justify the use of different cost formulas.
- 27 The FIFO formula assumes that the items of inventory that were purchased or produced first are sold first, and consequently the items remaining in inventory at the end of the period are those most recently purchased or produced. Under the weighted average cost formula, the cost of each item is determined from the weighted average of the cost of similar items at the beginning of a period and the cost of similar items purchased or produced during the period. The average may be calculated on a periodic basis, or as each additional shipment is received, depending upon the circumstances of the entity.

Net realisable value

- 28 The cost of inventories may not be recoverable if those inventories are damaged, if they have become wholly or partially obsolete, or if their selling prices have declined. The cost of inventories may also not be recoverable if the estimated costs of completion or the estimated costs to be incurred to make the sale have increased. The practice of writing inventories down below cost to net realisable value is consistent with the view that assets should not be carried in excess of amounts expected to be realised from their sale or use.

- 29 Inventories are usually written down to net realisable value item by item. In some circumstances, however, it may be appropriate to group similar or related items. This may be the case with items of inventory relating to the same product line that have similar purposes or end uses, are produced and marketed in the same geographical area, and cannot be practicably evaluated separately from other items in that product line. It is not appropriate to write inventories down on the basis of a classification of inventory, for example, finished goods, or all the inventories in a particular operating segment.
- 30 Estimates of net realisable value are based on the most reliable evidence available at the time the estimates are made, of the amount the inventories are expected to realise. These estimates take into consideration fluctuations of price or cost directly relating to events occurring after the end of the period to the extent that such events confirm conditions existing at the end of the period.
- 31 Estimates of net realisable value also take into consideration the purpose for which the inventory is held. For example, the net realisable value of the quantity of inventory held to satisfy firm sales or service contracts is based on the contract price. If the sales contracts are for less than the inventory quantities held, the net realisable value of the excess is based on general selling prices. Provisions may arise from firm sales contracts in excess of inventory quantities held or from firm purchase contracts. Such provisions are dealt with under Ind AS 37, *Provisions, Contingent Liabilities and Contingent Assets*.
- 32 Materials and other supplies held for use in the production of inventories are not written down below cost if the finished products in which they will be incorporated are expected to be sold at or above cost. However, when a decline in the price of materials indicates that the cost of the finished products exceeds net realisable value, the materials are written down to net realisable value. In such circumstances, the replacement cost of the materials may be the best available measure of their net realisable value.
- 33 A new assessment is made of net realisable value in each subsequent period. When the circumstances that previously caused inventories to be written down below cost no longer exist or when there is clear evidence of an increase in net realisable value because of changed economic circumstances, the amount of the write-down is reversed (ie the reversal is limited to the amount of the original write-down) so that the new carrying amount is the lower of the cost and the revised net realisable value. This occurs, for example, when an item of inventory that is carried at net realisable value, because its selling price has declined, is still on hand in a subsequent period and its selling price has increased.

Recognition as an expense

- 34 **When inventories are sold, the carrying amount of those inventories shall be recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories shall be recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, shall be recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.**
- 35 Some inventories may be allocated to other asset accounts, for example, inventory used as a component of self-constructed property, plant or equipment. Inventories allocated to another asset in this way are recognised as an expense during the useful life of that asset.

Disclosure

36 **The financial statements shall disclose:**

- (a) **the accounting policies adopted in measuring inventories, including the cost formula used;**
- (b) **the total carrying amount of inventories and the carrying amount in classifications appropriate to the entity;**
- (c) **the carrying amount of inventories carried at fair value less costs to sell;**
- (d) **the amount of inventories recognised as an expense during the period;**
- (e) **the amount of any write-down of inventories recognised as an expense in the period in accordance with paragraph 34;**
- (f) **the amount of any reversal of any write-down that is recognised as a reduction in the amount of inventories recognised as expense in the period in accordance with paragraph 34;**
- (g) **the circumstances or events that led to the reversal of a write-down of inventories in accordance with paragraph 34; and**
- (h) **the carrying amount of inventories pledged as security for liabilities.**

- 37 Information about the carrying amounts held in different classifications of inventories and the extent of the changes in these assets is useful to financial statement users. Common classifications of inventories are merchandise, production supplies, materials, work in progress and finished goods.
- 38 [Refer Appendix 1]
- 39 An entity adopts a format for profit or loss that results in amounts being disclosed other than the cost of inventories recognised as an expense during the period. Under this format, the entity presents an analysis of expenses using a classification based on the nature of expenses. In this case, the entity discloses the costs recognised as an expense for raw materials and consumables, labour costs and other costs together with the amount of the net change in inventories for the period.

Effective Date

- 40 *
- 40A *
- 40B *
- 40C *
- 40D *
- 40E As a consequence of issuance of Ind AS 115, *Revenue from Contracts with Customers*, paragraphs 2, 8, 29, 37 are amended. An entity shall apply those amendments when it applies Ind AS 115.
- 40F *Omitted**
- 40G Ind AS 116 amended paragraph 12. An entity shall apply that amendment when it applies Ind AS 116.

Appendix A**References to matters contained in other Indian Accounting Standards**

This Appendix is an integral part of the Ind AS.

This appendix lists the appendix which is a part of another Indian Accounting Standard and makes reference to Ind AS 2, *Inventories*.

- 1 Appendix A, *Intangible Assets-Web site Costs*, contained in Ind AS 38, *Intangible Assets*.
- 2 Appendix B, *Stripping Costs in the Production Phase of a Surface Mine*, contained in Ind AS 16, *Property, Plant and Equipment*.

* Refer Appendix 1

Appendix 1

Note: This Appendix is not a part of the Indian Accounting Standard. The purpose of this Appendix is only to bring out the major differences, if any, between Indian Accounting Standard (Ind AS) 2 and the corresponding International Accounting Standard (IAS) 2, Inventories, issued by the International Accounting Standards Board.

Comparison with IAS 2, *Inventories*

- 1 Paragraph 38 of IAS 2 dealing with recognition of inventories as an expense based on function-wise classification, has been deleted keeping in view the fact that option provided in IAS 1 to present an analysis of expenses recognised in profit or loss using a classification based on their function within the entity has been removed and Ind AS 1 requires only nature-wise classification of expenses. However, in order to maintain consistency with paragraph numbers of IAS 2, the paragraph number is retained in Ind AS 2.
- 2 Following paragraph numbers appear as 'Deleted' in IAS 2. In order to maintain consistency with paragraph numbers of IAS 2, the paragraph numbers are retained in Ind AS 2:
 - (i) Paragraph 2(a)
 - (ii) Paragraph 19.
- 3 Paragraphs 40-40D and 40F related to effective date have not been included in Ind AS 2 as these are not relevant in Indian context. However, in order to maintain consistency with paragraph numbers of IAS 2, these paragraph numbers are retained in Ind AS 2.

Indian Accounting Standard (Ind AS) 7

Statement of Cash Flows

(This Indian Accounting Standard includes paragraphs set in **bold** type and plain type, which have equal authority. Paragraphs in bold type indicate the main principles.)

Objective

Information about the cash flows of an entity is useful in providing users of financial statements with a basis to assess the ability of the entity to generate cash and cash equivalents and the needs of the entity to utilise those cash flows. The economic decisions that are taken by users require an evaluation of the ability of an entity to generate cash and cash equivalents and the timing and certainty of their generation.

The objective of this Standard is to require the provision of information about the historical changes in cash and cash equivalents of an entity by means of a statement of cash flows which classifies cash flows during the period from operating, investing and financing activities.

Scope

- 1 **An entity shall prepare a statement of cash flows in accordance with the requirements of this Standard and shall present it as an integral part of its financial statements for each period for which financial statements are presented.**
- 2 [Refer Appendix 1]
- 3 Users of an entity's financial statements are interested in how the entity generates and uses cash and cash equivalents. This is the case regardless of the nature of the entity's activities and irrespective of whether cash can be viewed as the product of the entity, as may be the case with a financial institution. Entities need cash for essentially the same reasons however different their principal revenue-producing activities might be. They need cash to conduct their operations, to pay their obligations, and to provide returns to their investors. Accordingly, this Standard requires all entities to present a statement of cash flows.

Benefits of cash flow information

- 4 A statement of cash flows, when used in conjunction with the rest of the financial statements, provides information that enables users to evaluate the changes in net assets of an entity, its financial structure (including its liquidity and solvency) and its ability to affect the amounts and timing of cash flows in order to adapt to changing circumstances and opportunities. Cash flow information is useful in assessing the ability of the entity to generate cash and cash equivalents and enables users to develop models to assess and compare the present value of the future cash flows of different entities. It also enhances the comparability of the reporting of operating performance by different entities because it eliminates the effects of using different accounting treatments for the same transactions and events.
- 5 Historical cash flow information is often used as an indicator of the amount, timing and certainty of future cash flows. It is also useful in checking the accuracy of past assessments of future cash flows and in examining the relationship between profitability and net cash flow and the impact of changing prices.

Definitions

- 6 **The following terms are used in this Standard with the meanings specified:**

Cash comprises cash on hand and demand deposits.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Cash flows are inflows and outflows of cash and cash equivalents.

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

Investing activities are the acquisition and disposal of long-term assets and other investments not included in cash equivalents.

Financing activities are activities that result in changes in the size and composition of the contributed equity and borrowings of the entity.

Cash and cash equivalents

- 7 Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes. For an investment to qualify as a cash equivalent it must be readily convertible to a known amount

of cash and be subject to an insignificant risk of changes in value. Therefore, an investment normally qualifies as a cash equivalent only when it has a short maturity of, say, three months or less from the date of acquisition. Equity investments are excluded from cash equivalents unless they are, in substance, cash equivalents, for example in the case of preference shares acquired within a short period of their maturity and with a specified redemption date.

- 8 Bank borrowings are generally considered to be financing activities. However, where bank overdrafts which are repayable on demand form an integral part of an entity's cash management, bank overdrafts are included as a component of cash and cash equivalents. A characteristic of such banking arrangements is that the bank balance often fluctuates from being positive to overdrawn.
- 9 Cash flows exclude movements between items that constitute cash or cash equivalents because these components are part of the cash management of an entity rather than part of its operating, investing and financing activities. Cash management includes the investment of excess cash in cash equivalents.

Presentation of a statement of cash flows

10 The statement of cash flows shall report cash flows during the period classified by operating, investing and financing activities.

- 11 An entity presents its cash flows from operating, investing and financing activities in a manner which is most appropriate to its business. Classification by activity provides information that allows users to assess the impact of those activities on the financial position of the entity and the amount of its cash and cash equivalents. This information may also be used to evaluate the relationships among those activities.
- 12 A single transaction may include cash flows that are classified differently. For example, when the instalment paid in respect of an item of Property, Plant and Equipment acquired on deferred payment basis includes interest, the interest element is classified under financing activities and the loan element is classified under investing activities.

Operating activities

- 13 The amount of cash flows arising from operating activities is a key indicator of the extent to which the operations of the entity have generated sufficient cash flows to repay loans, maintain the operating capability of the entity, pay dividends and make new investments without recourse to external sources of financing. Information about the specific components of historical operating cash flows is useful, in conjunction with other information, in forecasting future operating cash flows.
- 14 Cash flows from operating activities are primarily derived from the principal revenue-producing activities of the entity. Therefore, they generally result from the transactions and other events that enter into the determination of profit or loss. Examples of cash flows from operating activities are:
 - (a) cash receipts from the sale of goods and the rendering of services;
 - (b) cash receipts from royalties, fees, commissions and other revenue;
 - (c) cash payments to suppliers for goods and services;
 - (d) cash payments to and on behalf of employees;
 - (e) cash receipts and cash payments of an insurance entity for premiums and claims, annuities and other policy benefits;
 - (f) cash payments or refunds of income taxes unless they can be specifically identified with financing and investing activities; and
 - (g) cash receipts and payments from contracts held for dealing or trading purposes. Some transactions, such as the sale of an item of plant, may give rise to a gain or loss that is included in recognised profit or loss. The cash flows relating to such transactions are cash flows from investing activities. However, cash payments to manufacture or acquire assets held for rental to others and subsequently held for sale as described in paragraph 68A of Ind AS 16, *Property, Plant and Equipment*, are cash flows from operating activities. The cash receipts from rents and subsequent sales of such assets are also cash flows from operating activities.
- 15 An entity may hold securities and loans for dealing or trading purposes, in which case they are similar to inventory acquired specifically for resale. Therefore, cash flows arising from the purchase and sale of dealing or trading securities are classified as operating activities. Similarly, cash advances and loans made by financial institutions are usually classified as operating activities since they relate to the main revenue-producing activity of that entity.

Investing activities

- 16 The separate disclosure of cash flows arising from investing activities is important because the cash flows represent the extent to which expenditures have been made for resources intended to generate future income and cash flows. Only expenditures that result in a recognized asset in the balance sheet are eligible for classification as investing activities. Examples of cash flows arising from investing activities are:

- (a) cash payments to acquire property, plant and equipment, intangibles and other long-term assets. These payments include those relating to capitalised development costs and self-constructed property, plant and equipment;
- (b) cash receipts from sales of property, plant and equipment, intangibles and other long-term assets;
- (c) cash payments to acquire equity or debt instruments of other entities and interests in joint ventures (other than payments for those instruments considered to be cash equivalents or those held for dealing or trading purposes);
- (d) cash receipts from sales of equity or debt instruments of other entities and interests in joint ventures (other than receipts for those instruments considered to be cash equivalents and those held for dealing or trading purposes);
- (e) cash advances and loans made to other parties (other than advances and loans made by a financial institution);
- (f) cash receipts from the repayment of advances and loans made to other parties (other than advances and loans of a financial institution);
- (g) cash payments for futures contracts, forward contracts, option contracts and swap contracts except when the contracts are held for dealing or trading purposes, or the payments are classified as financing activities; and
- (h) cash receipts from futures contracts, forward contracts, option contracts and swap contracts except when the contracts are held for dealing or trading purposes, or the receipts are classified as financing activities.

When a contract is accounted for as a hedge of an identifiable position the cash flows of the contract are classified in the same manner as the cash flows of the position being hedged.

Financing activities

- 17 The separate disclosure of cash flows arising from financing activities is important because it is useful in predicting claims on future cash flows by providers of capital to the entity. Examples of cash flows arising from financing activities are:
- (a) cash proceeds from issuing shares or other equity instruments;
 - (b) cash payments to owners to acquire or redeem the entity's shares;
 - (c) cash payments by a lessee for the reduction of the outstanding liability relating to a lease.
 - (d) cash repayments of amounts borrowed; and
 - (e) cash payments by a lessee for the reduction of the outstanding liability relating to a finance lease.

Reporting cash flows from operating activities

18 An entity shall report cash flows from operating activities using either:

- (a) the direct method, whereby major classes of gross cash receipts and gross cash payments are disclosed; or**
- (b) the indirect method, whereby profit or loss is adjusted for the effects of transactions of a non-cash nature, any deferrals or accruals of past or future operating cash receipts or payments, and items of income or expense associated with investing or financing cash flows.**

19 Entities are encouraged to report cash flows from operating activities using the direct method. The direct method provides information which may be useful in estimating future cash flows and which is not available under the indirect method. Under the direct method, information about major classes of gross cash receipts and gross cash payments may be obtained either:

- (a) from the accounting records of the entity; or
- (b) by adjusting sales, cost of sales (interest and similar income and interest expense and similar charges for a financial institution) and other items in the statement of profit and loss for:
 - (i) changes during the period in inventories and operating receivables and payables;
 - (ii) other non-cash items; and
 - (iii) other items for which the cash effects are investing or financing cash flows.

20 Under the indirect method, the net cash flow from operating activities is determined by adjusting profit or loss for the effects of:

- (a) changes during the period in inventories and operating receivables and payables;
- (b) non-cash items such as depreciation, provisions, deferred taxes, unrealised foreign currency gains and losses, and undistributed profits of associates; and
- (c) all other items for which the cash effects are investing or financing cash flows. Alternatively, the net cash flow from operating activities may be presented under the indirect method by showing the revenues and expenses disclosed in the statement of profit and loss and the changes during the period in inventories and operating receivables and payables.

Reporting cash flows from investing and financing activities

- 21 An entity shall report separately major classes of gross cash receipts and gross cash payments arising from investing and financing activities, except to the extent that cash flows described in paragraphs 22 and 24 are reported on a net basis.**

Reporting cash flows on a net basis

- 22 Cash flows arising from the following operating, investing or financing activities may be reported on a net basis:**
- (a) cash receipts and payments on behalf of customers when the cash flows reflect the activities of the customer rather than those of the entity; and
 - (b) cash receipts and payments for items in which the turnover is quick, the amounts are large, and the maturities are short.
- 23 Examples of cash receipts and payments referred to in paragraph 22(a) are:
- (a) the acceptance and repayment of demand deposits of a bank;
 - (b) funds held for customers by an investment entity; and
 - (c) rents collected on behalf of, and paid over to, the owners of properties.
- 23A Examples of cash receipts and payments referred to in paragraph 22(b) are advances made for, and the repayment of:
- (a) principal amounts relating to credit card customers;
 - (b) the purchase and sale of investments; and
 - (c) other short-term borrowings, for example, those which have a maturity period of three months or less.
- 24 Cash flows arising from each of the following activities of a financial institution may be reported on a net basis:**
- (a) cash receipts and payments for the acceptance and repayment of deposits with a fixed maturity date;
 - (b) the placement of deposits with and withdrawal of deposits from other financial institutions; and
 - (c) cash advances and loans made to customers and the repayment of those advances and loans.

Foreign currency cash flows

- 25 Cash flows arising from transactions in a foreign currency shall be recorded in an entity's functional currency by applying to the foreign currency amount the exchange rate between the functional currency and the foreign currency at the date of the cash flow.**
- 26 The cash flows of a foreign subsidiary shall be translated at the exchange rates between the functional currency and the foreign currency at the dates of the cash flows.**
- 27 Cash flows denominated in a foreign currency are reported in a manner consistent with Ind AS 21, *The Effects of Changes in Foreign Exchange Rates*. This permits the use of an exchange rate that approximates the actual rate. For example, a weighted average exchange rate for a period may be used for recording foreign currency transactions or the translation of the cash flows of a foreign subsidiary. However, Ind AS 21 does not permit use of the exchange rate at the end of the reporting period when translating the cash flows of a foreign subsidiary.
- 28 Unrealised gains and losses arising from changes in foreign currency exchange rates are not cash flows. However, the effect of exchange rate changes on cash and cash equivalents held or due in a foreign currency is reported in the statement of cash flows in order to reconcile cash and cash equivalents at the beginning and the end of the period. This amount is presented separately from cash flows from operating, investing and financing activities and includes the differences, if any, had those cash flows been reported at end of period exchange rates.
- 29 [Refer Appendix 1]
- 30 [Refer Appendix 1]

Interest and dividends

- 31 Cash flows from interest and dividends received and paid shall each be disclosed separately. Cash flows arising from interest paid and interest and dividends received in the case of a financial institution should be classified as cash flows arising from operating activities. In the case of other entities, cash flows arising from interest paid should be classified as cash flows from financing activities while interest and dividends received should be classified as cash flows from investing activities. Dividends paid should be classified as cash flows from financing activities.**
- 32 The total amount of interest paid during a period is disclosed in the statement of cash flows whether it has been recognised as an expense in profit or loss or capitalised in accordance with Ind AS 23, *Borrowing Costs*.

- 33 Interest paid and interest and dividends received are usually classified as operating cash flows for a financial institution. However, there is no consensus on the classification of these cash flows for other entities. Some argue that interest paid and interest and dividends received may be classified as operating cash flows because they enter into the determination of profit or loss. However, it is more appropriate that interest paid and interest and dividends received are classified as financing cash flows and investing cash flows respectively, because they are costs of obtaining financial resources or returns on investments.
- 34 Some argue that dividends paid may be classified as a component of cash flows from operating activities in order to assist users to determine the ability of an entity to pay dividends out of operating cash flows. However, it is considered more appropriate that dividends paid should be classified as cash flows from financing activities because they are cost of obtaining financial resources.

Taxes on income

- 35 Cash flows arising from taxes on income shall be separately disclosed and shall be classified as cash flows from operating activities unless they can be specifically identified with financing and investing activities.**
- 36 Taxes on income arise on transactions that give rise to cash flows that are classified as operating, investing or financing activities in a statement of cash flows. While tax expense may be readily identifiable with investing or financing activities, the related tax cash flows are often impracticable to identify and may arise in a different period from the cash flows of the underlying transaction. Therefore, taxes paid are usually classified as cash flows from operating activities. However, when it is practicable to identify the tax cash flow with an individual transaction that gives rise to cash flows that are classified as investing or financing activities the tax cash flow is classified as an investing or financing activity as appropriate. When tax cash flows are allocated over more than one class of activity, the total amount of taxes paid is disclosed.

Investments in subsidiaries, associates and joint ventures

- 37 When accounting for an investment in an associate, a joint venture or a subsidiary accounted for by use of the equity or cost method, an investor restricts its reporting in the statement of cash flows to the cash flows between itself and the investee, for example, to dividends and advances.
- 38 An entity that reports its interest in an associate or a joint venture using the equity method includes in its statement of cash flows the cash flows in respect of its investments in the associate or joint venture, and distributions and other payments or receipts between it and the associate or joint venture.

Changes in ownership interests in subsidiaries and other businesses

- 39 The aggregate cash flows arising from obtaining or losing control of subsidiaries or other businesses shall be presented separately and classified as investing activities.**
- 40 An entity shall disclose, in aggregate, in respect of both obtaining and losing control of subsidiaries or other businesses during the period each of the following:**
- (a) the total consideration paid or received;**
 - (b) the portion of the consideration consisting of cash and cash equivalents;**
 - (c) the amount of cash and cash equivalents in the subsidiaries or other businesses over which control is obtained or lost; and**
 - (d) the amount of the assets and liabilities other than cash or cash equivalents in the subsidiaries or other businesses over which control is obtained or lost, summarised by each major category.**
- 40A An investment entity, as defined in Ind AS 110, *Consolidated Financial Statements*, need not apply paragraphs 40(c) or 40(d) to an investment in a subsidiary that is required to be measured at fair value through profit or loss.
- 41 The separate presentation of the cash flow effects of obtaining or losing control of subsidiaries or other businesses as single line items, together with the separate disclosure of the amounts of assets and liabilities acquired or disposed of, helps to distinguish those cash flows from the cash flows arising from the other operating, investing and financing activities. The cash flow effects of losing control are not deducted from those of obtaining control.
- 42 The aggregate amount of the cash paid or received as consideration for obtaining or losing control of subsidiaries or other businesses is reported in the statement of cash flows net of cash and cash equivalents acquired or disposed of as part of such transactions, events or changes in circumstances.
- 42A Cash flows arising from changes in ownership interests in a subsidiary that do not result in a loss of control shall be classified as cash flows from financing activities, unless the subsidiary is held by an investment entity, as defined in Ind AS 110, and is required to be measured at fair value through profit or loss.
- 42B Changes in ownership interests in a subsidiary that do not result in a loss of control, such as the subsequent purchase or sale by a parent of a subsidiary's equity instruments, are accounted for as equity transactions (see Ind AS 110), unless the subsidiary is held by an investment entity and is required to be measured at fair value through

profit or loss. Accordingly, the resulting cash flows are classified in the same way as other transactions with owners described in paragraph 17.

Non-cash transactions

43 Investing and financing transactions that do not require the use of cash or cash equivalents shall be excluded from a statement of cash flows. Such transactions shall be disclosed elsewhere in the financial statements in a way that provides all the relevant information about these investing and financing activities.

44 Many investing and financing activities do not have a direct impact on current cash flows although they do affect the capital and asset structure of an entity. The exclusion of non-cash transactions from the statement of cash flows is consistent with the objective of a statement of cash flows as these items do not involve cash flows in the current period. Examples of non-cash transactions are:

- (a) the acquisition of assets either by assuming directly related liabilities or by means of a lease;
- (b) the acquisition of an entity by means of an equity issue; and
- (c) the conversion of debt to equity.

Changes in liabilities arising from financing activities

44A An entity shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

44B To the extent necessary to satisfy the requirement in paragraph 44A, an entity shall disclose the following changes in liabilities arising from financing activities:

- (a) changes from financing cash flows;
- (b) changes arising from obtaining or losing control of subsidiaries or other businesses;
- (c) the effect of changes in foreign exchange rates;
- (d) changes in fair values; and
- (e) other changes.

44C Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the statement of cash flows as cash flows from financing activities. In addition, the disclosure requirement in paragraph 44A also applies to changes in financial assets (for example, assets that hedge liabilities arising from financing activities) if cash flows from those financial assets were, or future cash flows will be, included in cash flows from financing activities.

44D One way to fulfil the disclosure requirement in paragraph 44A is by providing a reconciliation between the opening and closing balances in the balance sheet for liabilities arising from financing activities, including the changes identified in paragraph 44B. Where an entity discloses such a reconciliation, it shall provide sufficient information to enable users of the financial statements to link items included in the reconciliation to the balance sheet and the statement of cash flows.

44E If an entity provides the disclosure required by paragraph 44A in combination with disclosures of changes in other assets and liabilities, it shall disclose the changes in liabilities arising from financing activities separately from changes in those other assets and liabilities.

Components of cash and cash equivalents

45 An entity shall disclose the components of cash and cash equivalents and shall present a reconciliation of the amounts in its statement of cash flows with the equivalent items reported in the balance sheet.

46 In view of the variety of cash management practices and banking arrangements around the world and in order to comply with Ind AS 1, *Presentation of Financial Statements*, an entity discloses the policy which it adopts in determining the composition of cash and cash equivalents.

47 The effect of any change in the policy for determining components of cash and cash equivalents, for example, a change in the classification of financial instruments previously considered to be part of an entity's investment portfolio, is reported in accordance with Ind AS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*.

Other disclosures

48 An entity shall disclose, together with a commentary by management, the amount of significant cash and cash equivalent balances held by the entity that are not available for use by the group¹.

49 There are various circumstances in which cash and cash equivalent balances held by an entity are not available for use by the group². Examples include cash and cash equivalent balances held by a subsidiary that operates in a

¹ The requirements shall be equally applicable to the entities in case of separate financial statements also.

² Ibid.

country where exchange controls or other legal restrictions apply when the balances are not available for general use by the parent or other subsidiaries.

- 50 Additional information may be relevant to users in understanding the financial position and liquidity of an entity. Disclosure of this information, together with a commentary by management, is encouraged and may include:
- (a) the amount of undrawn borrowing facilities that may be available for future operating activities and to settle capital commitments, indicating any restrictions on the use of these facilities;
 - (b) [Refer Appendix 1]
 - (c) the aggregate amount of cash flows that represent increases in operating capacity separately from those cash flows that are required to maintain operating capacity; and
 - (d) the amount of the cash flows arising from the operating, investing and financing activities of each reportable segment (see Ind AS 108, *Operating Segments*).
- 51 The separate disclosure of cash flows that represent increases in operating capacity and cash flows that are required to maintain operating capacity is useful in enabling the user to determine whether the entity is investing adequately in the maintenance of its operating capacity. An entity that does not invest adequately in the maintenance of its operating capacity may be prejudicing future profitability for the sake of current liquidity and distributions to owners.
- 52 The disclosure of segmental cash flows enables users to obtain a better understanding of the relationship between the cash flows of the business as a whole and those of its component parts and the availability and variability of segmental cash flows.

Effective date

53-58 [Refer Appendix 1]

59. Ind 116, *Leases*, amended paragraphs 17 and 44. An entity shall apply those amendments when it applies Ind AS 116.
- 60 Paragraphs 44A–44E have been added. When the entity first applies these amendments, it is not required to provide comparative information for preceding periods. An entity shall apply those amendments for annual periods beginning on or after 1 April, 2017.

Appendix 1

Note: This Appendix is not a part of the Indian Accounting Standard. The purpose of this Appendix is only to bring out the major differences, if any, between Indian Accounting Standard (Ind AS) 7 and the corresponding International Accounting Standard (IAS) 7, Statement of Cash Flows, issued by the International Accounting Standards Board.

Comparison with IAS 7, Statement of Cash Flows

Ind AS 7 differs from International Accounting Standard (IAS) 7, *Statement of Cash Flows*, in the following major respects:

1. In case of other than financial entities, IAS 7 gives an option to classify the interest paid and interest and dividends received as item of operating cash flows. Ind AS 7 does not provide such an option and requires these item to be classified as item of financing activity and investing activity, respectively (refer to the paragraph 33).
2. IAS 7 gives an option to classify the dividend paid as an item of operating activity. However, Ind AS 7 requires it to be classified as a part of financing activity only (refer paragraph 34).
3. Different terminology is used in this standard, eg, the term 'balance sheet' is used instead of 'Statement of financial position' and 'Statement of profit and loss' is used instead of 'Statement of comprehensive income'.
4. Paragraph 2 of IAS 7 which states that IAS 7 supersedes the earlier version IAS 7 is deleted in Ind AS 7 as this is not relevant in Ind AS 7. However, paragraph number 2 is retained in Ind AS 7 to maintain consistency with paragraph numbers of IAS 7.
5. The following paragraph numbers appear as 'Deleted' in IAS 7. In order to maintain consistency with paragraph numbers of IAS 7, the paragraph numbers are retained in Ind AS 7:
 - (i) paragraph 29
 - (ii) paragraph 30
 - (iii) paragraph 50(b)
6. Paragraphs 53-58 of IAS 7 have not been included in Ind AS 7 as these paragraphs relate to Effective Date. However, in order to maintain consistency with paragraph numbers of IAS 7, these paragraph numbers are retained in Ind AS 7.

Indian Accounting Standard (Ind AS) 8

Accounting Policies, Changes in Accounting Estimates and Errors

(This Indian Accounting Standard includes paragraphs set in **bold** type and plain type, which have equal authority. Paragraphs in bold type indicate the main principles.)

Objective

- 1 The objective of this Standard 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. 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.
- 2 Disclosure requirements for accounting policies, except those for changes in accounting policies, are set out in Ind AS 1, *Presentation of Financial Statements*.

Scope

- 3 **This Standard shall be applied in selecting and applying accounting policies, and accounting for changes in accounting policies, changes in accounting estimates and corrections of prior period errors.**
- 4 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*.

Definitions

- 5 **The following terms are used in this Standard with the meanings specified:**

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

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.

Indian Accounting Standards (Ind ASs) are Standards prescribed under Section 133 of the Companies Act, 2013.

Material the term "Material", used in this Standard shall have the same meaning as assigned to it in paragraph 7 of Ind AS 1.

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.

Retrospective application is applying a new accounting policy to transactions, other events and conditions as if that policy had always been applied.

Retrospective restatement is correcting the recognition, measurement and disclosure of amounts of elements of financial statements as if a prior period error had never occurred.

Impracticable Applying a requirement is impracticable when the entity cannot apply it after making every reasonable effort to do so. For a particular prior period, it is impracticable to apply a change in an accounting policy retrospectively or to make a retrospective restatement to correct an error if:

- (a) the effects of the retrospective application or retrospective restatement are not determinable;
- (b) the retrospective application or retrospective restatement requires assumptions about what management's intent would have been in that period; or
- (c) the retrospective application or retrospective restatement requires significant estimates of amounts and it is impossible to distinguish objectively information about those estimates that:

- (i) provides evidence of circumstances that existed on the date(s) as at which those amounts are to be recognised, measured or disclosed; and
- (ii) would have been available when the financial statements for that prior period were approved for issue from other information.

Prospective application of a change in accounting policy and of recognising the effect of a change in an accounting estimate, respectively, are:

- (a) applying the new accounting policy to transactions, other events and conditions occurring after the date as at which the policy is changed; and
- (b) recognising the effect of the change in the accounting estimate in the current and future periods affected by the change.

6 [Refer Appendix 1]

Accounting policies

Selection and application of accounting policies

- 7 **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.**
- 8 Ind ASs set out accounting policies that result in financial statements containing relevant and reliable information about the transactions, other events and conditions to which they apply. Those policies need not be applied when the effect of applying them is immaterial. However, it is inappropriate to make, or leave uncorrected, immaterial departures from Ind ASs to achieve a particular presentation of an entity's financial position, financial performance or cash flows.
- 9 Ind ASs are accompanied by guidance that is integral part of Ind AS to assist entities in applying their requirements. Such guidance is mandatory.
- 10 **In the absence of an Ind AS that specifically applies to a transaction, other event or condition, management shall use its judgement in developing and applying an accounting policy that results in information that is:**
 - (a) relevant to the economic decision-making needs of users; and
 - (b) reliable, in that the financial statements:
 - (i) represent faithfully the financial position, financial performance and cash flows of the entity;
 - (ii) reflect the economic substance of transactions, other events and conditions, and not merely the legal form;
 - (iii) are neutral, ie free from bias;
 - (iv) are prudent; and
 - (v) are complete in all material respects.
- 11 **In making the judgement described in paragraph 10, management shall refer to, and consider the applicability of, the following sources in descending order:**
 - (a) the requirements in Ind ASs dealing with similar and related issues; and
 - (b) the definitions, recognition criteria and measurement concepts for assets, liabilities, income and expenses in the *Conceptual Framework for Financial Reporting under Indian Accounting Standards (Conceptual Framework)* *issued by the Institute of Chartered Accountants of India.
- 12 **In making the judgement described in paragraph 10, management may also first consider the most recent pronouncements of International Accounting Standards Board and in absence thereof those of the other standard-setting bodies that use a similar conceptual framework to develop accounting standards, other accounting literature and accepted industry practices, to the extent that these do not conflict with the sources in paragraph 11.**

Consistency of accounting policies

- 13 **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. If an Ind AS requires or permits such categorisation, an appropriate accounting policy shall be selected and applied consistently to each category.**

Changes in accounting policies

- 14 **An entity shall change an accounting policy only if the change:**
 - (a) is required by an Ind AS; or

* Paragraph 54G explains how this requirement is amended for regulatory account balances.

- (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.
- 15 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 in paragraph 14.
- 16 **The following are not changes 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.
- 17 **The initial application of a policy to revalue assets in accordance with Ind AS 16, *Property, Plant and Equipment*, or Ind AS 38, *Intangible Assets*, is a change in an accounting policy to be dealt with as a revaluation in accordance with Ind AS 16 or Ind AS 38, rather than in accordance with this Standard.**
- 18 Paragraphs 19–31 do not apply to the change in accounting policy described in paragraph 17.

Applying changes in accounting policies

19 Subject to paragraph 23:

- (a) an entity shall account for a change in accounting policy resulting from the initial application of an Ind AS in accordance with the specific transitional provisions, if any, in that Ind AS; and
 - (b) when an entity changes an accounting policy upon initial application of an Ind AS that does not include specific transitional provisions applying to that change, or changes an accounting policy voluntarily, it shall apply the change retrospectively.
- 20 For the purpose of this Standard, early application of an Ind AS is not a voluntary change in accounting policy.
- 21 In the absence of an Ind AS that specifically applies to a transaction, other event or condition, management may, in accordance with paragraph 12, apply an accounting policy from the most recent pronouncements of International Accounting Standards Board and in absence thereof those of the other standard-setting bodies that use a similar conceptual framework to develop accounting standards. If, following an amendment of such a pronouncement, the entity chooses to change an accounting policy, that change is accounted for and disclosed as a voluntary change in accounting policy.

Retrospective application

- 22 **Subject to paragraph 23, when a change in accounting policy is applied retrospectively in accordance with paragraph 19(a) or (b), the entity shall adjust the opening balance of each affected component of equity for the earliest prior period presented and the other comparative amounts disclosed for each prior period presented as if the new accounting policy had always been applied.**

Limitations on retrospective application

- 23 **When retrospective application is required by paragraph 19(a) or (b), a change in accounting policy shall be applied retrospectively except to the extent that it is impracticable to determine either the period-specific effects or the cumulative effect of the change.**
- 24 **When it is impracticable to determine the period-specific effects of changing an accounting policy on comparative information for one or more prior periods presented, the entity shall apply the new accounting policy to the carrying amounts of assets and liabilities as at the beginning of the earliest period for which retrospective application is practicable, which may be the current period, and shall make a corresponding adjustment to the opening balance of each affected component of equity for that period.**
- 25 **When it is impracticable to determine the cumulative effect, at the beginning of the current period, of applying a new accounting policy to all prior periods, the entity shall adjust the comparative information to apply the new accounting policy prospectively from the earliest date practicable.**
- 26 When an entity applies a new accounting policy retrospectively, it applies the new accounting policy to comparative information for prior periods as far back as is practicable. Retrospective application to a prior period is not practicable unless it is practicable to determine the cumulative effect on the amounts in both the opening and closing balance sheets for that period. The amount of the resulting adjustment relating to periods before those presented in the financial statements is made to the opening balance of each affected component of equity of the earliest prior period presented. Usually the adjustment is made to retained earnings. However, the adjustment may be made to another component of equity (for example, to comply with an Ind AS). Any other information about prior periods, such as historical summaries of financial data, is also adjusted as far back as is practicable.

- 27 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, in accordance with paragraph 25, applies 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. Paragraphs 50–53 provide guidance on when it is impracticable to apply a new accounting policy to one or more prior periods.

Disclosure

- 28 **When initial application of an Ind AS has an effect on the current period or any prior period, would have such an effect except that it is impracticable to determine the amount of the adjustment, or might have an effect on future periods, an entity shall disclose:**
- (a) **the title of the Ind AS;**
 - (b) **when applicable, that the change in accounting policy is made in accordance with its transitional provisions;**
 - (c) **the nature of the change in accounting policy;**
 - (d) **when applicable, a description of the transitional provisions;**
 - (e) **when applicable, the transitional provisions that might have an effect on future periods;**
 - (f) **for the current period and each prior period presented, to the extent practicable, the amount of the adjustment:**
 - (i) **for each financial statement line item affected; and**
 - (ii) **if Ind AS 33, *Earnings per Share*, applies to the entity, for basic and diluted earnings per share;**
 - (g) **the amount of the adjustment relating to periods before those presented, to the extent practicable; and**
 - (h) **if retrospective application required by paragraph 19(a) or (b) is impracticable for a particular prior period, or for periods before those presented, the circumstances that led to the existence of that condition and a description of how and from when the change in accounting policy has been applied.**

Financial statements of subsequent periods need not repeat these disclosures.

- 29 **When a voluntary change in accounting policy has an effect on the current period or any prior period, would have an effect on that period except that it is impracticable to determine the amount of the adjustment, or might have an effect on future periods, an entity shall disclose:**
- (a) **the nature of the change in accounting policy;**
 - (b) **the reasons why applying the new accounting policy provides reliable and more relevant information;**
 - (c) **for the current period and each prior period presented, to the extent practicable, the amount of the adjustment:**
 - (i) **for each financial statement line item affected; and**
 - (ii) **if Ind AS 33 applies to the entity, for basic and diluted earnings per share;**
 - (d) **the amount of the adjustment relating to periods before those presented, to the extent practicable; and**
 - (e) **if retrospective application is impracticable for a particular prior period, or for periods before those presented, the circumstances that led to the existence of that condition and a description of how and from when the change in accounting policy has been applied.**

Financial statements of subsequent periods need not repeat these disclosures.

- 30 **When an entity has not applied a new Ind AS that has been issued but is not yet effective, the entity shall disclose:**
- (a) **this fact; and**
 - (b) **known or reasonably estimable information relevant to assessing the possible impact that application of the new Ind AS will have on the entity's financial statements in the period of initial application.**
- 31 In complying with paragraph 30, an entity considers disclosing:
- (a) the title of the new Ind AS;
 - (b) the nature of the impending change or changes in accounting policy;
 - (c) the date by which application of the Ind AS is required;
 - (d) the date as at which it plans to apply the Ind AS initially; and

- (e) either:
 - (i) a discussion of the impact that initial application of the Ind AS is expected to have on the entity's financial statements; or
 - (ii) if that impact is not known or reasonably estimable, a statement to that effect.

Changes in accounting estimates

- 32 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.
- 33 The use of reasonable estimates is an essential part of the preparation of financial statements and does not undermine their reliability.
- 34 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.
- 35 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.
- 36 **The effect of change in an accounting estimate, other than a change to which paragraph 37 applies, 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.
- 37 **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.**
- 38 Prospective recognition of the effect of a change in an accounting estimate means that the change is applied to transactions, other events and conditions from the date of the change in estimate. A change in an accounting estimate may affect only the current period's profit or loss, or the profit or loss of both the current period and future periods. For example, a change in the estimate of the amount of bad debts affects only the current period's profit or loss and therefore is recognised in the current period. However, a change in the estimated useful life of, or the expected pattern of consumption of the future economic benefits embodied in, a depreciable asset affects depreciation expense for the current period and for each future period during the asset's remaining useful life. In both cases, the effect of the change relating to the current period is recognised as income or expense in the current period. The effect, if any, on future periods is recognised as income or expense in those future periods

Disclosure

- 39 **An entity shall disclose the nature and amount of a change in an accounting estimate that has an effect in the current period or is expected to have an effect in future periods, except for the disclosure of the effect on future periods when it is impracticable to estimate that effect.**
- 40 **If the amount of the effect in future periods is not disclosed because estimating it is impracticable, an entity shall disclose that fact.**

Errors

- 41 Errors can arise in respect of the recognition, measurement, presentation or disclosure of elements of financial statements. Financial statements do not comply with Ind ASs if they contain either material errors or immaterial errors made intentionally to achieve a particular presentation of an entity's financial position, financial performance or cash flows. Potential current period errors discovered in that period are corrected before the financial statements are approved for issue. However, material errors are sometimes not discovered until a subsequent period, and these prior period errors are corrected in the comparative information presented in the financial statements for that subsequent period (see paragraphs 42–47).

- 42 Subject to paragraph 43, an entity shall 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.

Limitations on retrospective restatement

- 43 A prior period error shall be corrected by retrospective restatement except to the extent that it is impracticable to determine either the period-specific effects or the cumulative effect of the error.**
- 44 When it is impracticable to determine the period-specific effects of an error on comparative information for one or more prior periods presented, the entity shall restate the opening balances of assets, liabilities and equity for the earliest period for which retrospective restatement is practicable (which may be the current period).**
- 45 When it is impracticable to determine the cumulative effect, at the beginning of the current period, of an error on all prior periods, the entity shall restate the comparative information to correct the error prospectively from the earliest date practicable.**
- 46 The correction of a prior period error is excluded from profit or loss for the period in which the error is discovered. Any information presented about prior periods, including any historical summaries of financial data, is restated as far back as is practicable.
- 47 When it is impracticable to determine the amount of an error (eg a mistake in applying an accounting policy) for all prior periods, the entity, in accordance with paragraph 45, restates the comparative information prospectively from the earliest date practicable. It therefore disregards the portion of the cumulative restatement of assets, liabilities and equity arising before that date. Paragraphs 50–53 provide guidance on when it is impracticable to correct an error for one or more prior periods.
- 48 Corrections of errors are distinguished from changes in accounting estimates. Accounting estimates by their nature are approximations that may need revision as additional information becomes known. For example, the gain or loss recognised on the outcome of a contingency is not the correction of an error.

Disclosure of prior period errors

- 49 In applying paragraph 42, an entity shall disclose the following:**
- (a) the nature of the prior period error;
 - (b) for each prior period presented, to the extent practicable, the amount of the correction:
 - (i) for each financial statement line item affected; and
 - (ii) if Ind AS 33 applies to the entity, for basic and diluted earnings per share;
 - (c) the amount of the correction at the beginning of the earliest prior period presented; and
 - (d) if retrospective restatement is impracticable for a particular prior period, the circumstances that led to the existence of that condition and a description of how and from when the error has been corrected.

Financial statements of subsequent periods need not repeat these disclosures.

Impracticability in respect of retrospective application and retrospective restatement

- 50 In some circumstances, it is impracticable to adjust comparative information for one or more prior periods to achieve comparability with the current period. For example, data may not have been collected in the prior period(s) in a way that allows either retrospective application of a new accounting policy (including, for the purpose of paragraphs 51–53, its prospective application to prior periods) or retrospective restatement to correct a prior period error, and it may be impracticable to recreate the information.
- 51 It is frequently necessary to make estimates in applying an accounting policy to elements of financial statements recognised or disclosed in respect of transactions, other events or conditions. Estimation is inherently subjective, and estimates may be developed after the reporting period. Developing estimates is potentially more difficult when retrospectively applying an accounting policy or making a retrospective restatement to correct a prior period error, because of the longer period of time that might have passed since the affected transaction, other event or condition occurred. However, the objective of estimates related to prior periods remains the same as for estimates made in the current period, namely, for the estimate to reflect the circumstances that existed when the transaction, other event or condition occurred.
- 52 Therefore, retrospectively applying a new accounting policy or correcting a prior period error requires distinguishing information that
- (a) provides evidence of circumstances that existed on the date(s) as at which the transaction, other event or condition occurred, and

- (b) would have been available when the financial statements for that prior period were approved for issue from other information. For some types of estimates (eg a fair value measurement that uses significant unobservable inputs), it is impracticable to distinguish these types of information. When retrospective application or retrospective restatement would require making a significant estimate for which it is impossible to distinguish these two types of information, it is impracticable to apply the new accounting policy or correct the prior period error retrospectively.
- 53 Hindsight should not be used when applying a new accounting policy to, or correcting amounts for, a prior period, either in making assumptions about what management's intentions would have been in a prior period or estimating the amounts recognised, measured or disclosed in a prior period. For example, when an entity corrects a prior period error in calculating its liability for employees' accumulated sick leave in accordance with Ind AS 19, *Employee Benefits*, it disregards information about an unusually severe influenza season during the next period that became available after the financial statements for the prior period were approved for issue. The fact that significant estimates are frequently required when amending comparative information presented for prior periods does not prevent reliable adjustment or correction of the comparative information.

Effective date and transition

- 54F *Amendments to References to the Conceptual Framework in Ind AS* issued in 2021 amended paragraph 11(b). An entity shall apply those amendments for annual periods beginning on or after 1 April, 2021. An entity shall apply the amendments to paragraph 11(b) retrospectively in accordance with this Standard. However, if an entity determines that retrospective application would be impracticable or would involve undue cost or effort, it shall apply the amendments to paragraph 11(b) by reference to paragraphs 23–28 of this Standard. If retrospective application of any amendment in *Amendments to References to the Conceptual Framework in Ind AS* would involve undue cost or effort, an entity shall, in applying paragraphs 23–28 of this Standard, read any reference except in the last sentence of paragraph 27 to 'is impracticable' as 'involves undue cost or effort' and any reference to 'practicable' as 'possible without undue cost or effort'.
- 54G If an entity does not apply Ind AS 114, *Regulatory Deferral Accounts*, the entity shall, in applying paragraph 11(b) to regulatory account balances, continue to refer to, and consider the applicability of, the definitions, recognition criteria, and measurement concepts in the *Framework for the Preparation and Presentation of Financial Statements in accordance with Indian Accounting Standards* issued by the Institute of Chartered Accountants of India instead of those in the *Conceptual Framework* issued in 2020. A 'regulatory account balance' and 'rate regulator' have the same meaning as defined in Ind AS 114.
- 54H *Definition of Material* (Amendments to Ind AS 1 and Ind AS 8), amended paragraph 7 of Ind AS 1 and paragraph 5 of Ind AS 8, and deleted paragraph 6 of Ind AS 8. An entity shall apply those amendments prospectively for annual periods beginning on or after the 1st April, 2020.

Appendix A

References to matters contained in other Indian Accounting Standards

This Appendix is an integral part of the Ind AS.

1. Appendix B, *Liabilities arising from Participating in a Specific Market— Waste Electrical and Electronic Equipment*, contained in Ind AS 37, *Provisions, Contingent Liabilities and Contingent Assets*, makes reference to (Ind AS) 8.
2. Appendix B, *Foreign Currency Transactions and Advance Consideration*, contained in Ind AS 21, *The Effects of Changes in Foreign Exchange Rates*, makes reference to Ind AS 8.

Appendix 1

Note: *This Appendix is not a part of the Indian Accounting Standard. The purpose of this Appendix is only to bring out the major differences, if any, between Indian Accounting Standard (Ind AS) 8 and the corresponding International Accounting Standard (IAS) 8, Accounting Policies, Changes in Accounting Estimates and Errors, issued by the International Accounting Standards Board.*

Comparison with IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors

1. Different terminology is used in this standard, eg, the term 'balance sheet' is used instead of 'Statement of financial position' and 'Statement of profit and loss' is used instead of 'Statement of comprehensive income'. The words 'approval of the financial statements for issue, have been used instead of 'authorisation of the financial statements for issue ' in the context of financial statements considered for the purpose of events after the reporting period.
2. Paragraph 9 dealing with status of guidance given along with the Ind ASs forming integral and non-integral part of the standard, has been modified to delete the text given in the context of the Guidance forming non-integral part of the Standard as such guidance has not been included in the Standards.
3. In paragraph 12 of Ind AS 8, it is mentioned that in absence of an Ind AS, management may first consider the most recent pronouncements of International Accounting Standards Board.
4. Paragraph 6 appears as "deleted" in IAS 8. In order to maintain consistency with paragraph numbers of IAS 8, the paragraph number is retained in Ind AS 8.
5. Paragraphs 54-54E of IAS 8 related to Effective date and transition have not been included in Ind AS 8 as these are not relevant in Indian context. However, in order to maintain consistency with paragraph numbers of IAS 8, these paragraph numbers are retained in Ind AS 8.

Indian Accounting Standard (Ind AS) 10

Events after the Reporting Period

(This Indian Accounting Standard includes paragraphs set in **bold** type and plain type, which have equal authority. Paragraphs in bold type indicate the main principles.)

Objective

- 1 The objective of this Standard is to prescribe:
 - (a) When an entity should adjust its financial statements for events after the reporting period; and
 - (b) the disclosures that an entity should give about the date when the financial statements were approved for issue and about events after the reporting period.

The Standard also requires that an entity should not prepare its financial statements on a going concern basis if events after the reporting period indicate that the going concern assumption is not appropriate.

Scope

- 2 **This Standard shall be applied in the accounting for, and disclosure of, events after the reporting period.**

Definitions

- 3 **The following terms are used in this Standard with the meanings specified:**

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

- (a) **those that provide evidence of conditions that existed at the end of the reporting period (*adjusting events after the reporting period*); and**
- (b) **those that are indicative of conditions that arose after the reporting period (*non-adjusting events after the reporting period*).**

Notwithstanding anything contained above, 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 agreement by lender before the approval of the financial statements for issue, to not demand payment as a consequence of the breach, shall be considered as an adjusting event.

- 4 The process involved in approving the financial statements for issue will vary depending upon the management structure, statutory requirements and procedures followed in preparing and finalising the financial statements.
- 5 In some cases, an entity is required to submit its financial statements to its shareholders for approval after the financial statements have been approved by the Board for issue. In such cases, the financial statements are approved for issue on the date of approval by the Board, not the date when shareholders approve the financial statements.
- 6 In some cases, the management of an entity is required to issue its financial statements to a supervisory board (made up solely of non-executives) for approval. In such cases, the financial statements are approved for issue when the management approves them for issue to the supervisory board.

Example

On 18 March 20X2, the management of an entity approves financial statements for issue to its supervisory board. The supervisory board is made up solely of non-executives and may include representatives of employees and other outside interests. The supervisory board approves the financial statements on 26 March 20X2. The financial statements are made available to shareholders and others on 1 April 20X2. The shareholders approve the financial statements at their annual meeting on 15 May 20X2 and the financial statements are then filed with a regulatory body on 17 May 20X2.

The financial statements are approved for issue on 18 March 20X2 (date of management approval for issue to the supervisory board).

- 7 Events after the reporting period include all events up to the date when the financial statements are approved for issue, even if those events occur after the public announcement of profit or of other selected financial information.

Recognition and measurement

Adjusting events after the reporting period

8 An entity shall adjust the amounts recognised in its financial statements to reflect adjusting events after the reporting period.

- 9 The following are examples of adjusting events after the reporting period that require an entity to adjust the amounts recognised in its financial statements, or to recognise items that were not previously recognised:
- (a) the settlement after the reporting period of a court case that confirms that the entity had a present obligation at the end of the reporting period. The entity adjusts any previously recognised provision related to this court case in accordance with Ind AS 37, *Provisions, Contingent Liabilities and Contingent Assets* or recognises a new provision. The entity does not merely disclose a contingent liability because the settlement provides additional evidence that would be considered in accordance with paragraph 16 of Ind AS 37.
 - (b) the receipt of information after the reporting period indicating that an asset was impaired at the end of the reporting period, or that the amount of a previously recognised impairment loss for that asset needs to be adjusted. For example:
 - (i) the bankruptcy of a customer that occurs after the reporting period usually confirms that the customer was credit-impaired at the end of the reporting period; and
 - (ii) the sale of inventories after the reporting period may give evidence about their net realisable value at the end of the reporting period.
 - (c) the determination after the reporting period of the cost of assets purchased, or the proceeds from assets sold, before the end of the reporting period.
 - (d) the determination after the reporting period of the amount of profit-sharing or bonus payments, if the entity had a present legal or constructive obligation at the end of the reporting period to make such payments as a result of events before that date (see Ind AS 19, *Employee Benefits*).
 - (e) the discovery of fraud or errors that show that the financial statements are incorrect.

Non-adjusting events after the reporting period

10 An entity shall not adjust the amounts recognised in its financial statements to reflect non-adjusting events after the reporting period.

- 11 An example of a non-adjusting event after the reporting period is a decline in fair value of investments between the end of the reporting period and the date when the financial statements are approved for issue. The decline in fair value does not normally relate to the condition of the investments at the end of the reporting period, but reflects circumstances that have arisen subsequently. Therefore, an entity does not adjust the amounts recognised in its financial statements for the investments. Similarly, the entity does not update the amounts disclosed for the investments as at the end of the reporting period, although it may need to give additional disclosure under paragraph 21.

Dividends

12 If an entity declares dividends to holders of equity instruments (as defined in Ind AS 32, *Financial Instruments: Presentation*) after the reporting period, the entity shall not recognise those dividends as a liability at the end of the reporting period.

- 13 If dividends are declared after the reporting period but before the financial statements are approved for issue, the dividends are not recognised as a liability at the end of the reporting period because no obligation exists at that time. Such dividends are disclosed in the notes in accordance with Ind AS 1, *Presentation of Financial Statements*.

Going concern

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

- 15 Deterioration in operating results and financial position after the reporting period may indicate a need to consider whether the going concern assumption is still appropriate. If the going concern assumption is no longer appropriate, the effect is so pervasive that this Standard requires a fundamental change in the basis of accounting, rather than an adjustment to the amounts recognised within the original basis of accounting.

- 16 Ind AS 1 specifies required disclosures if:

- (a) the financial statements are not prepared on a going concern basis; or
- (b) management is aware 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 events or conditions requiring disclosure may arise after the reporting period.

Disclosure

Date of approval f or issue

17 An entity shall disclose the date when the financial statements were approved for issue and who gave that approval. If the entity's owners or others have the power to amend the financial statements after issue, the entity shall disclose that fact.

18 It is important for users to know when the financial statements were approved for issue, because the financial statements do not reflect events after this date.

Updating disclosure about conditions at the end of the reporting period

19 If an entity receives information after the reporting period about conditions that existed at the end of the reporting period, it shall update disclosures that relate to those conditions, in the light of the new information.

20 In some cases, an entity needs to update the disclosures in its financial statements to reflect information received after the reporting period, even when the information does not affect the amounts that it recognises in its financial statements. One example of the need to update disclosures is when evidence becomes available after the reporting period about a contingent liability that existed at the end of the reporting period. In addition to considering whether it should recognise or change a provision under Ind AS 37, an entity updates its disclosures about the contingent liability in the light of that evidence.

Non-adjusting events after the reporting period

21 If non-adjusting events after the reporting period are material, non-disclosure could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. Accordingly, an entity shall disclose the following for each material category of non-adjusting event after the reporting period—

(a) the nature of the event; and

(b) an estimate of its financial effect, or a statement that such an estimate cannot be made.

22 The following are examples of non-adjusting events after the reporting period that would generally result in disclosure:

(a) a major business combination after the reporting period (Ind AS 103, *Business Combinations*, requires specific disclosures in such cases) or disposing of a major subsidiary;

(b) announcing a plan to discontinue an operation;

(c) major purchases of assets, classification of assets as held for sale in accordance with Ind AS 105, *Non-current Assets Held for Sale and Discontinued Operations*, other disposals of assets, or expropriation of major assets by government;

(d) the destruction of a major production plant by a fire after the reporting period;

(e) announcing, or commencing the implementation of, a major restructuring (see Ind AS 37);

(f) major ordinary share transactions and potential ordinary share transactions after the reporting period (Ind AS 33, *Earnings per Share*, requires an entity to disclose a description of such transactions, other than when such transactions involve capitalisation or bonus issues, share splits or reverse share splits all of which are required to be adjusted under Ind AS 33);

(g) abnormally large changes after the reporting period in asset prices or foreign exchange rates;

(h) changes in tax rates or tax laws enacted or announced after the reporting period that have a significant effect on current and deferred tax assets and liabilities (see Ind AS 12, *Income Taxes*);

(i) entering into significant commitments or contingent liabilities, for example, by issuing significant guarantees; and

(j) commencing major litigation arising solely out of events that occurred after the reporting period.

Effective date

23-23B [Refer Appendix 1]

23C *Definition of Material* (Amendments to Ind AS 1 and Ind AS 8), amended paragraph 21. An entity shall apply those amendments when it applies the amendments to the definition of material in paragraph 7 of Ind AS 1 and paragraphs 5 and 6 of Ind AS 8.

Appendix A

Distribution of Non-cash Assets to Owners¹

This Appendix is an integral part of the Ind AS.

Background

- 1 Sometimes an entity distributes assets other than cash (non-cash assets) as dividends to its owners² acting in their capacity as owners. In those situations, an entity may also give its owners a choice of receiving either non-cash assets or a cash alternative.
- 2 Indian Accounting Standards (Ind ASs) do not provide guidance on how an entity should measure distributions to its owners (commonly referred to as dividends). Ind AS 1 requires an entity to present details of dividends recognised as distributions to owners either in the statement of changes in equity or in the notes to the financial statements.

Scope

- 3 This Appendix applies to the following types of non-reciprocal distributions of assets by an entity to its owners acting in their capacity as owners:
 - (a) distributions of non-cash assets (eg items of property, plant and equipment, businesses as defined in Ind AS 103, ownership interests in another entity or disposal groups as defined in Ind AS 105); and
 - (b) distributions that give owners a choice of receiving either non-cash assets or a cash alternative.
- 4 This Appendix applies only to distributions in which all owners of the same class of equity instruments are treated equally.
- 5 This Appendix does not apply to a distribution of a non-cash asset that is ultimately controlled by the same party or parties before and after the distribution. This exclusion applies to the separate, individual and consolidated financial statements of an entity that makes the distribution.
- 6 In accordance with paragraph 5, this Appendix does not apply when the non-cash asset is ultimately controlled by the same parties both before and after the distribution. Paragraph 7 of Appendix C to Ind AS 103 states that ‘A group of individuals shall be regarded as controlling an entity when, as a result of contractual arrangements, they collectively have the power to govern its financial and operating policies so as to obtain benefits from its activities, and that ultimate collective power is not transitory.’ Therefore, for a distribution to be outside the scope of this Appendix on the basis that the same parties control the asset both before and after the distribution, a group of individual shareholders receiving the distribution must have, as a result of contractual arrangements, such ultimate collective power over the entity making the distribution.
- 7 In accordance with paragraph 5, this Appendix does not apply when an entity distributes some of its ownership interests in a subsidiary but retains control of the subsidiary. The entity making a distribution that results in the entity recognising a non-controlling interest in its subsidiary accounts for the distribution in accordance with Ind AS 110.
- 8 This Appendix addresses only the accounting by an entity that makes a non-cash asset distribution. It does not address the accounting by shareholders who receive such a distribution.

Issues

- 9 When an entity declares a distribution and has an obligation to distribute the assets concerned to its owners, it must recognise a liability for the dividend payable. Consequently, this Appendix addresses the following issues:
 - (a) When should the entity recognise the dividend payable?
 - (b) How should an entity measure the dividend payable?
 - (c) When an entity settles the dividend payable, how should it account for any difference between the carrying amount of the assets distributed and the carrying amount of the dividend payable?

Accounting Principles

When to recognise a dividend payable

- 10 The liability to pay a dividend shall be recognised when the dividend is appropriately authorised and is no longer at the discretion of the entity, which is the date:
 - (a) when declaration of the dividend, eg by management or the board of directors, is approved by the relevant authority, eg the shareholders, if the jurisdiction requires such approval, or

1 This Appendix deals, inter alia, with when to recognise dividends payable to its owners.

2 Paragraph 7 of Ind AS 1 defines owners as holders of instruments classified as equity.

- (b) when the dividend is declared, eg by management or the board of directors, if the jurisdiction does not require further approval.

Measurement of a dividend payable

- 11 An entity shall measure a liability to distribute non-cash assets as a dividend to its owners at the fair value of the assets to be distributed.
- 12 If an entity gives its owners a choice of receiving either a non-cash asset or a cash alternative, the entity shall estimate the dividend payable by considering both the fair value of each alternative and the associated probability of owners selecting each alternative.
- 13 At the end of each reporting period and at the date of settlement, the entity shall review and adjust the carrying amount of the dividend payable, with any changes in the carrying amount of the dividend payable recognised in equity as adjustments to the amount of the distribution.
Accounting for any difference between the carrying amount of the assets distributed and the carrying amount of the dividend payable when an entity settles the dividend payable.
- 14 When an entity settles the dividend payable, it shall recognise the difference, if any, between the carrying amount of the assets distributed and the carrying amount of the dividend payable in profit or loss.

Presentation and disclosures

- 15 An entity shall present the difference described in paragraph 14 as a separate line item in profit or loss.
- 16 An entity shall disclose the following information, if applicable:
 - (a) the carrying amount of the dividend payable at the beginning and end of the period; and
 - (b) the increase or decrease in the carrying amount recognised in the period in accordance with paragraph 13 as result of a change in the fair value of the assets to be distributed.
- 17 If, after the end of a reporting period but before the financial statements are approved for issue, an entity declares a dividend to distribute a non-cash asset, it shall disclose:
 - (a) the nature of the asset to be distributed;
 - (b) the carrying amount of the asset to be distributed as of the end of the reporting period; and
 - (c) the fair value of the asset to be distributed as of the end of the reporting period, if it is different from its carrying amount, and the information about the method(s) used to measure that fair value required by paragraphs 93(b), (d), (g) and (i) and 99 of Ind AS 113.

Appendix 1

Note: This Appendix is not a part of the Indian Accounting Standard. The purpose of this Appendix is only to bring out the major differences, if any, between Indian Accounting Standard (Ind AS) 10 and the corresponding International Accounting Standard (IAS) 10, Events after the Reporting Period, and IFRIC 17, Distributions of Non-cash Assets to Owners, issued by the International Accounting Standards Board.

Comparison with IAS 10, Events after the Reporting Period, and IFRIC 17

- 1 Different terminology is used in this standard, eg, the term 'balance sheet' is used instead of 'Statement of financial position'. The words 'approval of the financial statements for issue' have been used instead of 'authorisation of the financial statements for issue' in the context of financial statements considered for the purpose of events after the reporting period.
- 2 Consequent to changes made in Ind AS 1, it has been provided in the definition of 'Events after the reporting period' that in case of 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, if the lender, before the approval of the financial statements for issue, agrees to waive the breach, it shall be considered as an adjusting event.
- 3 Paragraphs 23-23B of IAS 10 related to Effective Date have not been included in Ind AS 10 as these are not relevant in Indian context. However, in order to maintain consistency with paragraph numbers of IAS 10, these paragraph numbers are retained in Ind AS 10.

Indian Accounting Standard (Ind AS) 12

Income Taxes

(This Indian Accounting Standard includes paragraphs set in **bold** type and plain type, which have equal authority. Paragraphs in bold type indicate the main principles.)

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 way that 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 the recognition of deferred tax assets arising from unused tax losses or unused tax credits, the presentation of income taxes in the financial statements and the disclosure of information relating to income taxes.

Scope

- 1 **This Standard shall be applied in accounting for income taxes.**
- 2 For the purposes of this Standard, income taxes include all domestic and foreign taxes which are based on taxable profits. Income taxes also include taxes, such as withholding taxes, which are payable by a subsidiary, associate or joint arrangement on distributions to the reporting entity.
- 3 [Refer Appendix 1]
- 4 This Standard does not deal with the methods of accounting for government grants (see 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.

Definitions

- 5 **The following terms are used in this Standard with the meanings specified:**

Accounting profit is profit or loss for a period before deducting tax expense.

Taxable profit (tax loss) 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).

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.

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 carryforward of unused tax losses; and
- (c) the carryforward 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.

The tax base of an asset or liability is the amount attributed to that asset or liability for tax purposes.

- 6 Tax expense (tax income) comprises current tax expense (current tax income) and deferred tax expense (deferred tax income).

Tax base

- 7 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

- 1 A machine cost Rs. 100. For tax purposes, depreciation of Rs. 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 Rs. 70.*
- 2 Interest receivable has a carrying amount of Rs. 100. The related interest revenue will be taxed on a cash basis. *The tax base of the interest receivable is nil.*
- 3 Trade receivables have a carrying amount of Rs. 100. The related revenue has already been included in taxable profit (tax loss). *The tax base of the trade receivables is Rs. 100.*
- 4 Dividends receivable from a subsidiary have a carrying amount of Rs. 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 Rs. 100.(a)*
- 5 A loan receivable has a carrying amount of Rs. 100. The repayment of the loan will have no tax consequences. *The tax base of the loan is Rs. 100.*
 - (a) Under this analysis, there is no taxable temporary difference. An alternative analysis is that the accrued dividends receivable have a tax base of nil and that a tax rate of nil is applied to the resulting taxable temporary difference of Rs. 100. Under both analyses, there is no deferred tax liability.

- 8 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

- 1 Current liabilities include accrued expenses with a carrying amount of Rs. 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 Rs. 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 Rs. 100. The related expense has already been deducted for tax purposes. *The tax base of the accrued expenses is Rs. 100.*
- 4 Current liabilities include accrued fines and penalties with a carrying amount of Rs. 100. Fines and penalties are not deductible for tax purposes. *The tax base of the accrued fines and penalties is Rs. 100.(a)*
- 5 A loan payable has a carrying amount of Rs. 100. The repayment of the loan will have no tax consequences. *The tax base of the loan is Rs. 100.*
 - (a) 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 Rs. 100. Under both analyses, there is no deferred tax asset.

- 9 Some items have a tax base but are not recognised as assets and liabilities in the balance sheet. For example, preliminary expenses are recognised as an expense in determining accounting profit in the period in which they are incurred but may not be permitted as a deduction in determining taxable profit (tax loss) until a later period(s). The difference between the tax base of the preliminary expenses, being the amount permitted as a deduction in future

periods under taxation laws, and the carrying amount of nil is a deductible temporary difference that results in a deferred tax asset.

- 10 Where the tax base of an asset or liability is not immediately apparent, it is helpful to consider the fundamental principle upon which this Standard is based: that an entity shall, with certain limited exceptions, recognise a deferred tax liability (asset) whenever recovery or settlement of the carrying amount of an asset or liability would make future tax payments larger (smaller) than they would be if such recovery or settlement were to have no tax consequences. Example C following paragraph 51A illustrates circumstances when it may be helpful to consider this fundamental principle, for example, when the tax base of an asset or liability depends on the expected manner of recovery or settlement.
- 11 The tax base is determined by reference to the tax returns of each entity in the group. In some jurisdictions, in consolidated financial statements, temporary differences are determined by comparing the carrying amounts of assets and liabilities in the consolidated financial statements with the appropriate tax base. The tax base is determined by reference to a consolidated tax return in those jurisdictions in which such a return is filed.

Recognition of current tax liabilities and current tax assets

- 12 **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.**
- 13 **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.**
- 14 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.

Recognition of deferred tax liabilities and deferred tax assets

Taxable temporary differences

- 15 **A deferred tax liability shall be recognised for all taxable temporary differences, except to the extent that the deferred tax liability arises from:**
- (a) **the initial recognition of goodwill; or**
 - (b) **the initial recognition of an asset or liability in a transaction which:**
 - (i) **is not a business combination; and**
 - (ii) **at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).**

However, for taxable temporary differences associated with investments in subsidiaries, branches and associates, and interests in joint arrangements, a deferred tax liability shall be recognised in accordance with paragraph 39.

- 16 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.

Example

An asset which cost Rs. 150 has a carrying amount of Rs. 100. Cumulative depreciation for tax purposes is Rs. 90 and the tax rate is 25%.

The tax base of the asset is Rs. 60 (cost of Rs. 150 less cumulative tax depreciation of Rs. 90). To recover the carrying amount of Rs. 100, the entity must earn taxable income of Rs. 100, but will only be able to deduct tax depreciation of Rs. 60. Consequently, the entity will pay income taxes of Rs. 10 (Rs. 40 at 25%) when it recovers the carrying amount of the asset. The difference between the carrying amount of Rs. 100 and the tax base of Rs. 60 is a taxable temporary difference of Rs. 40. Therefore, the entity recognises a deferred tax liability of Rs. 10 (Rs. 40 at 25%) representing the income taxes that it will pay when it recovers the carrying amount of the asset.

- 17 Some temporary differences arise when income or expense is included in accounting profit in one period but is included in taxable profit in a different period. Such temporary differences are often described as timing differences. The following are examples of temporary differences of this kind which are taxable temporary differences and which therefore result in deferred tax liabilities:

- (a) interest revenue is included in accounting profit on a time proportion basis but may, in some jurisdictions, be included in taxable profit when cash is collected. The tax base of any receivable recognised in the balance sheet with respect to such revenues is nil because the revenues do not affect taxable profit until cash is collected;
- (b) depreciation used in determining taxable profit (tax loss) may differ from that used in determining accounting profit. The temporary difference is the difference between the carrying amount of the asset and its tax base which is the original cost of the asset less all deductions in respect of that asset permitted under taxation laws in determining taxable profit of the current and prior periods. A taxable temporary difference arises, and results in a deferred tax liability, when tax depreciation is accelerated (if tax depreciation is less rapid than accounting depreciation, a deductible temporary difference arises, and results in a deferred tax asset); and
- (c) development costs may be capitalised and amortised over future periods in determining accounting profit but deducted in determining taxable profit in the period in which they are incurred. Such development costs have a tax base of nil as they have already been deducted from taxable profit. The temporary difference is the difference between the carrying amount of the development costs and their tax base of nil.

18 Temporary differences also arise when:

- (a) the identifiable assets acquired and liabilities assumed in a business combination are recognised at their fair values in accordance with Ind AS 103, *Business Combinations*, but no equivalent adjustment is made for tax purposes (see paragraph 19);
- (b) assets are revalued and no equivalent adjustment is made for tax purposes (see paragraph 20);
- (c) goodwill arises in a business combination (see paragraph 21);
- (d) the tax base of an asset or liability on initial recognition differs from its initial carrying amount, for example when an entity benefits from non-taxable government grants related to assets (see paragraphs 22 and 33); or
- (e) the carrying amount of investments in subsidiaries, branches and associates or interests in joint arrangements becomes different from the tax base of the investment or interest (see paragraphs 38–45).

Business combinations

19 With limited exceptions, the identifiable assets acquired and liabilities assumed in a business combination are recognised at their fair values at the acquisition date. Temporary differences arise when the tax bases of the identifiable assets acquired and liabilities assumed are not affected by the business combination or are affected differently. For example, when the carrying amount of an asset is increased to fair value but the tax base of the asset remains at cost to the previous owner, a taxable temporary difference arises which results in a deferred tax liability. The resulting deferred tax liability affects goodwill (see paragraph 66).

Assets carried at fair value

20 Ind ASs permit or require certain assets to be carried at fair value or to be revalued (see, for example, Ind AS 16, *Property, Plant and Equipment*, Ind AS 38, *Intangible Assets*, Ind AS 109, *Financial Instruments* and Ind AS 116, *Leases*). In some jurisdictions, the revaluation or other restatement of an asset to fair value affects taxable profit (tax loss) for the current period. As a result, the tax base of the asset is adjusted and no temporary difference arises. In other jurisdictions, the revaluation or restatement of an asset does not affect taxable profit in the period of the revaluation or restatement and, consequently, the tax base of the asset is not adjusted. Nevertheless, the future recovery of the carrying amount will result in a taxable flow of economic benefits to the entity and the amount that will be deductible for tax purposes will differ from the amount of those economic benefits. The difference between the carrying amount of a revalued asset and its tax base is a temporary difference and gives rise to a deferred tax liability or asset. This is true even if:

- (a) the entity does not intend to dispose of the asset. In such cases, the revalued carrying amount of the asset will be recovered through use and this will generate taxable income which exceeds the depreciation that will be allowable for tax purposes in future periods; or
- (b) tax on capital gains is deferred if the proceeds of the disposal of the asset are invested in similar assets. In such cases, the tax will ultimately become payable on sale or use of the similar assets.

Goodwill

21 Goodwill arising in a business combination is measured as the excess of (a) over (b) below:

- (a) the aggregate of:
 - (i) the consideration transferred measured in accordance with Ind AS 103, which generally requires acquisition-date fair value;
 - (ii) the amount of any non-controlling interest in the acquiree recognised in accordance with Ind AS 103; 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 liabilities assumed measured in accordance with Ind AS 103.

Many jurisdictions do not allow reductions in the carrying amount of goodwill as a deductible expense in determining taxable profit. Moreover, in such jurisdictions, the cost of goodwill is often not deductible when a subsidiary disposes of its underlying business. In such jurisdictions, goodwill has a tax base of nil. Any difference between the carrying amount of goodwill and its tax base of nil is a taxable temporary difference. However, this Standard does not permit the recognition of the resulting deferred tax liability because goodwill is measured as a residual and the recognition of the deferred tax liability would increase the carrying amount of goodwill.

- 21A Subsequent reductions in a deferred tax liability that is unrecognised because it arises from the initial recognition of goodwill are also regarded as arising from the initial recognition of goodwill and are therefore not recognised under paragraph 15(a). For example, if in a business combination an entity recognises goodwill of Rs. 100 that has a tax base of nil, paragraph 15(a) prohibits the entity from recognising the resulting deferred tax liability. If the entity subsequently recognises an impairment loss of Rs. 20 for that goodwill, the amount of the taxable temporary difference relating to the goodwill is reduced from Rs. 100 to Rs. 80, with a resulting decrease in the value of the unrecognised deferred tax liability. That decrease in the value of the unrecognised deferred tax liability is also regarded as relating to the initial recognition of the goodwill and is therefore prohibited from being recognised under paragraph 15(a).
- 21B Deferred tax liabilities for taxable temporary differences relating to goodwill are, however, recognised to the extent they do not arise from the initial recognition of goodwill. For example, if in a business combination an entity recognises goodwill of Rs. 100 that is deductible for tax purposes at a rate of
- 20 per cent per year starting in the year of acquisition, the tax base of the goodwill is Rs. 100 on initial recognition and Rs. 80 at the end of the year of acquisition. If the carrying amount of goodwill at the end of the year of acquisition remains unchanged at Rs. 100, a taxable temporary difference of Rs. 20 arises at the end of that year. Because that taxable temporary difference does not relate to the initial recognition of the goodwill, the resulting deferred tax liability is recognised.

Initial recognition of an asset or liability

- 22 A temporary difference may arise on initial recognition of an asset or liability, for example if part or all of the cost of an asset will not be deductible for tax purposes. The method of accounting for such a temporary difference depends on the nature of the transaction that led to the initial recognition of the asset or liability:
- in a business combination, an entity recognises any deferred tax liability or asset and this affects the amount of goodwill or bargain purchase gain it recognises (see paragraph 19);
 - if the transaction affects either accounting profit or taxable profit, an entity recognises any deferred tax liability or asset and recognises the resulting deferred tax expense or income in profit or loss (see paragraph 59);
 - if the transaction is not a business combination, and affects neither accounting profit nor taxable profit, an entity would, in the absence of the exemption provided by paragraphs 15 and 24, recognise the resulting deferred tax liability or asset and adjust the carrying amount of the asset or liability by the same amount. Such adjustments would make the financial statements less transparent. Therefore, this Standard does not permit an entity to recognise the resulting deferred tax liability or asset, either on initial recognition or subsequently (see example below). Furthermore, an entity does not recognise subsequent changes in the unrecognised deferred tax liability or asset as the asset is depreciated.

Example illustrating paragraph 22(c)

An entity intends to use an asset which cost Rs. 1,000 throughout its useful life of five years and then dispose of it for a residual value of nil. The tax rate is 40%. Depreciation of the asset is not deductible for tax purposes. On disposal, any capital gain would not be taxable and any capital loss would not be deductible.

As it recovers the carrying amount of the asset, the entity will earn taxable income of Rs. 1,000 and pay tax of Rs. 400. The entity does not recognise the resulting deferred tax liability of Rs. 400 because it results from the initial recognition of the asset.

In the following year, the carrying amount of the asset is Rs. 800. In earning taxable income of Rs. 800, the entity will pay tax of Rs. 320. The entity does not recognise the deferred tax liability of Rs. 320 because it results from the initial recognition of the asset.

- 23 In accordance with Ind AS 32, *Financial Instruments: Presentation*, the issuer of a compound financial instrument (for example, a convertible bond) classifies the instrument's liability component as a liability and the equity component as equity. In some jurisdictions, the tax base of the liability component on initial recognition is equal to the initial carrying amount of the sum of the liability and equity components. The resulting taxable temporary difference arises from the initial recognition of the equity component separately from the liability component.

Therefore, the exception set out in paragraph 15(b) does not apply. Consequently, an entity recognises the resulting deferred tax liability. In accordance with paragraph 61A, the deferred tax is charged directly to the carrying amount of the equity component. In accordance with paragraph 58, subsequent changes in the deferred tax liability are recognised in profit or loss as deferred tax expense (income).

Deductible temporary differences

24 **A deferred tax asset shall be recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised, unless the deferred tax asset arises from the initial recognition of an asset or liability in a transaction that:**

- (a) **is not a business combination; and**
- (b) **at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).**

However, for deductible temporary differences associated with investments in subsidiaries, branches and associates, and interests in joint arrangements, a deferred tax asset shall be recognised in accordance with paragraph 44.

25 It is inherent in the recognition of a liability that the carrying amount will be settled in future periods through an outflow from the entity of resources embodying economic benefits. When resources flow from the entity, part or all of their amounts may be deductible in determining taxable profit of a period later than the period in which the liability is recognised. In such cases, a temporary difference exists between the carrying amount of the liability and its tax base. Accordingly, a deferred tax asset arises in respect of the income taxes that will be recoverable in the future periods when that part of the liability is allowed as a deduction in determining taxable profit. Similarly, if the carrying amount of an asset is less than its tax base, the difference gives rise to a deferred tax asset in respect of the income taxes that will be recoverable in future periods.

Example

An entity recognises a liability of Rs. 100 for gratuity and leave encashment expenses by creating a provision for gratuity and leave encashment. For tax purposes, any amount with regard to gratuity and leave encashment will not be deductible until the entity pays the same. The tax rate is 25%.

The tax base of the liability is nil (carrying amount of Rs. 100, less the amount that will be deductible for tax purposes in respect of that liability in future periods). In settling the liability for its carrying amount, the entity will reduce its future taxable profit by an amount of Rs. 100 and, consequently, reduce its future tax payments by Rs. 25 (Rs. 100 at 25%). The difference between the carrying amount of Rs. 100 and the tax base of nil is a deductible temporary difference of Rs. 100. Therefore, the entity recognises a deferred tax asset of Rs. 25 (Rs. 100 at 25%), provided that it is probable that the entity will earn sufficient taxable profit in future periods to benefit from a reduction in tax payments.

26 The following are examples of deductible temporary differences that result in deferred tax assets:

- (a) retirement benefit costs may be deducted in determining accounting profit as service is provided by the employee, but deducted in determining taxable profit either when contributions are paid to a fund by the entity or when retirement benefits are paid by the entity. A temporary difference exists between the carrying amount of the liability and its tax base; the tax base of the liability is usually nil. Such a deductible temporary difference results in a deferred tax asset as economic benefits will flow to the entity in the form of a deduction from taxable profits when contributions or retirement benefits are paid;
- (b) preliminary expenses are recognised as an expense in determining accounting profit in the period in which they are incurred but may not be permitted as a deduction in determining taxable profit (tax loss) until a later period(s). The difference between the tax base of the preliminary expenses, being the amount permitted as a deduction in future periods under taxation laws, and the carrying amount of nil is a deductible temporary difference that results in a deferred tax asset;
- (c) with limited exceptions, an entity recognises the identifiable assets acquired and liabilities assumed in a business combination at their fair values at the acquisition date. When a liability assumed is recognised at the acquisition date but the related costs are not deducted in determining taxable profits until a later period, a deductible temporary difference arises which results in a deferred tax asset. A deferred tax asset also arises when the fair value of an identifiable asset acquired is less than its tax base. In both cases, the resulting deferred tax asset affects goodwill (see paragraph 66); and
- (d) certain assets may be carried at fair value, or may be revalued, without an equivalent adjustment being made for tax purposes (see paragraph 20). A deductible temporary difference arises if the tax base of the asset exceeds its carrying amount.

Example illustrating paragraph 26(d)

Identification of a deductible temporary difference at the end of Year 2:

Entity A purchases for Rs. 1,000, at the beginning of Year 1, a debt instrument with a nominal value of Rs. 1,000 payable on maturity in 5 years with an interest rate of 2% payable at the end of each year. The effective interest rate is 2%. The debt instrument is measured at fair value.

At the end of Year 2, the fair value of the debt instrument has decreased to Rs. 918 as a result of an increase in market interest rates to 5%. It is probable that Entity A will collect all the contractual cash flows if it continues to hold the debt instrument.

Any gains (losses) on the debt instrument are taxable (deductible) only when realised. The gains (losses) arising on the sale or maturity of the debt instrument are calculated for tax purposes as the difference between the amount collected and the original cost of the debt instrument.

Accordingly, the tax base of the debt instrument is its original cost.

The difference between the carrying amount of the debt instrument in Entity A's balance sheet of Rs. 918 and its tax base of Rs. 1,000 gives rise to a deductible temporary difference of Rs. 82 at the end of Year 2 (see paragraphs 20 and 26(d)), irrespective of whether Entity A expects to recover the carrying amount of the debt instrument by sale or by use, i.e. by holding it and collecting contractual cash flows, or a combination of both.

This is because deductible temporary differences are differences between the carrying amount of an asset or liability in the balance sheet and its tax base 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 (see paragraph 5). Entity A obtains a deduction equivalent to the tax base of the asset of Rs. 1,000 in determining taxable profit (tax loss) either on sale or on maturity.

- 27 The reversal of deductible temporary differences results in deductions in determining taxable profits of future periods. However, economic benefits in the form of reductions in tax payments will flow to the entity only if it earns sufficient taxable profits against which the deductions can be offset. Therefore, an entity recognises deferred tax assets only when it is probable that taxable profits will be available against which the deductible temporary differences can be utilised.
- 27A When an entity assesses whether taxable profits will be available against which it can utilise a deductible temporary difference, it considers whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. If tax law imposes no such restrictions, an entity assesses a deductible temporary difference in combination with all of its other deductible temporary differences. However, if tax law restricts the utilisation of losses to deduction against income of a specific type, a deductible temporary difference is assessed in combination only with other deductible temporary differences of the appropriate type.
- 28 It is probable that taxable profit will be available against which a deductible temporary difference can be utilised when there are sufficient taxable temporary differences relating to the same taxation authority and the same taxable entity which are expected to reverse:
- in the same period as the expected reversal of the deductible temporary difference; or
 - in periods into which a tax loss arising from the deferred tax asset can be carried back or forward.
- In such circumstances, the deferred tax asset is recognised in the period in which the deductible temporary differences arise.
- 29 When there are insufficient taxable temporary differences relating to the same taxation authority and the same taxable entity, the deferred tax asset is recognised to the extent that:
- it is probable that the entity will have sufficient taxable profit relating to the same taxation authority and the same taxable entity in the same period as the reversal of the deductible temporary difference (or in the periods into which a tax loss arising from the deferred tax asset can be carried back or forward). In evaluating whether it will have sufficient taxable profit in future periods, an entity:
 - compares the deductible temporary differences with future taxable profit that excludes tax deductions resulting from the reversal of those deductible temporary differences. This comparison shows the extent to which the future taxable profit is sufficient for the entity to deduct the amounts resulting from the reversal of those deductible temporary differences; and
 - ignores taxable amounts arising from deductible temporary differences that are expected to originate in future periods, because the deferred tax asset arising from these deductible temporary differences will itself require future taxable profit in order to be utilised; or
 - tax planning opportunities are available to the entity that will create taxable profit in appropriate periods.

29A The estimate of probable future taxable profit may include the recovery of some of an entity's assets for more than their carrying amount if there is sufficient evidence that it is probable that the entity will achieve this. For example, when an asset is measured at fair value, the entity shall consider whether there is sufficient evidence to conclude that it is probable that the entity will recover the asset for more than its carrying amount. This may be the case, for example, when an entity expects to hold a fixed-rate debt instrument and collect the contractual cash flows.

30 Tax planning opportunities are actions that the entity would take in order to create or increase taxable income in a particular period before the expiry of a tax loss or tax credit carryforward. For example, in some jurisdictions, taxable profit may be created or increased by:

- (a) electing to have interest income taxed on either a received or receivable basis;
- (b) deferring the claim for certain deductions from taxable profit;
- (c) selling, and perhaps leasing back, assets that have appreciated but for which the tax base has not been adjusted to reflect such appreciation; and
- (d) selling an asset that generates non-taxable income (such as, in some jurisdictions, a government bond) in order to purchase another investment that generates taxable income.

Where tax planning opportunities advance taxable profit from a later period to an earlier period, the utilisation of a tax loss or tax credit carryforward still depends on the existence of future taxable profit from sources other than future originating temporary differences.

31 When an entity has a history of recent losses, the entity considers the guidance in paragraphs 35 and 36.

32 [Refer Appendix 1]

Goodwill

32A If the carrying amount of goodwill arising in a business combination is less than its tax base, the difference gives rise to a deferred tax asset. The deferred tax asset arising from the initial recognition of goodwill shall be recognised as part of the accounting for a business combination to the extent that it is probable that taxable profit will be available against which the deductible temporary difference could be utilised.

Initial recognition of an asset or liability

33 One case when a deferred tax asset arises on initial recognition of an asset is when a non-taxable Government grant related to an asset is deducted in arriving at the carrying amount of the asset but, for tax purposes, is not deducted from the asset's depreciable amount (in other words its tax base); the carrying amount of the asset is less than its tax base and this gives rise to a deductible temporary difference. Government grants may also be set up as deferred income in which case the difference between the deferred income and its tax base of nil is a deductible temporary difference. Whichever method of presentation an entity adopts, the entity does not recognise the resulting deferred tax asset, for the reason given in paragraph 22.

Unused tax losses and unused tax credits

34 **A deferred tax asset shall be recognised for the carryforward 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.**

35 The criteria for recognising deferred tax assets arising from the carryforward 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.

36 An entity considers the following criteria in assessing the probability that taxable profit will be available against which the unused tax losses or unused tax credits can be utilised:

- (a) whether the entity has sufficient taxable temporary differences relating to the same taxation authority and the same taxable entity, which will result in taxable amounts against which the unused tax losses or unused tax credits can be utilised before they expire;
- (b) whether it is probable that the entity will have taxable profits before the unused tax losses or unused tax credits expire;
- (c) whether the unused tax losses result from identifiable causes which are unlikely to recur; and
- (d) whether tax planning opportunities (see paragraph 30) are available to the entity that will create taxable profit in the period in which the unused tax losses or unused tax credits can be utilised.

To the extent that it is not probable that taxable profit will be available against which the unused tax losses or unused tax credits can be utilised, the deferred tax asset is not recognised.

Reassessment of unrecognised deferred tax assets

- 37 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. For example, an improvement in trading conditions may make it more probable that the entity will be able to generate sufficient taxable profit in the future for the deferred tax asset to meet the recognition criteria set out in paragraph 24 or 34. Another example is when an entity reassesses deferred tax assets at the date of a business combination or subsequently (see paragraphs 67 and 68).

Investments in subsidiaries, branches and associates and interests in joint arrangements

- 38 Temporary differences arise when the carrying amount of investments in subsidiaries, branches and associates or interests in joint arrangements (namely the parent or investor's share of the net assets of the subsidiary, branch, associate or investee, including the carrying amount of goodwill) becomes different from the tax base (which is often cost) of the investment or interest. Such differences may arise in a number of different circumstances, for example:

- (a) the existence of undistributed profits of subsidiaries, branches, associates and joint arrangements;
- (b) changes in foreign exchange rates when a parent and its subsidiary are based in different countries; and
- (c) a reduction in the carrying amount of an investment in an associate to its recoverable amount.

In consolidated financial statements, the temporary difference may be different from the temporary difference associated with that investment in the parent's separate financial statements if the parent carries the investment in its separate financial statements at cost or revalued amount.

- 39 **An entity shall recognise a deferred tax liability for all taxable temporary differences associated with investments in subsidiaries, branches and associates, and interests in joint arrangements, except to the extent that both of the following conditions are satisfied:**

- (a) **the parent, investor, joint venturer or joint operator is able to control the timing of the reversal of the temporary difference; and**
- (b) **it is probable that the temporary difference will not reverse in the foreseeable future.**

- 40 As a parent controls the dividend policy of its subsidiary, it is able to control the timing of the reversal of temporary differences associated with that investment (including the temporary differences arising not only from undistributed profits but also from any foreign exchange translation differences). Furthermore, it would often be impracticable to determine the amount of income taxes that would be payable when the temporary difference reverses. Therefore, when the parent has determined that those profits will not be distributed in the foreseeable future the parent does not recognise a deferred tax liability. The same considerations apply to investments in branches.

- 41 The non-monetary assets and liabilities of an entity are measured in its functional currency (see Ind AS 21, *The Effects of Changes in Foreign Exchange Rates*). If the entity's taxable profit or tax loss (and, hence, the tax base of its non-monetary assets and liabilities) is determined in a different currency, changes in the exchange rate give rise to temporary differences that result in a recognised deferred tax liability or (subject to paragraph 24) asset. The resulting deferred tax is charged or credited to profit or loss (see paragraph 58).

- 42 An investor in an associate does not control that entity and is usually not in a position to determine its dividend policy. Therefore, in the absence of an agreement requiring that the profits of the associate will not be distributed in the foreseeable future, an investor recognises a deferred tax liability arising from taxable temporary differences associated with its investment in the associate. In some cases, an investor may not be able to determine the amount of tax that would be payable if it recovers the cost of its investment in an associate, but can determine that it will equal or exceed a minimum amount. In such cases, the deferred tax liability is measured at this amount.

- 43 The arrangement between the parties to a joint arrangement usually deals with the distribution of the profits and identifies whether decisions on such matters require the consent of all the parties or a group of the parties. When the joint venturer or joint operator can control the timing of the distribution of its share of the profits of the joint arrangement and it is probable that its share of the profits will not be distributed in the foreseeable future, a deferred tax liability is not recognised.

- 44 **An entity shall recognise a deferred tax asset for all deductible temporary differences arising from investments in subsidiaries, branches and associates, and interests in joint arrangements, to the extent that, and only to the extent that, it is probable that:**

- (a) **the temporary difference will reverse in the foreseeable future; and**
- (b) **taxable profit will be available against which the temporary difference can be utilised.**

- 45 In deciding whether a deferred tax asset is recognised for deductible temporary differences associated with its investments in subsidiaries, branches and associates, and its interests in joint arrangements, an entity considers the guidance set out in paragraphs 28 to 31.

Measurement

- 46 **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.**
- 47 **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.**
- 48 Current and deferred tax assets and liabilities are usually measured using the tax rates (and tax laws) that have been enacted. However, in some jurisdictions, announcements of tax rates (and tax laws) by the government have the substantive effect of actual enactment, which may follow the announcement by a period of several months. In these circumstances, tax assets and liabilities are measured using the announced tax rate (and tax laws).
- 49 When different tax rates apply to different levels of taxable income, deferred tax assets and liabilities are measured using the average rates that are expected to apply to the taxable profit (tax loss) of the periods in which the temporary differences are expected to reverse.
- 50 [Refer Appendix 1]
- 51 **The measurement of deferred tax liabilities and deferred tax assets shall reflect the tax consequences that would follow from the manner in which the entity expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.**
- 51A In some jurisdictions, the manner in which an entity recovers (settles) the carrying amount of an asset (liability) may affect either or both of:
- the tax rate applicable when the entity recovers (settles) the carrying amount of the asset (liability); and
 - the tax base of the asset (liability).

In such cases, an entity measures deferred tax liabilities and deferred tax assets using the tax rate and the tax base that are consistent with the expected manner of recovery or settlement.

Example A

An item of property, plant and equipment has a carrying amount of Rs. 100 and a tax base of Rs. 60. A tax rate of 20% would apply if the item were sold and a tax rate of 30% would apply to other income.

The entity recognises a deferred tax liability of Rs. 8 (Rs. 40 at 20%) if it expects to sell the item without further use and a deferred tax liability of Rs. 12 (Rs. 40 at 30%) if it expects to retain the item and recover its carrying amount through use.

Example B

An item of property, plant and equipment with a cost of Rs. 100 and a carrying amount of Rs. 80 is revalued to Rs. 150. No equivalent adjustment is made for tax purposes. Cumulative depreciation for tax purposes is Rs. 30 and the tax rate is 30%. If the item is sold for more than cost, the cumulative tax depreciation of Rs. 30 will be included in taxable income but sale proceeds in excess of cost will not be taxable.

The tax base of the item is Rs. 70 and there is a taxable temporary difference of Rs. 80. If the entity expects to recover the carrying amount by using the item, it must generate taxable income of Rs. 150, but will only be able to deduct depreciation of Rs. 70. On this basis, there is a deferred tax liability of Rs. 24 (Rs. 80 at 30%). If the entity expects to recover the carrying amount by selling the item immediately for proceeds of Rs. 150, the deferred tax liability is computed as follows:

	<i>Taxable Temporary Difference (Amount in Rs..)</i>	<i>Tax Rate</i>	<i>Deferred Tax Liability (Amount in Rs..)</i>
Cumulative tax depreciation	30	30%	9
Proceeds in excess of cost	<u>50</u>	nil	-
Total	<u>80</u>		<u>9</u>

(note: in accordance with paragraph 61A, the additional deferred tax that arises on the revaluation is recognised in other comprehensive income)

Example C

The facts are as in example B, except that if the item is sold for more than cost, the cumulative tax depreciation will be included in taxable income (taxed at 30%) and the sale proceeds will be taxed at 40%, after deducting an inflation-adjusted cost of Rs. 110.

If the entity expects to recover the carrying amount by using the item, it must generate taxable income of Rs. 150, but will only be able to deduct depreciation of Rs. 70. On this basis, the tax base is Rs. 70, there is a taxable temporary difference of Rs. 80 and there is a deferred tax liability of Rs. 24 (Rs. 80 at 30%), as in example B.

If the entity expects to recover the carrying amount by selling the item immediately for proceeds of Rs. 150, the entity will be able to deduct the indexed cost of Rs. 110. The net proceeds of Rs. 40 will be taxed at 40%. In addition, the cumulative tax depreciation of Rs. 30 will be included in taxable income and taxed at 30%. On this basis, the tax base is Rs. 80 (Rs. 110 less Rs. 30), there is a taxable temporary difference of Rs. 70 and there is a deferred tax liability of Rs. 25 (Rs. 40 at 40% plus Rs. 30 at 30%). If the tax base is not immediately apparent in this example, it may be helpful to consider the fundamental principle set out in paragraph 10.

(note: in accordance with paragraph 61A, the additional deferred tax that arises on the revaluation is recognised in other comprehensive income)

51B If a deferred tax liability or deferred tax asset arises from a non-depreciable asset measured using the revaluation model in Ind AS 16, the measurement of the deferred tax liability or deferred tax asset shall reflect the tax consequences of recovering the carrying amount of the non-depreciable asset through sale, regardless of the basis of measuring the carrying amount of that asset. Accordingly, if the tax law specifies a tax rate applicable to the taxable amount derived from the sale of an asset that differs from the tax rate applicable to the taxable amount derived from using an asset, the former rate is applied in measuring the deferred tax liability or asset related to a non-depreciable asset.

51C – (Refer Appendix 1)

51D

51E Paragraph 51B does not change the requirements to apply the principles in paragraphs 24–33 (deductible temporary differences) and paragraphs 34–36 (unused tax losses and unused tax credits) of this Standard when recognising and measuring deferred tax assets.

52 [Moved and renumbered 51A]

52A In some jurisdictions, income taxes are payable at a higher or lower rate if part or all of the net profit or retained earnings is paid out as a dividend to shareholders of the entity. In some other jurisdictions, income taxes may be refundable or payable if part or all of the net profit or retained earnings is paid out as a dividend to shareholders of the entity. In these circumstances, current and deferred tax assets and liabilities are measured at the tax rate applicable to undistributed profits.

52B Omitted

Example illustrating paragraphs 52A and 57A

The following example deals with the measurement of current and deferred tax assets and liabilities for an entity in a jurisdiction where income taxes are payable at a higher rate on undistributed profits (50%) with an amount being refundable when profits are distributed. The tax rate on distributed profits is 35%. At the end of the reporting period, 31 December 20X1, the entity does not recognise a liability for dividends proposed or declared after the reporting period. As a result, no dividends are recognised in the year 20X1. Taxable income for 20X1 is Rs. 100,000. The net taxable temporary difference for the year 20X1 is Rs. 40,000.

The entity recognises a current tax liability and a current income tax expense of Rs. 50,000. No asset is recognised for the amount potentially recoverable as a result of future dividends. The entity also recognises a deferred tax liability and deferred tax expense of Rs. 20,000 (Rs. 40,000 at 50%) representing the income taxes that the entity will pay when it recovers or settles the carrying amounts of its assets and liabilities based on the tax rate applicable to undistributed profits.

Subsequently, on 15 March 20X2 the entity recognises dividends of Rs. 10,000 from previous operating profits as a liability.

On 15 March 20X2, the entity recognises the recovery of income taxes of Rs. 1,500 (15% of the dividends recognised as a liability) as a current tax asset and as a reduction of current income tax expense for 20X2.

53 **Deferred tax assets and liabilities shall not be discounted.**

54 The reliable determination of deferred tax assets and liabilities on a discounted basis requires detailed scheduling of the timing of the reversal of each temporary difference. In many cases such scheduling is impracticable or highly complex. Therefore, it is inappropriate to require discounting of deferred tax assets and liabilities. To permit, but not

to require, discounting would result in deferred tax assets and liabilities which would not be comparable between entities. Therefore, this Standard does not require or permit the discounting of deferred tax assets and liabilities.

- 55 Temporary differences are determined by reference to the carrying amount of an asset or liability. This applies even where that carrying amount is itself determined on a discounted basis, for example in the case of retirement benefit obligations (see Ind AS 19, *Employee Benefits*).
- 56 **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.**

Recognition of current and deferred tax

- 57 Accounting for the current and deferred tax effects of a transaction or other event is consistent with the accounting for the transaction or event itself. Paragraphs 58 to 68C implement this principle.
- 57A An entity shall recognise the income tax consequences of dividends as defined in Ind AS 109 when it recognises a liability to pay a dividend. The income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity shall recognise the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognised those past transactions or events.

Items recognised in profit or loss

- 58 **Current and deferred tax shall be recognised as income or an expense and included in profit or loss for the period, except to the extent that the tax arises from:**
- a transaction or event which is recognised, in the same or a different period, outside profit or loss, either in other comprehensive income or directly in equity (see paragraphs 61A -65); or**
 - a business combination (other than the acquisition by an investment entity, as defined in Ind AS 110, *Consolidated Financial Statements*, of a subsidiary that is required to be measured at fair value through profit or loss) (see paragraphs 66 -68).**
- 59 Most deferred tax liabilities and deferred tax assets arise where income or expense is included in accounting profit in one period, but is included in taxable profit (tax loss) in a different period. The resulting deferred tax is recognised in profit or loss. Examples are when:
- interest, royalty or dividend revenue is received in arrears and is included in accounting profit in accordance with Ind AS 115, *Revenue from Contracts with Customers*, or Ind AS 109, *Financial Instruments*, as relevant, but is included in taxable profit (tax loss) on a cash basis; and
 - costs of intangible assets have been capitalised in accordance with Ind AS 38 and are being amortised in profit or loss, but were deducted for tax purposes when they were incurred.
- 60 The carrying amount of deferred tax assets and liabilities may change even though there is no change in the amount of the related temporary differences. This can result, for example, from:
- a change in tax rates or tax laws;
 - a reassessment of the recoverability of deferred tax assets; or
 - a change in the expected manner of recovery of an asset.
- The resulting deferred tax is recognised in profit or loss, except to the extent that it relates to items previously recognised outside profit or loss (see paragraph 63).

Items recognised outside profit or loss

- 61 [Refer Appendix 1]
- 61A **Current tax and deferred tax shall be recognised outside profit or loss if the tax relates to items that are recognised, in the same or a different period, outside profit or loss. Therefore, current tax and deferred tax that relates to items that are recognised, in the same or a different period:**
- in other comprehensive income, shall be recognised in other comprehensive income (see paragraph 62).**
 - directly in equity, shall be recognised directly in equity (see paragraph 62A).**
- 62 Indian Accounting Standards require or permit particular items to be recognised in other comprehensive income. Examples of such items are:
- a change in carrying amount arising from the revaluation of property, plant and equipment (see Ind AS 16); and
 - [Refer Appendix 1]

- (c) exchange differences arising on the translation of the financial statements of a foreign operation (see Ind AS 21).
 - (d) [Refer Appendix 1]
- 62A 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 (see 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 (see paragraph 23).
- 63 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.

In such cases, the current and deferred tax related to items that are recognised outside profit or loss are based on a reasonable pro rata allocation of the current and deferred tax of the entity in the tax jurisdiction concerned, or other method that achieves a more appropriate allocation in the circumstances.

- 64 Ind AS 16 does not specify whether an entity should transfer each year from revaluation surplus to retained earnings an amount equal to the difference between the depreciation or amortisation on a revalued asset and the depreciation or amortisation based on the cost of that asset. If an entity makes such a transfer, the amount transferred is net of any related deferred tax. Similar considerations apply to transfers made on disposal of an item of property, plant or equipment.
- 65 When an asset is revalued for tax purposes and that revaluation is related to an accounting revaluation of an earlier period, or to one that is expected to be carried out in a future period, the tax effects of both the asset revaluation and the adjustment of the tax base are recognised in other comprehensive income in the periods in which they occur. However, if the revaluation for tax purposes is not related to an accounting revaluation of an earlier period, or to one that is expected to be carried out in a future period, the tax effects of the adjustment of the tax base are recognised in profit or loss.
- 65A When an entity pays dividends to its shareholders, it may be required to pay a portion of the dividends to taxation authorities on behalf of shareholders. In many jurisdictions, this amount is referred to as a withholding tax. Such an amount paid or payable to taxation authorities is charged to equity as a part of the dividends.

Deferred tax arising from a business combination

- 66 As explained in paragraphs 19 and 26(c), temporary differences may arise in a business combination. In accordance with Ind AS 103, an entity recognises any resulting deferred tax assets (to the extent that they meet the recognition criteria in paragraph 24) or deferred tax liabilities as identifiable assets and liabilities at the acquisition date. Consequently, those deferred tax assets and deferred tax liabilities affect the amount of goodwill or the bargain purchase gain the entity recognises. However, in accordance with paragraph 15(a), an entity does not recognise deferred tax liabilities arising from the initial recognition of goodwill.
- 67 As a result of a business combination, the probability of realising a pre-acquisition deferred tax asset of the acquirer could change. An acquirer may consider it probable that it will recover its own deferred tax asset that was not recognised before the business combination. For example, the acquirer may be able to utilise the benefit of its unused tax losses against the future taxable profit of the acquiree. Alternatively, as a result of the business combination it might no longer be probable that future taxable profit will allow the deferred tax asset to be recovered. In such cases, the acquirer recognises a change in the deferred tax asset in the period of the business combination, but does not include it as part of the accounting for the business combination. Therefore, the acquirer does not take it into account in measuring the goodwill or bargain purchase gain it recognises in the business combination.
- 68 The potential benefit of the acquiree's income tax loss carryforwards or other deferred tax assets might not satisfy the criteria for separate recognition when a business combination is initially accounted for but might be realised subsequently. An entity shall recognise acquired deferred tax benefits that it realises after the business combination as follows:

- (a) Acquired deferred tax benefits recognised within the measurement period that result from new information about facts and circumstances that existed at the acquisition date shall be applied to reduce the carrying amount of any goodwill related to that acquisition. If the carrying amount of that 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, depending on whether paragraph 34 or paragraph 36A of Ind AS 103, would have applied had the measurement period adjustments been known on the date of acquisition itself.
- (b) All other acquired deferred tax benefits realised shall be recognised in profit or loss (or, if this Standard so requires, outside profit or loss).

Current and deferred tax arising from share-based payment transactions

- 68A In some tax jurisdictions, an entity receives a tax deduction (ie an amount that is deductible in determining taxable profit) that relates to remuneration paid in shares, share options or other equity instruments of the entity. The amount of that tax deduction may differ from the related cumulative remuneration expense, and may arise in a later accounting period. For example, in some jurisdictions, an entity may recognise an expense for the consumption of employee services received as consideration for share options granted, in accordance with Ind AS 102, *Share-based Payment*, and not receive a tax deduction until the share options are exercised, with the measurement of the tax deduction based on the entity's share price at the date of exercise.
- 68B As with the preliminary expenses discussed in paragraphs 9 and 26(b) of this Standard, the difference between the tax base of the employee services received to date (being the amount permitted as a deduction in future periods under taxation laws), and the carrying amount of nil, is a deductible temporary difference that results in a deferred tax asset. If the amount permitted as a deduction in future periods under taxation laws is not known at the end of the period, it shall be estimated, based on information available at the end of the period. For example, if the amount permitted as a deduction in future periods under taxation laws is dependent upon the entity's share price at a future date, the measurement of the deductible temporary difference should be based on the entity's share price at the end of the period.
- 68C As noted in paragraph 68A, the amount of the tax deduction (or estimated future tax deduction, measured in accordance with paragraph 68B) may differ from the related cumulative remuneration expense. Paragraph 58 of the Standard requires that current and deferred tax should be recognised as income or an expense and included in profit or loss for the period, except to the extent that the tax arises from (a) a transaction or event that is recognised, in the same or a different period, outside profit or loss, or (b) a business combination (other than the acquisition by an investment entity of a subsidiary that is required to be measured at fair value through profit or loss). If the amount of the tax deduction (or estimated future tax deduction) exceeds the amount of the related cumulative remuneration expense, this indicates that the tax deduction relates not only to remuneration expense but also to an equity item. In this situation, the excess of the associated current or deferred tax should be recognised directly in equity.

Presentation

Tax assets and tax liabilities

- 69- [Refer Appendix 1]
70

Offset

- 71 **An entity shall offset current tax assets and current tax liabilities if, and only if, the entity:**
- has a legally enforceable right to set off the recognised amounts; and**
 - intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.**
- 72 Although current tax assets and liabilities are separately recognised and measured they are offset in the balance sheet subject to criteria similar to those established for financial instruments in Ind AS 32. An entity will normally have a legally enforceable right to set off a current tax asset against a current tax liability when they relate to income taxes levied by the same taxation authority and the taxation laws permit the entity to make or receive a single net payment.
- 73 In consolidated financial statements, a current tax asset of one entity in a group is offset against a current tax liability of another entity in the group if, and only if, the entities concerned have a legally enforceable right to make or receive a single net payment and the entities intend to make or receive such a net payment or to recover the asset and settle the liability simultaneously.
- 74 **An entity shall offset deferred tax assets and deferred tax liabilities if, and only if:**
- 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.**

- 75 To avoid the need for detailed scheduling of the timing of the reversal of each temporary difference, this Standard requires an entity to set off a deferred tax asset against a deferred tax liability of the same taxable entity if, and only if, they relate to income taxes levied by the same taxation authority and the entity has a legally enforceable right to set off current tax assets against current tax liabilities.
- 76 In rare circumstances, an entity may have a legally enforceable right of set-off, and an intention to settle net, for some periods but not for others. In such rare circumstances, detailed scheduling may be required to establish reliably whether the deferred tax liability of one taxable entity will result in increased tax payments in the same period in which a deferred tax asset of another taxable entity will result in decreased payments by that second taxable entity.

Tax expense

Tax expense (income) related to profit or loss from ordinary activities

- 77 **The tax expense (income) related to profit or loss from ordinary activities shall be presented as part of profit or loss in the statement of profit and loss.**

77A [Refer Appendix 1]

Exchange differences on deferred foreign tax liabilities or assets

- 78 Ind AS 21 requires certain exchange differences to be recognised as income or expense but does not specify where such differences should be presented in the statement of profit and loss. Accordingly, where exchange differences on deferred foreign tax liabilities or assets are recognised in the statement of profit and loss, such differences may be classified as deferred tax expense (income) if that presentation is considered to be the most useful to financial statement users.

Disclosure

- 79 **The major components of tax expense (income) shall be disclosed separately.**

- 80 Components of tax expense (income) may include:

- (a) current tax expense (income);
- (b) any adjustments recognised in the period for current tax of prior periods;
- (c) the amount of deferred tax expense (income) relating to the origination and reversal of temporary differences;
- (d) the amount of deferred tax expense (income) relating to changes in tax rates or the imposition of new taxes;
- (e) the amount of the benefit arising from a previously unrecognised tax loss, tax credit or temporary difference of a prior period that is used to reduce current tax expense;
- (f) the amount of the benefit from a previously unrecognised tax loss, tax credit or temporary difference of a prior period that is used to reduce deferred tax expense;
- (g) deferred tax expense arising from the write-down, or reversal of a previous write-down, of a deferred tax asset in accordance with paragraph 56; and
- (h) the amount of tax expense (income) relating to those changes in accounting policies and errors that are included in profit or loss in accordance with Ind AS 8, because they cannot be accounted for retrospectively.

- 81 **The following shall also be disclosed separately:**

- (a) **the aggregate current and deferred tax relating to items that are charged or credited directly to equity (see paragraph 62A);**
- (ab) **the amount of income tax relating to each component of other comprehensive income (see paragraph 62 and Ind AS 1);**
- (b) **[Refer Appendix 1];**
- (c) **an explanation of the relationship between tax expense (income) and accounting profit in either or both of the following forms:**
 - (i) **a numerical reconciliation between tax expense (income) and the product of accounting profit multiplied by the applicable tax rate(s), disclosing also the basis on which the applicable tax rate(s) is (are) computed; or**

- (ii) a numerical reconciliation between the average effective tax rate and the applicable tax rate, disclosing also the basis on which the applicable tax rate is computed;
 - (d) an explanation of changes in the applicable tax rate(s) compared to the previous accounting period;
 - (e) the amount (and expiry date, if any) of deductible temporary differences, unused tax losses, and unused tax credits for which no deferred tax asset is recognised in the balance sheet;
 - (f) the aggregate amount of temporary differences associated with investments in subsidiaries, branches and associates and interests in joint arrangements, for which deferred tax liabilities have not been recognised (see paragraph 39);
 - (g) in respect of each type of temporary difference, and in respect of each type of unused tax losses and unused tax credits:
 - (i) the amount of the deferred tax assets and liabilities recognised in the balance sheet for each period presented;
 - (ii) the amount of the deferred tax income or expense recognised in profit or loss, if this is not apparent from the changes in the amounts recognised in the balance sheet;
 - (h) in respect of discontinued operations, the tax expense relating to:
 - (i) the gain or loss on discontinuance; and
 - (ii) the profit or loss from the ordinary activities of the discontinued operation for the period, together with the corresponding amounts for each prior period presented;
 - (i) the amount of income tax consequences of dividends to shareholders of the entity that were proposed or declared before the financial statements were approved for issue, but are not recognised as a liability in the financial statements;
 - (j) if a business combination in which the entity is the acquirer causes a change in the amount recognised for its pre-acquisition deferred tax asset (see paragraph 67), the amount of that change; and
 - (k) if the deferred tax benefits acquired in a business combination are not recognised at the acquisition date but are recognised after the acquisition date (see paragraph 68), a description of the event or change in circumstances that caused the deferred tax benefits to be recognised.
- 82 An entity shall disclose the amount of a deferred tax asset and the nature of the evidence supporting its recognition, when:
- (a) the utilisation of the deferred tax asset is dependent on future taxable profits in excess of the profits arising from the reversal of existing taxable temporary differences; and
 - (b) the entity has suffered a loss in either the current or preceding period in the tax jurisdiction to which the deferred tax asset relates.
- 82A In the circumstances described in paragraph 52A, an entity shall disclose the nature of the potential income tax consequences that would result from the payment of dividends to its shareholders. In addition, the entity shall disclose the amounts of the potential income tax consequences practicably determinable and whether there are any potential income tax consequences not practicably determinable.
- 83 [Refer Appendix 1]
- 84 The disclosures required by paragraph 81(c) enable users of financial statements to understand whether the relationship between tax expense (income) and accounting profit is unusual and to understand the significant factors that could affect that relationship in the future. The relationship between tax expense (income) and accounting profit may be affected by such factors as revenue that is exempt from taxation, expenses that are not deductible in determining taxable profit (tax loss), the effect of tax losses and the effect of foreign tax rates.
- 85 In explaining the relationship between tax expense (income) and accounting profit, an entity uses an applicable tax rate that provides the most meaningful information to the users of its financial statements. Often, the most meaningful rate is the domestic rate of tax in the country in which the entity is domiciled, aggregating the tax rate applied for national taxes with the rates applied for any local taxes which are computed on a substantially similar level of taxable profit (tax loss). However, for an entity operating in several jurisdictions, it may be more meaningful to aggregate separate reconciliations prepared using the domestic rate in each individual jurisdiction. The following example illustrates how the selection of the applicable tax rate affects the presentation of the numerical reconciliation.

Example illustrating paragraph 85

In 19X2, an entity has accounting profit in its own jurisdiction (country A) of Rs. 1,500 (19X1: Rs. 2,000) and in country B of Rs. 1,500 (19X1: Rs. 500). The tax rate is 30% in country A and 20% in country B. In country A, expenses of Rs. 100 (19X1: Rs. 200) are not deductible for tax purposes.

The following is an example of a reconciliation to the domestic tax rate.

	(Amount in Rs.)	
	19X1	19X2
Accounting profit	<u>2,500</u>	<u>3,000</u>
Tax at the domestic rate of 30%	750	900
Tax effect of expenses that are not deductible for tax purposes	60	30
Effect of lower tax rates in country B	<u>(50)</u>	<u>(150)</u>
Tax expense	<u>760</u>	<u>780</u>

- 86 The average effective tax rate is the tax expense (income) divided by the accounting profit.
- 87 It would often be impracticable to compute the amount of unrecognised deferred tax liabilities arising from investments in subsidiaries, branches and associates and interests in joint arrangements (see paragraph 39). Therefore, this Standard requires an entity to disclose the aggregate amount of the underlying temporary differences but does not require disclosure of the deferred tax liabilities. Nevertheless, where practicable, entities are encouraged to disclose the amounts of the unrecognised deferred tax liabilities because financial statement users may find such information useful.
- 87A Paragraph 82A requires an entity to disclose the nature of the potential income tax consequences that would result from the payment of dividends to its shareholders. An entity discloses the important features of the income tax systems and the factors that will affect the amount of the potential income tax consequences of dividends.
- 87B It would sometimes not be practicable to compute the total amount of the potential income tax consequences that would result from the payment of dividends to shareholders. This may be the case, for example, where an entity has a large number of foreign subsidiaries. However, even in such circumstances, some portions of the total amount may be easily determinable. For example, in a consolidated group, a parent and some of its subsidiaries may have paid income taxes at a higher rate on undistributed profits and be aware of the amount that would be refunded on the payment of future dividends to shareholders from consolidated retained earnings. In this case, that refundable amount is disclosed. If applicable, the entity also discloses that there are additional potential income tax consequences not practicably determinable. In the parent's separate financial statements, if any, the disclosure of the potential income tax consequences relates to the parent's retained earnings.
- 87C An entity required to provide the disclosures in paragraph 82A may also be required to provide disclosures related to temporary differences associated with investments in subsidiaries, branches and associates or interests in joint arrangements. In such cases, an entity considers this in determining the information to be disclosed under paragraph 82A. For example, an entity may be required to disclose the aggregate amount of temporary differences associated with investments in subsidiaries for which no deferred tax liabilities have been recognised (see paragraph 81(f)). If it is impracticable to compute the amounts of unrecognised deferred tax liabilities (see paragraph 87) there may be amounts of potential income tax consequences of dividends not practicably determinable related to these subsidiaries.
- 88 An entity discloses any tax-related contingent liabilities and contingent assets in accordance with Ind AS 37, *Provisions, Contingent Liabilities and Contingent Assets*. Contingent liabilities and contingent assets may arise, for example, from unresolved disputes with the taxation authorities. Similarly, where changes in tax rates or tax laws are enacted or announced after the reporting period, an entity discloses any significant effect of those changes on its current and deferred tax assets and liabilities (see Ind AS 10, *Events after the Reporting Period*).

Effective Date

- 89 *
- 90 *
- 91 *
- 92 *
- 93 *
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- 96 *
- 97 *
- 98 *

* Refer Appendix 1.

- 98A *
- 98B *
- 98C *
- 98D *
- 98E As a consequence of issuance of Ind AS 115, *Revenue from Contracts with Customers*, paragraph 59 is amended. An entity shall apply those amendments when it applies Ind AS 115.
- 98F *
- 98G Ind AS 116 amended paragraph 20. An entity shall apply that amendment when it applies Ind AS 116.
- 98H Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to Ind AS 12) amended paragraph 29 and added paragraphs 27A, 29A and 89-98F and the example following paragraph 26. An entity shall apply those amendments for annual periods beginning on or after April 01, 2018. An entity shall apply those amendments retrospectively in accordance with Ind AS 8, Accounting Policies, Changes in Accounting Estimates and Errors. However, on initial application of the amendment, the change in the opening equity of the earliest comparative period may be recognised in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. If an entity applies this relief, it shall disclose that fact.
- 98-I *Annual Improvements to Ind AS (2018)* added paragraph 57A and deleted paragraph 52B. An entity shall apply those amendments for annual reporting periods beginning on or after 1 April, 2019.

Appendix A

Income Taxes — Changes in the Tax Status of an Entity or its Shareholders

This Appendix is an integral part of the Ind AS.

Issue

- 1 A change in the tax status of an entity or of its shareholders may have consequences for an entity by increasing or decreasing its tax liabilities or assets. This may, for example, occur upon the public listing of an entity's equity instruments or upon the restructuring of an entity's equity. It may also occur upon a controlling shareholder's move to a foreign country. As a result of such an event, an entity may be taxed differently; it may for example gain or lose tax incentives or become subject to a different rate of tax in the future.
- 2 A change in the tax status of an entity or its shareholders may have an immediate effect on the entity's current tax liabilities or assets. The change may also increase or decrease the deferred tax liabilities and assets recognised by the entity, depending on the effect the change in tax status has on the tax consequences that will arise from recovering or settling the carrying amount of the entity's assets and liabilities.
- 3 The issue is how an entity should account for the tax consequences of a change in its tax status or that of its shareholders.

Accounting Principles

- 4 A change in the tax status of an entity or its shareholders does not give rise to increases or decreases in amounts recognised outside profit or loss. The current and deferred tax consequences of a change in tax status shall be included in profit or loss for the period, unless those consequences relate to transactions and events that result, in the same or a different period, in a direct credit or charge to the recognised amount of equity or in amounts recognised in other comprehensive income. Those tax consequences that relate to changes in the recognised amount of equity, in the same or a different period (not included in profit or loss), shall be charged or credited directly to equity. Those tax consequences that relate to amounts recognised in other comprehensive income shall be recognised in other comprehensive income.

Appendix B

References to matters contained in other Indian Accounting Standards

This Appendix is an integral part of the Ind AS.

- 1 Appendix A, *Applying the Restatement Approach under Ind AS 29, Financial Reporting in Hyperinflationary Economies*, contained in Ind AS 29, *Financial Reporting in Hyperinflationary Economies*, makes reference to Ind AS 12.
- 2 Appendix C, *Levies*, contained in Ind AS 37, *Provisions, Contingent Liabilities and Contingent Assets*.

Appendix C

Uncertainty over Income Tax Treatments

This appendix is an integral part of the Ind AS and has the same authority as the other parts of the Ind AS

Background

1. Ind AS 12, *Income Taxes*, specifies requirements for current and deferred tax assets and liabilities. An entity applies the requirements in Ind AS 12 based on applicable tax laws.
2. It may be unclear how tax law applies to a particular transaction or circumstance. The acceptability of a particular tax treatment under tax law may not be known until the relevant taxation authority or a court takes a decision in the future. Consequently, a dispute or examination of a particular tax treatment by the taxation authority may affect an entity's accounting for a current or deferred tax asset or liability.
3. In this Appendix:
 - (a) 'tax treatments' refers to the treatments used by an entity or that it plans to use in its income tax filings.
 - (b) 'taxation authority' refers to the body or bodies that decide whether tax treatments are acceptable under tax law. This might include a court.
 - (c) an 'uncertain tax treatment' is a tax treatment for which there is uncertainty over whether the relevant taxation authority will accept the tax treatment under tax law. For example, an entity's decision not to submit any income tax filing in a tax jurisdiction, or not to include particular income in taxable profit, is an uncertain tax treatment if its acceptability is uncertain under tax law.

Scope

4. This Appendix clarifies how to apply the recognition and measurement requirements in Ind AS 12 when there is uncertainty over income tax treatments. In such a circumstance, an entity shall recognise and measure its current or deferred tax asset or liability applying the requirements in Ind AS 12 based on taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates determined applying this Appendix.

Issues

5. When there is uncertainty over income tax treatments, this Appendix addresses:
 - (a) whether an entity considers uncertain tax treatments separately;
 - (b) the assumptions an entity makes about the examination of tax treatments by taxation authorities;
 - (c) how an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and
 - (d) how an entity considers changes in facts and circumstances.

Accounting Principles

Whether an entity considers uncertain tax treatments separately

6. An entity shall determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments based on which approach better predicts the resolution of the uncertainty. In determining the approach that better predicts the resolution of the uncertainty, an entity might consider, for example, (a) how it prepares its income tax filings and supports tax treatments; or (b) how the entity expects the taxation authority to make its examination and resolve issues that might arise from that examination.
7. If, applying paragraph 6, an entity considers more than one uncertain tax treatment together, the entity shall read references to an 'uncertain tax treatment' in this Appendix as referring to the group of uncertain tax treatments considered together.

Examination by taxation authorities

8. In assessing whether and how an uncertain tax treatment affects the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, an entity shall assume that a taxation authority will examine amounts it has a right to examine and have full knowledge of all related information when making those examinations.

Determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates

9. An entity shall consider whether it is probable that a taxation authority will accept an uncertain tax treatment.
10. If an entity concludes it is probable that the taxation authority will accept an uncertain tax treatment, the entity shall determine the taxable profit (tax loss), tax bases, unused tax losses, unused tax credits or tax rates consistently with the tax treatment used or planned to be used in its income tax filings.

11. If an entity concludes it is not probable that the taxation authority will accept an uncertain tax treatment, the entity shall reflect the effect of uncertainty in determining the related taxable profit (tax loss), tax bases, unused tax losses, unused tax credits or tax rates. An entity shall reflect the effect of uncertainty for each uncertain tax treatment by using either of the following methods, depending on which method the entity expects to better predict the resolution of the uncertainty:
 - (a) The most likely amount—the single most likely amount in a range of possible outcomes. The most likely amount may better predict the resolution of the uncertainty if the possible outcomes are binary or are concentrated on one value.
 - (b) The expected value—the sum of the probability-weighted amounts in a range of possible outcomes. The expected value may better predict the resolution of the uncertainty if there is a range of possible outcomes that are neither binary nor concentrated on one value.
12. If an uncertain tax treatment affects current tax and deferred tax (for example, if it affects both taxable profit used to determine current tax and tax bases used to determine deferred tax), an entity shall make consistent judgements and estimates for both current tax and deferred tax.

Changes in facts and circumstances

13. An entity shall reassess a judgement or estimate required by this Appendix if the facts and circumstances on which the judgement or estimate was based change or as a result of new information that affects the judgement or estimate. For example, a change in facts and circumstances might change an entity's conclusions about the acceptability of a tax treatment or the entity's estimate of the effect of uncertainty, or both. Paragraphs A1–A3 set out guidance on changes in facts and circumstances.
14. An entity shall reflect the effect of a change in facts and circumstances or of new information as a change in accounting estimate applying Ind AS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*. An entity shall apply Ind AS 10, *Events after the Reporting Period*, to determine whether a change that occurs after the reporting period is an adjusting or non-adjusting event.

Application Guidance

This Application Guidance is an integral part of Appendix C and has the same authority as the other parts of Appendix C.

Changes in facts and circumstances (paragraph 13)

- A1 In applying paragraph 13 of this Appendix, an entity shall assess the relevance and effect of a change in facts and circumstances or of new information in the context of applicable tax laws. For example, a particular event might result in the reassessment of a judgement or estimate made for one tax treatment but not another, if those tax treatments are subject to different tax laws.
- A2 Examples of changes in facts and circumstances or new information that, depending on the circumstances, can result in the reassessment of a judgement or estimate required by this Appendix include, but are not limited to, the following:
 - (a) examinations or actions by a taxation authority. For example:
 - (i) agreement or disagreement by the taxation authority with the tax treatment or a similar tax treatment used by the entity;
 - (ii) information that the taxation authority has agreed or disagreed with a similar tax treatment used by another entity; and
 - (iii) information about the amount received or paid to settle a similar tax treatment.
 - (b) changes in rules established by a taxation authority.
 - (c) the expiry of a taxation authority's right to examine or re-examine a tax treatment.
- A3 The absence of agreement or disagreement by a taxation authority with a tax treatment, in isolation, is unlikely to constitute a change in facts and circumstances or new information that affects the judgements and estimates required by this Appendix.

Disclosure

- A4 When there is uncertainty over income tax treatments, an entity shall determine whether to disclose:
 - (a) judgements made in determining taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates applying paragraph 122 of Ind AS 1, *Presentation of Financial Statements*; and
 - (b) information about the assumptions and estimates made in determining taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates applying paragraphs 125–129 of Ind AS 1.

A5 If an entity concludes it is probable that a taxation authority will accept an uncertain tax treatment, the entity shall determine whether to disclose the potential effect of the uncertainty as a tax-related contingency applying paragraph 88 of Ind AS 12.

Effective date and transition

This Section is an integral part of Appendix C and has the same authority as the other parts of the Appendix C.

Effective date

B1 An entity shall apply this Appendix for annual reporting periods beginning on or after April 1, 2019.

Transition

B2 On initial application, an entity shall apply this Appendix either:

- (a) retrospectively applying Ind AS 8, if that is possible without the use of hindsight; or
- (b) retrospectively with the cumulative effect of initially applying the Appendix recognised at the date of initial application. If an entity selects this transition approach, it shall not restate comparative information. Instead, the entity shall recognise the cumulative effect of initially applying the Appendix as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate). The date of initial application is the beginning of the annual reporting period in which an entity first applies this Appendix.

Appendix 1

Note: This Appendix is not a part of the Indian Accounting Standard. The purpose of this Appendix is only to bring out the major differences, if any, between Indian Accounting Standard (Ind AS) 12 and the corresponding International Accounting Standard (IAS) 12, Income Taxes, IFRIC 23 Uncertainty over Income Tax Treatments and SIC 25, Income Taxes—Changes in the Tax Status of an Entity or its Shareholders, issued by the International Accounting Standards Board.

Comparison with IAS 12, *Income Taxes* IFRIC 23 and SIC 25

- 1 The transitional provisions given in SIC 25 have not been given in Ind AS 12, since all transitional provisions related to Ind ASs, wherever considered appropriate, have been included in Ind AS 101, *First-time Adoption of Indian Accounting Standards* corresponding to IFRS 1, *First-time Adoption of International Financial Reporting Standards*.
- 2 Different terminology is used, as used in existing laws eg, the term ‘balance sheet’ is used instead of ‘Statement of financial position’ and ‘Statement of profit and loss’ is used instead of ‘Statement of comprehensive income’. Words ‘approved for issue’ have been used instead of ‘authorised for issue’ in the context of financial statements considered for the purpose of events after the reporting period.
- 3 Requirements regarding presentation of tax expense (income) in the separate income statement, where separate income statement is presented, have been deleted. This change is consequential to the removal of option regarding the 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.
- 4 The following paragraph numbers appear as ‘Deleted’ in IAS 12. In order to maintain consistency with paragraph numbers of IAS 12, the paragraph numbers are retained in Ind AS 12:
 - (i) paragraph 3
 - (ii) paragraph 32
 - (iii) paragraph 50
 - (iv) paragraph 52B
 - (v) paragraph 61
 - (vi) paragraphs 62(b) and (d)
 - (vii) paragraph 69
 - (viii) paragraph 70
 - (ix) paragraph 77A
 - (x) paragraph 81(b)
 - (xi) paragraph 83.
- 5 As a consequence of not allowing fair value model in Ind AS 40, paragraphs 51C- 51D have been deleted and the following paragraphs have been modified in Ind AS 12:
 - (i) paragraph 20
 - (ii) paragraph 51E
- 6 Paragraph 68(a) has been modified as a consequence of different accounting treatment of bargain purchase gain in Ind AS 103, *Business Combinations*, in comparison to IFRS 3, *Business Combination*.
- 7 *Omitted by Companies (Indian Accounting Standards) Second Amendment Rules, 2018, dated 20-9-2018*
8. Paragraphs 89 to 98D and 98F of IAS 12 related to effective date have not been included in Ind AS 12 as these are not relevant in Indian context. However, in order to maintain consistency with paragraph numbers of IAS 12, these paragraph numbers are retained in Ind AS 12.

Indian Accounting Standard (Ind AS) 16

Property, Plant and Equipment

(This Indian Accounting Standard includes paragraphs set in **bold** type and plain type, which have equal authority. Paragraphs in bold type indicate the main principles.)

Objective

- 1 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 and the depreciation charges and impairment losses to be recognised in relation to them.

Scope

- 2 **This Standard shall be applied in accounting for property, plant and equipment except when another Standard requires or permits a different accounting treatment.**
- 3 This Standard does not apply to:
- (a) property, plant and equipment classified as held for sale in accordance with Ind AS 105, *Non-current Assets Held for Sale and Discontinued Operations*.
 - (b) biological assets related to agricultural activity other than bearer plants (See Ind AS 41, *Agriculture*). This Standard applies to bearer plants but it does not apply to the produce on bearer plants.
 - (c) the recognition and measurement of exploration and evaluation assets (see Ind AS 106, *Exploration for and Evaluation of Mineral Resources*).
 - (d) mineral rights and mineral reserves such as oil, natural gas and similar non-regenerative resources.
- However, this Standard applies to property, plant and equipment used to develop or maintain the assets described in (b)–(d).
- 4 Omitted
- 5 An entity accounting for investment property in accordance with Ind AS 40, *Investment Property*, shall use the cost model in this Standard for owned investment property.

Definitions

- 6 **The following terms are used in this Standard with the meanings specified:**

A bearer plant is a living plant that:

- (a) **is used in the production or supply of agricultural produce;**
- (b) **is expected to bear produce for more than one period; and**
- (c) **has a remote likelihood of being sold as agricultural produce, except for incidental scrap sales.**

Carrying amount is the amount at which an asset is recognised after deducting any accumulated depreciation and accumulated impairment losses.

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, eg Ind AS 102, *Share-based Payment*.

Depreciable amount is the cost of an asset, or other amount substituted for cost, less its residual value.

Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life.

Entity-specific value is the present value of the cash flows an entity expects to arise from the continuing use of an asset and from its disposal at the end of its useful life or expects to incur when settling a liability.

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. (See Ind AS 113, *Fair Value Measurement*.)

An impairment loss is the amount by which the carrying amount of an asset exceeds its recoverable amount.

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.

Recoverable amount is the higher of an asset's fair value less costs of disposal and its value in use.

The residual value of an asset is the estimated amount that an entity would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.

Useful life is:

- (a) the period over which an asset is expected to be available for use by an entity; or
- (b) the number of production or similar units expected to be obtained from the asset by an entity.

Recognition

- 7 **The cost of an item of property, plant and equipment shall be recognised as an asset if, and only if:**
 - (a) it is probable that future economic benefits associated with the item will flow to the entity; and
 - (b) the cost of the item can be measured reliably.
- 8 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.
- 9 This Standard does not prescribe the unit of measure for recognition, ie what constitutes an item of property, plant and equipment. Thus, judgement is required in applying the recognition criteria to an entity's specific circumstances. It may be appropriate to aggregate individually insignificant items, such as moulds, tools and dies, and to apply the criteria to the aggregate value.
- 10 An entity evaluates under this recognition principle all its property, plant and equipment costs at the time they are incurred. These costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. The cost of an item of property, plant and equipment may include costs incurred relating to leases of assets that are used to construct, add to, replace part of or service an item of property, plant and equipment, such as depreciation of right-of-use assets.

Initial costs

- 11 Items of property, plant and equipment may be acquired for safety or environmental reasons. The acquisition of such property, plant and equipment, although not directly increasing the future economic benefits of any particular existing item of property, plant and equipment, may be necessary for an entity to obtain the future economic benefits from its other assets. Such items of property, plant and equipment qualify for recognition as assets because they enable an entity to derive future economic benefits from related assets in excess of what could be derived had those items not been acquired. For example, a chemical manufacturer may install new chemical handling processes to comply with environmental requirements for the production and storage of dangerous chemicals; related plant enhancements are recognised as an asset because without them the entity is unable to manufacture and sell chemicals. However, the resulting carrying amount of such an asset and related assets is reviewed for impairment in accordance with Ind AS 36, *Impairment of Assets*.

Subsequent costs

- 12 Under the recognition principle in paragraph 7, an entity does not recognise in the carrying amount of an item of property, plant and equipment the costs of the day- to-day servicing of the item. Rather, these costs are recognised in profit or loss as incurred. Costs of day-to-day servicing are primarily the costs of labour and consumables, and may include the cost of small parts. The purpose of these expenditures is often described as for the 'repairs and maintenance' of the item of property, plant and equipment.
- 13 Parts of some items of property, plant and equipment may require replacement at regular intervals. For example, a furnace may require relining after a specified number of hours of use, or aircraft interiors such as seats and galleys may require replacement several times during the life of the airframe. Items of property, plant and equipment may also be acquired to make a less frequently recurring replacement, such as replacing the interior walls of a building, or to make a nonrecurring replacement. Under the recognition principle in paragraph 7, an entity recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if the recognition criteria are met. The carrying amount of those parts that are replaced is derecognised in accordance with the derecognition provisions of this Standard (see paragraphs 67–72).

- 14 A condition of continuing to operate an item of property, plant and equipment (for example, an aircraft) may be performing regular major inspections for faults regardless of whether parts of the item are replaced. When each major inspection is performed, its cost is recognised in the carrying amount of the item of property, plant and equipment as a replacement if the recognition criteria are satisfied. Any remaining carrying amount of the cost of the previous inspection (as distinct from physical parts) is derecognised. This occurs regardless of whether the cost of the previous inspection was identified in the transaction in which the item was acquired or constructed. If necessary, the estimated cost of a future similar inspection may be used as an indication of what the cost of the existing inspection component was when the item was acquired or constructed.

Measurement at recognition

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

Elements of cost

- 16 The cost of an item of property, plant and equipment comprises:
- (a) its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates.
 - (b) any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.
 - (c) the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.
- 17 Examples of directly attributable costs are:
- (a) 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;
 - (b) costs of site preparation;
 - (c) initial delivery and handling costs;
 - (d) installation and assembly costs;
 - (e) 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). Excess of net sale proceeds of items produced over the cost of testing, if any, shall not be recognised in the profit or loss but deducted from the directly attributable costs considered as part of cost of an item of property, plant, and equipment; and
 - (f) professional fees.
- 18 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. The obligations for costs accounted for in accordance with Ind AS 2 or Ind AS 16 are recognised and measured in accordance with Ind AS 37, *Provisions, Contingent Liabilities and Contingent Assets*.
- 19 Examples of costs that are not costs of an item of property, plant and equipment are:
- (a) costs of opening a new facility;
 - (b) costs of introducing a new product or service (including costs of advertising and promotional activities);
 - (c) costs of conducting business in a new location or with a new class of customer (including costs of staff training); and
 - (d) administration and other general overhead costs.
- 20 Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management. Therefore, costs incurred in using or redeploying an item are not included in the carrying amount of that item. For example, the following costs are not included in the carrying amount of an item of property, plant and equipment:
- (a) 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;
 - (b) initial operating losses, such as those incurred while demand for the item's output builds up; and
 - (c) costs of relocating or reorganising part or all of an entity's operations.

- 21 Some operations occur in connection with the construction or development of an item of property, plant and equipment, but are not necessary to bring the item to the location and condition necessary for it to be capable of operating in the manner intended by management. These incidental operations may occur before or during the construction or development activities. For example, income may be earned through using a building site as a car park until construction starts. Because incidental operations are not necessary to bring an item to the location and condition necessary for it to be capable of operating in the manner intended by management, the income and related expenses of incidental operations are recognised in profit or loss and included in their respective classifications of income and expense.
- 22 The cost of a self-constructed asset is determined using the same principles as for an acquired asset. If an entity makes similar assets for sale in the normal course of business, the cost of the asset is usually the same as the cost of constructing an asset for sale (see Ind AS 2). Therefore, any internal profits are eliminated in arriving at such costs. 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.
- 22A Bearer plants are accounted for in the same way as self-constructed items of property, plant and equipment before they are in the location and condition necessary to be capable of operating in the manner intended by management. Consequently, references to ‘construction’ in this Standard should be read as covering activities that are necessary to cultivate the bearer plants before they are in the location and condition necessary to be capable of operating in the manner intended by management.

Measurement of cost

- 23 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.
- 24 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 following discussion refers simply to an exchange of one non-monetary asset for another, but it also applies to all exchanges described in the preceding sentence. 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. The acquired item is measured in this way even if an entity cannot immediately derecognise the asset given up. If the acquired item is not measured at fair value, its cost is measured at the carrying amount of the asset given up.
- 25 An entity determines whether an exchange transaction has commercial substance by considering the extent to which its future cash flows are expected to change as a result of the transaction. An exchange transaction has commercial substance if:
- the configuration (risk, timing and amount) of the cash flows of the asset received differs from the configuration of the cash flows of the asset transferred; or
 - the entity-specific value of the portion of the entity’s operations affected by the transaction changes as a result of the exchange; and
 - the difference in (a) or (b) is significant relative to the fair value of the assets exchanged.
- For the purpose of determining whether an exchange transaction has commercial substance, the entity-specific value of the portion of the entity’s operations affected by the transaction shall reflect post-tax cash flows. The result of these analyses may be clear without an entity having to perform detailed calculations.
- 26 The fair value of an asset is reliably measurable if (a) the variability in the range of reasonable fair value measurements is not significant for that asset or (b) the probabilities of the various estimates within the range can be reasonably assessed and used when measuring fair value. If an entity is able to measure reliably the fair value of either the asset received or the asset given up, then the fair value of the asset given up is used to measure the cost of the asset received unless the fair value of the asset received is more clearly evident.
- 27 Omitted.
- 28 The carrying amount of an item of property, plant and equipment may be reduced by Government grants in accordance with Ind AS 20, *Accounting for Government Grants and Disclosure of Government Assistance*.

Measurement after recognition

- 29 An entity shall choose either the cost model in paragraph 30 or the revaluation model in paragraph 31 as its accounting policy and shall apply that policy to an entire class of property, plant and equipment.**
- Cost model**
- 30 After recognition as an asset, an item of property, plant and equipment shall be carried at its cost less any accumulated depreciation and any accumulated impairment losses.**

Revaluation model

- 31 **After recognition as an asset, an item of property, plant and equipment whose fair value can be measured reliably shall be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.**
- 32 [Refer Appendix 1].
- 33 [Refer Appendix 1].
- 34 The frequency of revaluations depends upon the changes in fair values of the items of property, plant and equipment being revalued. When the fair value of a revalued asset differs materially from its carrying amount, a further revaluation is required. Some items of property, plant and equipment experience significant and volatile changes in fair value, thus necessitating annual revaluation. Such frequent revaluations are unnecessary for items of property, plant and equipment with only insignificant changes in fair value. Instead, it may be necessary to revalue the item only every three or five years.
- 35 When an item of property, plant and equipment is revalued, the carrying amount of that asset is adjusted to the revalued amount. At the date of the revaluation, the asset is treated in one of the following ways:
- (a) the gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. For example, the gross carrying amount may be restated by reference to observable market data or it may be restated proportionately to the change in the carrying amount. The accumulated depreciation at the date of the revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account accumulated impairment losses; or
 - (b) the accumulated depreciation is eliminated against the gross carrying amount of the asset.
- The amount of the adjustment of accumulated depreciation forms part of the increase or decrease in carrying amount that is accounted for in accordance with paragraphs 39 and 40.
- 36 **If an item of property, plant and equipment is revalued, the entire class of property, plant and equipment to which that asset belongs shall be revalued.**
- 37 A class of property, plant and equipment is a grouping of assets of a similar nature and use in an entity's operations. The following are examples of separate classes:
- (a) land;
 - (b) land and buildings;
 - (c) machinery;
 - (d) ships;
 - (e) aircraft;
 - (f) motor vehicles;
 - (g) furniture and fixtures;
 - (h) office equipment; and
 - (i) bearer plants.
- 38 The items within a class of property, plant and equipment are revalued simultaneously to avoid selective revaluation of assets and the reporting of amounts in the financial statements that are a mixture of costs and values as at different dates. However, a class of assets may be revalued on a rolling basis provided revaluation of the class of assets is completed within a short period and provided the revaluations are kept up to date.
- 39 **If an asset's carrying amount is increased as a result of a revaluation, the increase shall be recognised in other comprehensive income and accumulated in equity under the heading of revaluation surplus. However, the increase shall be recognised in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss.**
- 40 **If an asset's carrying amount is decreased as a result of a revaluation, the decrease shall be recognised in profit or loss. However, the decrease shall be recognised in other comprehensive income to the extent of any credit balance existing in the revaluation surplus in respect of that asset. The decrease recognised in other comprehensive income reduces the amount accumulated in equity under the heading of revaluation surplus.**
- 41 The revaluation surplus included in equity in respect of an item of property, plant and equipment may be transferred directly to retained earnings when the asset is derecognised. This may involve transferring the whole of the surplus when the asset is retired or disposed of. However, some of the surplus may be transferred as the asset is used by an entity. In such a case, the amount of the surplus transferred would be the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost. Transfers from revaluation surplus to retained earnings are not made through profit or loss.

- 42 The effects of taxes on income, if any, resulting from the revaluation of property, plant and equipment are recognised and disclosed in accordance with Ind AS 12, *Income Taxes*.

Depreciation

- 43 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.**

44 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. For example, it may be appropriate to depreciate separately the airframe and engines of an aircraft. Similarly, if an entity acquires property, plant and equipment subject to an operating lease in which it is the lessor, it may be appropriate to depreciate separately amounts reflected in the cost of that item that are attributable to favourable or unfavourable lease terms relative to market terms.

45 A significant part of an item of property, plant and equipment may have a useful life and a depreciation method that are the same as the useful life and the depreciation method of another significant part of that same item. Such parts may be grouped in determining the depreciation charge.

46 To the extent that an entity depreciates separately some parts of an item of property, plant and equipment, it also depreciates separately the remainder of the item. The remainder consists of the parts of the item that are individually not significant. If an entity has varying expectations for these parts, approximation techniques may be necessary to depreciate the remainder in a manner that faithfully represents the consumption pattern and/or useful life of its parts.

47 An entity may choose to depreciate separately the parts of an item that do not have a cost that is significant in relation to the total cost of the item.

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

49 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. For example, the depreciation of manufacturing plant and equipment is included in the costs of conversion of inventories (see Ind AS 2). Similarly, depreciation of property, plant and equipment used for development activities may be included in the cost of an intangible asset recognised in accordance with Ind AS 38, *Intangible Assets*.

Depreciable amount and depreciation period

- 50 The depreciable amount of an asset shall be allocated on a systematic basis over its useful life.**

- 51 The residual value and the useful life of an asset shall be reviewed at least at each financial year-end and, if expectations differ from previous estimates, the change(s) shall be accounted for as a change in an accounting estimate in accordance with Ind AS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*.**

52 Depreciation is recognised even if the fair value of the asset exceeds its carrying amount, as long as the asset's residual value does not exceed its carrying amount. Repair and maintenance of an asset do not negate the need to depreciate it.

53 The depreciable amount of an asset is determined after deducting its residual value.

In practice, the residual value of an asset is often insignificant and therefore immaterial in the calculation of the depreciable amount.

54 The residual value of an asset may increase to an amount equal to or greater than the asset's carrying amount. If it does, the asset's depreciation charge is zero unless and until its residual value subsequently decreases to an amount below the asset's carrying amount.

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

56 The future economic benefits embodied in an asset are consumed by an entity principally through its use. However, other factors, such as technical or commercial obsolescence and wear and tear while an asset remains idle, often result in the diminution of the economic benefits that might have been obtained from the asset. Consequently, all the following factors are considered in determining the useful life of an asset:

- (a) expected usage of the asset. Usage is assessed by reference to the asset's expected capacity or physical output.

- (b) expected physical wear and tear, which depends on operational factors such as the number of shifts for which the asset is to be used and the repair and maintenance programme, and the care and maintenance of the asset while idle.
 - (c) technical or commercial obsolescence arising from changes or improvements in production, or from a change in the market demand for the product or service output of the asset. Expected future reductions in the selling price of an item that was produced using an asset could indicate the expectation of technical or commercial obsolescence of the asset, which, in turn, might reflect a reduction of the future economic benefits embodied in the asset.
 - (d) legal or similar limits on the use of the asset, such as the expiry dates of related leases.
- 57 The useful life of an asset is defined in terms of the asset's expected utility to the entity. The asset management policy of the entity may involve the disposal of assets after a specified time or after consumption of a specified proportion of the future economic benefits embodied in the asset. Therefore, the useful life of an asset may be shorter than its economic life. The estimation of the useful life of the asset is a matter of judgement based on the experience of the entity with similar assets.
- 58 Land and buildings are separable assets and are accounted for separately, even when they are acquired together. With some exceptions, such as quarries and sites used for landfill, land has an unlimited useful life and therefore is not depreciated. Buildings have a limited useful life and therefore are depreciable assets. An increase in the value of the land on which a building stands does not affect the determination of the depreciable amount of the building.
- 59 If the cost of land includes the costs of site dismantlement, removal and restoration, that portion of the land asset is depreciated over the period of benefits obtained by incurring those costs. In some cases, the land itself may have a limited useful life, in which case it is depreciated in a manner that reflects the benefits to be derived from it.

Depreciation method

- 60 **The depreciation method used shall reflect the pattern in which the asset's future economic benefits are expected to be consumed by the entity.**
- 61 **The depreciation method applied to an asset shall be reviewed at least at each financial year-end and, if there has been a significant change in the expected pattern of consumption of the future economic benefits embodied in the asset, the method shall be changed to reflect the changed pattern. Such a change shall be accounted for as a change in an accounting estimate in accordance with Ind AS 8.**
- 62 A variety of depreciation methods can be used to allocate the depreciable amount of an asset on a systematic basis over its useful life. These methods include the straight-line method, the diminishing balance method and the units of production method. Straight-line depreciation results in a constant charge over the useful life if the asset's residual value does not change. The diminishing balance method results in a decreasing charge over the useful life. The units of production method results in a charge based on the expected use or output. The entity selects the method that most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. That method is applied consistently from period to period unless there is a change in the expected pattern of consumption of those future economic benefits.
- 62A A depreciation method that is based on revenue that is generated by an activity that includes the use of an asset is not appropriate. The revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits of the asset. For example, revenue is affected by other inputs and processes, selling activities and changes in sales volumes and prices. The price component of revenue may be affected by inflation, which has no bearing upon the way in which an asset is consumed.

Impairment

- 63 To determine whether an item of property, plant and equipment is impaired, an entity applies Ind AS 36, *Impairment of Assets*. That Standard explains how an entity reviews the carrying amount of its assets, how it determines the recoverable amount of an asset, and when it recognises, or reverses the recognition of, an impairment loss.
- 64 [Refer Appendix 1]

Compensation for impairment

- 65 **Compensation from third parties for items of property, plant and equipment that were impaired, lost or given up shall be included in profit or loss when the compensation becomes receivable.**
- 66 Impairments or losses of items of property, plant and equipment, related claims for or payments of compensation from third parties and any subsequent purchase or construction of replacement assets are separate economic events and are accounted for separately as follows:
- (a) impairments of items of property, plant and equipment are recognised in accordance with Ind AS 36;

- (b) derecognition of items of property, plant and equipment retired or disposed of is determined in accordance with this Standard;
- (c) compensation from third parties for items of property, plant and equipment that were impaired, lost or given up is included in determining profit or loss when it becomes receivable; and
- (d) the cost of items of property, plant and equipment restored, purchased or constructed as replacements is determined in accordance with this Standard.

Derecognition

67 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.

68 The gain or loss arising from the derecognition of an item of property, plant and equipment shall be included in profit or loss when the item is derecognised (unless Ind AS 116, *Leases*, requires otherwise on a sale and leaseback). Gains shall not be classified as revenue.

68A 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. The proceeds from the sale of such assets shall be recognised as revenue in accordance with Ind AS 115, *Revenue from Contracts with Customers*. Ind AS 105 does not apply when assets that are held for sale in the ordinary course of business are transferred to inventories.

69 The disposal of an item of property, plant and equipment may occur in a variety of ways (eg by sale, by entering into a finance lease or by donation). The date of disposal of an item of property, plant and equipment is the date the recipient obtains control of that item in accordance with the requirements for determining when a performance obligation is satisfied in Ind AS 115. Ind AS 116 applies to disposal by a sale and leaseback.

70 If, under the recognition principle in paragraph 7, an entity recognises in the carrying amount of an item of property, plant and equipment the cost of a replacement for part of the item, then it derecognises the carrying amount of the replaced part regardless of whether the replaced part had been depreciated separately. If it is not practicable for an entity to determine the carrying amount of the replaced part, it may use the cost of the replacement as an indication of what the cost of the replaced part was at the time it was acquired or constructed.

71 The gain or loss arising from the derecognition 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.

72 The amount of consideration to be included in the gain or loss arising from the derecognition of an item of property, plant and equipment is determined in accordance with the requirements for determining the transaction price in paragraphs 47-72 of Ind AS 115. Subsequent changes to the estimated amount of the consideration included in the gain or loss shall be accounted for in accordance with the requirements for changes in the transaction price in Ind AS 115.

Disclosure

73 The financial statements shall disclose, for each class of property, plant and equipment:

- (a) the measurement bases used for determining the gross carrying amount;
- (b) the depreciation methods used;
- (c) the useful lives or the depreciation rates used;
- (d) the gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period; and
- (e) a reconciliation of the carrying amount at the beginning and end of the period showing:
 - (i) additions;
 - (ii) assets classified as held for sale or included in a disposal group classified as held for sale in accordance with Ind AS 105 and other disposals;
 - (iii) acquisitions through business combinations;
 - (iv) increases or decreases resulting from revaluations under paragraphs 31, 39 and 40 and from impairment losses recognised or reversed in other comprehensive income in accordance with Ind AS 36;
 - (v) impairment losses recognised in profit or loss in accordance with Ind AS 36;
 - (vi) impairment losses reversed in profit or loss in accordance with Ind AS 36;
 - (vii) depreciation;

- (viii) **the net exchange differences arising on the translation of the financial statements from the functional currency into a different presentation currency, including the translation of a foreign operation into the presentation currency of the reporting entity; and**
- (ix) **other changes.**

74 The financial statements shall also disclose:

- (a) **the existence and amounts of restrictions on title, and property, plant and equipment pledged as security for liabilities;**
- (b) **the amount of expenditures recognised in the carrying amount of an item of property, plant and equipment in the course of its construction;**
- (c) **the amount of contractual commitments for the acquisition of property, plant and equipment; and**
- (d) **if it is not disclosed separately in the statement of profit and loss, the amount of compensation from third parties for items of property, plant and equipment that were impaired, lost or given up that is included in profit or loss.**

75 Selection of the depreciation method and estimation of the useful life of assets are matters of judgement. Therefore, disclosure of the methods adopted and the estimated useful lives or depreciation rates provides users of financial statements with information that allows them to review the policies selected by management and enables comparisons to be made with other entities. For similar reasons, it is necessary to disclose:

- (a) depreciation, whether recognised in profit or loss or as a part of the cost of other assets, during a period; and
- (b) accumulated depreciation at the end of the period.

76 In accordance with Ind AS 8 an entity discloses the nature and effect of a change in an accounting estimate that has an effect in the current period or is expected to have an effect in subsequent periods. For property, plant and equipment, such disclosure may arise from changes in estimates with respect to:

- (a) residual values;
- (b) the estimated costs of dismantling, removing or restoring items of property, plant and equipment;
- (c) useful lives; and
- (d) depreciation methods.

77 If items of property, plant and equipment are stated at revalued amounts, the following shall be disclosed in addition to the disclosures required by Ind AS 113:

- (a) **the effective date of the revaluation;**
- (b) **whether an independent valuer was involved; (c) [Refer Appendix 1]**
- (d) **[Refer Appendix 1]**
- (e) **for each revalued class of property, plant and equipment, the carrying amount that would have been recognised had the assets been carried under the cost model; and**
- (f) **the revaluation surplus, indicating the change for the period and any restrictions on the distribution of the balance to shareholders.**

78 In accordance with Ind AS 36 an entity discloses information on impaired property, plant and equipment in addition to the information required by paragraph 73(e)(iv)–(vi).

79 Users of financial statements may also find the following information relevant to their needs:

- (a) the carrying amount of temporarily idle property, plant and equipment;
- (b) the gross carrying amount of any fully depreciated property, plant and equipment that is still in use;
- (c) the carrying amount of property, plant and equipment retired from active use and not classified as held for sale in accordance with Ind AS 105; and
- (d) when the cost model is used, the fair value of property, plant and equipment when this is materially different from the carrying amount.

Therefore, entities are encouraged to disclose these amounts.

Transitional Provisions

- 80 *
- 80A *

* Refer Appendix 1

80B *

80C *

Effective Date

81 *

81A *

81B *

81C *

81D *

81E *

81F *

81G *

81H *

81I *

81J As a consequence of issuance of Ind AS 115, *Revenue from Contracts with Customers*, paragraphs 68A, 69, 72 are amended. An entity shall apply those amendments when it applies Ind AS 115.

81K *Omitted**

81L Ind AS 116 deleted paragraphs 4 and 27 and paragraph 3 of Appendix C and amended paragraphs 5, 10, 44, 68-69 and paragraph 2 of Appendix A. An entity shall apply those amendments when it applies Ind AS 116.

Appendix A***Changes in Existing Decommissioning, Restoration and Similar Liabilities***

This Appendix is an integral part of the Ind AS.

Background

1 Many entities have obligations to dismantle, remove and restore items of property, plant and equipment. In this Appendix such obligations are referred to as 'decommissioning, restoration and similar liabilities'. Under Ind AS 16, the cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period. Ind AS 37 contains requirements on how to measure decommissioning, restoration and similar liabilities. This Appendix provides guidance on how to account for the effect of changes in the measurement of existing decommissioning, restoration and similar liabilities.

Scope

2 This Appendix applies to changes in the measurement of any existing decommissioning, restoration or similar liability that is both:

- (a) recognised as part of the cost of an item of property, plant and equipment in accordance with Ind AS 16 or as part of the cost of a right-of-use asset in accordance with Ind AS 116; and
- (b) recognised as a liability in accordance with Ind AS 37.

For example, a decommissioning, restoration or similar liability may exist for decommissioning a plant, rehabilitating environmental damage in extractive industries, or removing equipment.

Issue

3 This Appendix addresses how the effect of the following events that change the measurement of an existing decommissioning, restoration or similar liability should be accounted for:

- (a) a change in the estimated outflow of resources embodying economic benefits (eg cash flows) required to settle the obligation;
- (b) a change in the current market-based discount rate as defined in paragraph 47 of Ind AS 37 (this includes changes in the time value of money and the risks specific to the liability); and
- (c) an increase that reflects the passage of time (also referred to as the unwinding of the discount).

Accounting Principles

- 4 Changes in the measurement of an existing decommissioning, restoration and similar liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits required to settle the obligation, or a change in the discount rate, shall be accounted for in accordance with paragraphs 5–7 below.
- 5 If the related asset is measured using the cost model:
 - (a) subject to (b), changes in the liability shall be added to, or deducted from, the cost of the related asset in the current period.
 - (b) the amount deducted from the cost of the asset shall not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess shall be recognised immediately in profit or loss.
 - (c) if the adjustment results in an addition to the cost of an asset, the entity shall consider whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the entity shall test the asset for impairment by estimating its recoverable amount, and shall account for any impairment loss, in accordance with Ind AS 36.
- 6 If the related asset is measured using the revaluation model:
 - (a) changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
 - (i) a decrease in the liability shall (subject to (b)) be recognised in other comprehensive income and increase the revaluation surplus within equity, except that it shall be recognised in profit or loss to the extent that it reverses a revaluation deficit on the asset that was previously recognised in profit or loss;
 - (ii) an increase in the liability shall be recognised in profit or loss, except that it shall be recognised in other comprehensive income and reduce the revaluation surplus within equity to the extent of any credit balance existing in the revaluation surplus in respect of that asset.
 - (b) in the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess shall be recognised immediately in profit or loss.
 - (c) a change in the liability is an indication that the asset may have to be revalued in order 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. Any such revaluation shall be taken into account in determining the amounts to be recognised in profit or loss or in other comprehensive income under (a). If a revaluation is necessary, all assets of that class shall be revalued.
 - (d) Ind AS 1 requires disclosure in the statement of profit and loss of each component of other comprehensive income or expense. In complying with this requirement, the change in the revaluation surplus arising from a change in the liability shall be separately identified and disclosed as such.
- 7 The adjusted depreciable amount of the asset is depreciated over its useful life.

Therefore, once the related asset has reached the end of its useful life, all subsequent changes in the liability shall be recognised in profit or loss as they occur. This applies under both the cost model and the revaluation model.
- 8 The periodic unwinding of the discount shall be recognised in profit or loss as a finance cost as it occurs. Capitalisation under Ind AS 23 is not permitted.

Appendix B

This appendix is an integral part of the Ind AS.

Stripping Costs in the Production Phase of a Surface Mine**Background**

1. In surface mining operations, entities may find it necessary to remove mine waste materials ('overburden') to gain access to mineral ore deposits. This waste removal activity is known as 'stripping'.
2. During the development phase of the mine (before production begins), stripping costs are usually capitalised as part of the depreciable cost of building, developing and constructing the mine. Those capitalised costs are depreciated or amortised on a systematic basis, usually by using the units of production method, once production begins.
3. A mining entity may continue to remove overburden and to incur stripping costs during the production phase of the mine.
4. The material removed when stripping in the production phase will not necessarily be a total waste; often it will be a combination of ore and waste. The ratio of ore to waste can range from uneconomic low grade to profitable high grade. Removal of material with a low ratio of ore to waste may produce some usable material, which can be used to

produce inventory. This removal might also provide access to deeper levels of material that have a higher ratio of ore to waste. There can therefore be two benefits accruing to the entity from the stripping activity: usable ore that can be used to produce inventory and improved access to further quantities of material that will be mined in future periods.

5. This Appendix considers when and how to account separately for these two benefits arising from the stripping activity, as well as how to measure these benefits both initially and subsequently.

Scope

6. This Appendix applies to waste removal costs that are incurred in surface mining activity during the production phase of the mine ('production stripping costs').

Issues

7. This Appendix addresses the following issues:
 - (a) recognition of production stripping costs as an asset; (b) initial measurement of the stripping activity asset; and (c) subsequent measurement of the stripping activity asset.

Accounting Principles

Recognition of production stripping costs as an asset

8. To the extent that the benefit from the stripping activity is realised in the form of inventory produced, the entity shall account for the costs of that stripping overburden removal activity in accordance with the principles of Ind AS 2, *Inventories*. To the extent the benefit is improved access to ore, the entity shall recognise these costs as a non-current asset, say, Stripping Activity Asset, if the criteria in paragraph 9 below are met.
9. An entity shall recognise a stripping activity asset if, and only if, all of the following are met:
 - (a) it is probable that the future economic benefit (improved access to the ore body) associated with the stripping activity will flow to the entity;
 - (b) the entity can identify the component of the ore body for which access has been improved; and
 - (c) the costs relating to the stripping activity associated with that component can be measured reliably.
10. The stripping activity asset shall be accounted for as an addition to, or as an enhancement of, an existing asset. In other words, the stripping activity asset will be accounted for as *part* of an existing asset.
11. The stripping activity asset's classification as a tangible or intangible asset is the same as the existing asset. In other words, the nature of this existing asset will determine whether the entity shall classify the stripping activity asset as tangible or intangible.

Initial measurement of the stripping activity asset

12. The entity shall initially measure the stripping activity asset at cost, this being the accumulation of costs directly incurred to perform the stripping activity that improves access to the identified component of ore, plus an allocation of directly attributable overhead costs. Examples of the types of costs that would be included as directly attributable overhead costs include an allocation of salary costs of the mine supervisor overseeing that component of the mine, and the rental costs of any equipment that was hired specifically to perform the stripping activity. Some incidental operations may take place at the same time as the production stripping activity, but which are not necessary for the production stripping activity to continue as planned. The costs associated with these incidental operations shall not be included in the cost of the stripping activity asset. An example of such type of incidental operations would be building an access road in the area in which the stripping campaign is taking place.
13. When the costs of the stripping activity asset and the inventory produced are not separately identifiable, the entity shall allocate the production stripping costs between the inventory produced and the stripping activity asset by using an allocation basis that is based on a relevant production measure. This production measure shall be calculated for the identified component of the ore body, and shall be used as a benchmark to identify the extent to which the additional activity of creating a future benefit has taken place. Examples of such measures include:
 - (a) cost of inventory produced compared with expected cost;
 - (b) volume of waste extracted compared with expected volume, for a given volume of ore production; and
 - (c) mineral content of the ore extracted compared with expected mineral content to be extracted, for a given quantity of ore produced.
- 13A The production measure shall not be calculated using a basis that is based on sales values. A basis that is based on sales values, in the context of stripping costs, is inappropriate because it is not closely linked to the activity taking place. Furthermore, if the current sales price of the relevant material is used in determining the allocation basis, the same current sales price will be applied to the volume of the mineral in both the extracted ore and the identified component. Hence, the relevant variable will be the volume of mineral in both the extracted ore and the identified component, i.e., the current sales price will not change the allocation basis. Applying a future sales price basis

involves practical difficulties. Identifying a future sales price for ore that will be mined in the future can be difficult, given the volatility of market prices for many minerals. Further complexities may arise when more than one mineral is present (whether by- products or joint products) when the ore is extracted.

Subsequent measurement of the stripping activity asset

14. After initial recognition, the stripping activity asset shall be carried at either its cost or its revalued amount less depreciation or amortisation and less impairment losses, in the same way as the existing asset of which it is a part.
15. The stripping activity asset shall be depreciated or amortised on a systematic basis, over the expected useful life of the identified component of the ore body that becomes more accessible as a result of the stripping activity. The units of production method shall be applied unless another method is more appropriate.
16. The expected useful life of the identified component of the ore body that is used to depreciate or amortise the stripping activity asset will differ from the expected useful life that is used to depreciate or amortise the mine itself and the related life- of-mine assets. The exception to this are those limited circumstances when the stripping activity provides improved access to the whole of the remaining ore body. For example, this might occur towards the end of a mine's useful life when the identified component represents the final part of the ore body to be extracted.

Appendix C**References to matters contained in other Indian Accounting Standards**

This Appendix is an integral part of the Ind AS.

This appendix lists the appendices which are part of other Indian Accounting Standards and make reference to Ind AS 16, *Property, Plant and Equipment*.

- 1 Appendix D, *Service Concession Arrangements* contained in Ind AS 115, *Revenue from Contracts with Customers*.
- 2 Appendix E, *Service Concession Arrangements: Disclosures* contained in Ind AS 115, *Revenue from Contracts with Customers*.
- 3 *Omitted*
- 4 Appendix A, *Intangible Assets—Web Site Costs* contained in Ind AS 38, *Intangible Assets*.

Appendix 1

Note: This Appendix is not a part of the Indian Accounting Standard. The purpose of this Appendix is only to bring out the major differences, if any, between Indian Accounting Standard (Ind AS) 16 and the corresponding International Accounting Standard (IAS) 16, Property, Plant and Equipment, and IFRIC 1, Changes in Existing Decommissioning, Restoration and Similar Liabilities and IFRIC 20, Stripping Costs in the Production Phase of a Surface Mine issued by the International Accounting Standards Board.

Comparison with IAS 16, *Property, Plant and Equipment*, IFRIC 1 and IFRIC 20

- 1 The transitional provisions given in IAS 16 and IFRIC 1 and IFRIC 20 have not been given in Ind AS 16, since all transitional provisions related to Ind ASs, wherever considered appropriate have been included in Ind AS 101, *First-time Adoption of Indian Accounting Standards* corresponding to IFRS 1, *First-time Adoption of International Financial Reporting Standards*.
- 2 Different terminology is used in this standard, eg, the term ‘balance sheet’ is used instead of ‘Statement of financial position’ and ‘Statement of profit’ and loss is used instead of ‘Statement of comprehensive income’.
- 3 ~~Omitted by Companies (Indian Accounting Standards) Second Amendment Rules, 2018, dated 20-9-2018. Paragraph 28 has been 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 equipment by the amount of government grant received in respect of such an item, which is permitted in IAS 20. However, to maintain consistency with paragraph numbers of IAS 16, this paragraph number is retained in Ind AS 16.~~
- 4 The following paragraph numbers appear as ‘Deleted’ in IAS 16. In order to maintain consistency with paragraph numbers of IAS 16, the paragraph numbers are retained in Ind AS 16:
 - (i) paragraph 4
 - (ii) paragraph 27
 - (iii) paragraphs 32-33
 - (iv) paragraph 64
 - (v) paragraph 77(c)-(d)
- 5 Paragraphs 5 of Ind AS 16 has been modified, since Ind AS 40, *Investment Property*, prohibits the use of fair value model.
- 6 Paragraph 12 of Appendix B has been modified and paragraph 13A of Appendix B has been added to provide guidance with regard to the requirements contained in the paragraphs 12 and 13.
- 7 Paragraphs 80 to 80C of IAS 16 which deals with the transitional provisions have not been included in Ind AS 16 as all transitional provisions related to Ind ASs, wherever considered appropriate have been included in Ind AS 101, *First-time Adoption of Indian Accounting Standards*. Paragraphs 81 to 81I and 81K related to effective date have not been included in Ind AS 16 as these are not relevant in Indian context. However, in order to maintain consistency with paragraph numbers of IAS 16, these paragraph numbers are retained in Ind AS 16.
8. In May, 2020, IASB had issued amendments in IAS 16 on proceeds before intended use to prohibit an entity from deducting from the cost of an item of property, plant and equipment the proceeds from selling items produced while bringing an item of property, plant and equipment to the location and condition necessary for it to be capable of operating in the manner intended by management. These amendments added paragraphs 20A, 74A, 80D and 81N and amended paragraphs 17(e) and 74 of IAS 16. The said amendments have not been made under Ind AS 16, however, paragraph 17(e) has been amended to clarify that excess of net sale proceeds of items produced over the cost of testing, if any, shall not be recognised in the profit or loss but deducted from the directly attributable costs considered as part of cost of an item of property, plant, and equipment.

Indian Accounting Standard (Ind AS) 19

Employee Benefits

(This Indian Accounting Standard includes paragraphs set in **bold** type and plain type, which have equal authority. Paragraphs in bold type indicate the main principles.)

Objective

- 1 The objective of this Standard is to prescribe the accounting and disclosure for employee benefits. The Standard requires an entity to recognise:
 - (a) a liability when an employee has provided service in exchange for employee benefits to be paid in the future; and
 - (b) an expense when the entity consumes the economic benefit arising from service provided by an employee in exchange for employee benefits.

Scope

- 2 **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.**
- 3 This Standard does not deal with reporting by employee benefit plans.
- 4 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. An example of a constructive obligation is where a change in the entity's informal practices would cause unacceptable damage to its relationship with employees.
- 5 Employee benefits include:
 - (a) short-term employee benefits, such as the following, if expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related services:
 - (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, such as the following:
 - (i) retirement benefits (eg 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, 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.
- 6 Employee benefits include benefits provided either 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, to their spouses, children or other dependants or to others, such as insurance companies.
- 7 An employee may provide services to an entity on a full-time, part-time, permanent, casual or temporary basis. For the purpose of this Standard, employees include directors and other management personnel.

Definitions

8 The following terms are used in this Standard with the meanings specified:

Definitions of 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.

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 service.

Post-employment benefits are employee benefits (other than termination benefits and short-term employee benefits) that are payable after the completion of employment.

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

Definitions relating to classification of plans

Post-employment benefit plans are formal or informal arrangements under which an entity provides post-employment benefits for one or more employees.

Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

Multi-employer plans are defined contribution plans (other than state plans) or defined benefit plans (other than state plans) that:

- (a) pool the assets contributed by various entities that are not under common control; and
- (b) use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees.

Definitions relating to the net defined benefit liability (asset)

The *net defined benefit liability (asset)* is the deficit or surplus, adjusted for any effect of limiting a net defined benefit asset to the asset ceiling.

The *deficit or surplus* is:

- (a) the present value of the defined benefit obligation less
- (b) the fair value of plan assets (if any).

The *asset ceiling* is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The *present value of a defined benefit obligation* is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

Plan assets comprise:

- (a) assets held by a long-term employee benefit fund; and
- (b) qualifying insurance policies.

Assets held by a long-term employee benefit fund are assets (other than non-transferable financial instruments issued by the reporting entity) that:

- (a) are held by an entity (a fund) that is legally separate from the reporting entity and exists solely to pay or fund employee benefits; and
- (b) are available to be used only to pay or fund employee benefits, are not available to the reporting entity's own creditors (even in bankruptcy), and cannot be returned to the reporting entity, unless either:
 - (i) the remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the reporting entity; or
 - (ii) the assets are returned to the reporting entity to reimburse it for employee benefits already paid.

A *qualifying insurance policy* is an insurance policy* issued by an insurer that is not a related party (as defined in Ind AS 24, *Related Party Disclosures*) of the reporting entity, if the proceeds of the policy:

- (a) can be used only to pay or fund employee benefits under a defined benefit plan; and
- (b) are not available to the reporting entity's own creditors (even in bankruptcy) and cannot be paid to the reporting entity, unless either:
 - (i) the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or
 - (ii) the proceeds are returned to the reporting entity to reimburse it for employee benefits already paid.

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. (See Ind AS 113, *Fair Value Measurement*.)

Definitions relating to defined benefit cost

Service cost comprises:

- (a) *current service cost*, which is the increase in the present value of the defined benefit obligation resulting from employee service in the current period;
- (b) *past service cost*, which is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting from a plan amendment (the introduction or withdrawal of, or changes to, a defined benefit plan) or a curtailment (a significant reduction by the entity in the number of employees covered by a plan); and
- (c) any gain or loss on settlement.

Net interest on the net defined benefit liability (asset) is the change during the period in the net defined benefit liability (asset) that arises from the passage of time.

Remeasurements of the net defined benefit liability (asset) comprise:

- (a) actuarial gains and losses;
- (b) the return on plan assets, excluding amounts included in net interest on the net defined benefit liability (asset); and
- (c) any change in the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit liability (asset).

Actuarial gains and losses are changes in the present value of the defined benefit obligation resulting from:

- (a) experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred); and
- (b) the effects of changes in actuarial assumptions.

The *return on plan assets* is interest, dividends and other income derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less:

- (a) any costs of managing plan assets; and
- (b) any tax payable by the plan itself, other than tax included in the actuarial assumptions used to measure the present value of the defined benefit obligation.

A *settlement* is a transaction that eliminates all further legal or constructive obligations for part or all of the benefits provided under a defined benefit plan, other than a payment of benefits to, or on behalf of, employees that is set out in the terms of the plan and included in the actuarial assumptions.

Short-term employee benefits

- 9 Short-term employee benefits include items such as the following, if expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related services:
- (a) wages, salaries and social security contributions;
 - (b) paid annual leave and paid sick leave;
 - (c) profit-sharing and bonuses; and
 - (d) non-monetary benefits (such as medical care, housing, cars and free or subsidised goods or services) for current employees.

* A qualifying insurance policy is not necessarily an insurance contract, as defined in Ind AS 104, *Insurance Contracts*.

- 10 An entity need not reclassify a short-term employee benefit if the entity's expectations of the timing of settlement change temporarily. However, if the characteristics of the benefit change (such as a change from a non-accumulating benefit to an accumulating benefit) or if a change in expectations of the timing of settlement is not temporary, then the entity considers whether the benefit still meets the definition of short-term employee benefits.

Recognition and measurement

All short-term employee benefits

- 11 **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:**
- 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.**
 - as an expense, unless another Ind AS requires or permits the inclusion of the benefits in the cost of an asset (see, for example, Ind AS 2, *Inventories*, and Ind AS 16, *Property, Plant and Equipment*).**
- 12 **Paragraphs 13, 16 and 19 explain how an entity shall apply paragraph 11 to short-term employee benefits in the form of paid absences and profit-sharing and bonus plans.**

Short-term paid absences

- 13 **An entity shall recognise the expected cost of short-term employee benefits in the form of paid absences under paragraph 11 as follows:**
- in the case of accumulating paid absences, when the employees render service that increases their entitlement to future paid absences.**
 - in the case of non-accumulating paid absences, when the absences occur.**
- 14 An entity may pay employees for absence for various reasons including holidays, sickness and short-term disability, maternity or paternity, jury service and military service. Entitlement to paid absences falls into two categories:
- accumulating; and
 - non-accumulating.
- 15 Accumulating paid absences are those that are carried forward and can be used in future periods if the current period's entitlement is not used in full. Accumulating paid absences may be either vesting (in other words, employees are entitled to a cash payment for unused entitlement on leaving the entity) or non-vesting (when employees are not entitled to a cash payment for unused entitlement on leaving). An obligation arises as employees render service that increases their entitlement to future paid absences. The obligation exists, and is recognised, even if the paid absences are non-vesting, although the possibility that employees may leave before they use an accumulated non-vesting entitlement affects the measurement of that obligation.
- 16 **An entity shall measure the expected cost of accumulating paid absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the end of the reporting period.**
- 17 The method specified in the previous paragraph measures the obligation at the amount of the additional payments that are expected to arise solely from the fact that the benefit accumulates. In many cases, an entity may not need to make detailed computations to estimate that there is no material obligation for unused paid absences. For example, a sick leave obligation is likely to be material only if there is a formal or informal understanding that unused paid sick leave may be taken as paid annual leave.

Example illustrating paragraphs 16 and 17

An entity has 100 employees, who are each entitled to five working days of paid sick leave for each year. Unused sick leave may be carried forward for one calendar year. Sick leave is taken first out of the current year's entitlement and then out of any balance brought forward from the previous year (a LIFO basis). At 31 December 20X1 the average unused entitlement is two days per employee. The entity expects, on the basis of experience that is expected to continue, that 92 employees will take no more than five days of paid sick leave in 20X2 and that the remaining eight employees will take an average of six and a half days each.

The entity expects that it will pay an additional twelve days of sick pay as a result of the unused entitlement that has accumulated at 31 December 20X1 (one and a half days each, for eight employees). Therefore, the entity recognises a liability equal to twelve days of sick pay.

- 18 Non-accumulating paid absences do not carry forward: they lapse if the current period's entitlement is not used in full and do not entitle employees to a cash payment for unused entitlement on leaving the entity. This is commonly the case for sick pay (to the extent that unused past entitlement does not increase future entitlement), maternity or

paternity leave and paid absences for jury service or military service. An entity recognises no liability or expense until the time of the absence, because employee service does not increase the amount of the benefit.

Profit-sharing and bonus plans

19 An entity shall recognise the expected cost of profit-sharing and bonus payments under paragraph 11 when, and only when:

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

20 Under some profit-sharing plans, employees receive a share of the profit only if they remain with the entity for a specified period. Such plans create a constructive obligation as employees render service that increases the amount to be paid if they remain in service until the end of the specified period. The measurement of such constructive obligations reflects the possibility that some employees may leave without receiving profit-sharing payments.

Example illustrating paragraph 20

A profit-sharing plan requires an entity to pay a specified proportion of its profit for the year to employees who serve throughout the year. If no employees leave during the year, the total profit-sharing payments for the year will be 3 per cent of profit. The entity estimates that staff turnover will reduce the payments to 2.5 per cent of profit.

The entity recognises a liability and an expense of 2.5 per cent of profit.

- 21 An entity may have no legal obligation to pay a bonus. Nevertheless, in some cases, an entity has a practice of paying bonuses. In such cases, the entity has a constructive obligation because the entity has no realistic alternative but to pay the bonus. The measurement of the constructive obligation reflects the possibility that some employees may leave without receiving a bonus.
- 22 An entity can make a reliable estimate of its legal or constructive obligation under a profit-sharing or bonus plan when, and only when:
 - (a) the formal terms of the plan contain a formula for determining the amount of the benefit;
 - (b) the entity determines the amounts to be paid before the financial statements are approved for issue; or
 - (c) past practice gives clear evidence of the amount of the entity's constructive obligation.
- 23 An obligation under profit-sharing and bonus plans results from employee service and not from a transaction with the entity's owners. Therefore, an entity recognises the cost of profit-sharing and bonus plans not as a distribution of profit but as an expense.
- 24 If profit-sharing and bonus payments 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, those payments are other long-term employee benefits (see paragraphs 153–158).

Disclosure

25 Although this Standard does not require specific disclosures about short-term employee benefits, other Ind ASs may require disclosures. For example, Ind AS 24 requires disclosures about employee benefits for key management personnel. Ind AS 1, *Presentation of Financial Statements*, requires disclosure of employee benefits expense.

Post-employment benefits: distinction between defined contribution plans and defined benefit plans

26 Post-employment benefits include items such as the following:

- (a) retirement benefits (eg pensions and lump sum payments on retirement); and
- (b) other post-employment benefits, such as post-employment life insurance and post-employment medical care.

Arrangements whereby an entity provides post-employment benefits are post-employment benefit plans. An entity applies this Standard to all such arrangements whether or not they involve the establishment of a separate entity to receive contributions and to pay benefits.

- 27 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.
- 28 Under 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.

- 29 Examples of cases where an entity's obligation is not limited to the amount that it agrees to contribute to the fund are when the entity has a legal or constructive obligation through:
- (a) a plan benefit formula that is not linked solely to the amount of contributions and requires the entity to provide further contributions if assets are insufficient to meet the benefits in the plan benefit formula;
 - (b) a guarantee, either indirectly through a plan or directly, of a specified return on contributions;
- or
- (c) those informal practices that give rise to a constructive obligation. For example, a constructive obligation may arise where an entity has a history of increasing benefits for former employees to keep pace with inflation even where there is no legal obligation to do so.
- 30 Under defined benefit plans:
- (a) the entity's obligation is to provide the agreed benefits to current and former employees; and
 - (b) 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.
- 31 Paragraphs 32–49 explain the distinction between defined contribution plans and defined benefit plans in the context of multi-employer plans, defined benefit plans that share risks between entities under common control, state plans and insured benefits.

Multi-employer plans

- 32 **An entity shall classify a multi-employer plan as a defined contribution plan or a defined benefit plan under the terms of the plan (including any constructive obligation that goes beyond the formal terms).**
- 33 **If an entity participates in a multi-employer defined benefit plan, unless paragraph 34 applies, it shall:**
- (a) **account for its proportionate share of the defined benefit obligation, plan assets and cost associated with the plan in the same way as for any other defined benefit plan; and**
 - (b) **disclose the information required by paragraphs 135–148 (excluding paragraph 148(d)).**
- 34 **When sufficient information is not available to use defined benefit accounting for a multi- employer defined benefit plan, an entity shall:**
- (a) **account for the plan in accordance with paragraphs 51 and 52 as if it were a defined contribution plan; and**
 - (b) **disclose the information required by paragraph 148.**
- 35 One example of a multi-employer defined benefit plan is one where:
- (a) the plan is financed on a pay-as-you-go basis: contributions are set at a level that is expected to be sufficient to pay the benefits falling due in the same period; and future benefits earned during the current period will be paid out of future contributions; and
 - (b) employees' benefits are determined by the length of their service and the participating entities have no realistic means of withdrawing from the plan without paying a contribution for the benefits earned by employees up to the date of withdrawal. Such a plan creates actuarial risk for the entity: if the ultimate cost of benefits already earned at the end of the reporting period is more than expected, the entity will have either to increase its contributions or to persuade employees to accept a reduction in benefits. Therefore, such a plan is a defined benefit plan.
- 36 Where sufficient information is available about a multi-employer defined benefit plan, an entity accounts for its proportionate share of the defined benefit obligation, plan assets and post- employment cost associated with the plan in the same way as for any other defined benefit plan. However, an entity may not be able to identify its share of the underlying financial position and performance of the plan with sufficient reliability for accounting purposes. This may occur if:
- (a) the plan exposes the participating entities to actuarial risks associated with the current and former employees of other entities, with the result that there is no consistent and reliable basis for allocating the obligation, plan assets and cost to individual entities participating in the plan; or
 - (b) the entity does not have access to sufficient information about the plan to satisfy the requirements of this Standard.

In those cases, an entity accounts for the plan as if it were a defined contribution plan and discloses the information required by paragraph 148.

- 37 There may be a contractual agreement between the multi-employer plan and its participants that determines how the surplus in the plan will be distributed to the participants (or the deficit funded). A participant in a multi-employer plan with such an agreement that accounts for the plan as a defined contribution plan in accordance with paragraph 34 shall recognise the asset or liability that arises from the contractual agreement and the resulting income or expense in profit or loss.

Example illustrating paragraph 37

An entity participates in a multi-employer defined benefit plan that does not prepare plan valuations on an Ind AS 19 basis. It therefore accounts for the plan as if it were a defined contribution plan. A non-Ind AS 19 funding valuation shows a deficit of Rs.100 million in the plan. The plan has agreed under contract a schedule of contributions with the participating employers in the plan that will eliminate the deficit over the next five years. The entity's total contributions under the contract are Rs.8 million.

The entity recognises a liability for the contributions adjusted for the time value of money and an equal expense in profit or loss.

- 38 Multi-employer plans are distinct from group administration plans. A group administration plan is merely an aggregation of single employer plans combined to allow participating employers to pool their assets for investment purposes and reduce investment management and administration costs, but the claims of different employers are segregated for the sole benefit of their own employees. Group administration plans pose no particular accounting problems because information is readily available to treat them in the same way as any other single employer plan and because such plans do not expose the participating entities to actuarial risks associated with the current and former employees of other entities. The definitions in this Standard require an entity to classify a group administration plan as a defined contribution plan or a defined benefit plan in accordance with the terms of the plan (including any constructive obligation that goes beyond the formal terms).
- 39 **In determining when to recognise, and how to measure, a liability relating to the wind-up of a multi-employer defined benefit plan, or the entity's withdrawal from a multi-employer defined benefit plan, an entity shall apply Ind AS 37, Provisions, Contingent Liabilities and Contingent Assets.**
- Defined benefit plans that share risks between entities under common control**
- 40 Defined benefit plans that share risks between entities under common control, for example, a parent and its subsidiaries, are not multi-employer plans.
- 41 An entity participating in such a plan shall obtain information about the plan as a whole measured in accordance with this Standard on the basis of assumptions that apply to the plan as a whole. If there is a contractual agreement or stated policy for charging to individual group entities the net defined benefit cost for the plan as a whole measured in accordance with this Standard, the entity shall, in its separate or individual financial statements, recognise the net defined benefit cost so charged. If there is no such agreement or policy, the net defined benefit cost shall be recognised in the separate or individual financial statements of the group entity that is legally the sponsoring employer for the plan. The other group entities shall, in their separate or individual financial statements, recognise a cost equal to their contribution payable for the period.
- 42 Participation in such a plan is a related party transaction for each individual group entity. An entity shall therefore, in its separate or individual financial statements, disclose the information required by paragraph 149.

State plans

- 43 **An entity shall account for a state plan in the same way as for a multi-employer plan (see paragraphs 32–39).**
- 44 State plans are established by legislation to cover all entities (or all entities in a particular category, for example, a specific industry) and are operated by national or local government or by another body (for example, an autonomous agency created specifically for this purpose) that is not subject to control or influence by the reporting entity. Some plans established by an entity provide both compulsory benefits, as a substitute for benefits that would otherwise be covered under a state plan, and additional voluntary benefits. Such plans are not state plans.
- 45 State plans are characterised as defined benefit or defined contribution, depending on the entity's obligation under the plan. Many state plans are funded on a pay-as-you-go basis: contributions are set at a level that is expected to be sufficient to pay the required benefits falling due in the same period; future benefits earned during the current period will be paid out of future contributions. Nevertheless, in most state plans the entity has no legal or constructive obligation to pay those future benefits: its only obligation is to pay the contributions as they fall due and if the entity ceases to employ members of the state plan, it will have no obligation to pay the benefits earned by its own employees in previous years. For this reason, state plans are normally defined contribution plans. However, when a state plan is a defined benefit plan an entity applies paragraphs 32–39.

Insured benefits

46 **An entity may pay insurance premiums to fund a post-employment benefit plan. The entity shall treat such a plan as a defined contribution plan unless the entity will have (either directly, or indirectly through the plan) a legal or constructive obligation either:**

- (a) **to pay the employee benefits directly when they fall due; or**
- (b) **to pay further amounts if the insurer does not pay all future employee benefits relating to employee service in the current and prior periods.**

If the entity retains such a legal or constructive obligation, the entity shall treat the plan as a defined benefit plan.

47 The benefits insured by an insurance policy need not have a direct or automatic relationship with the entity's obligation for employee benefits. Post-employment benefit plans involving insurance policies are subject to the same distinction between accounting and funding as other funded plans.

48 Where an entity funds a post-employment benefit obligation by contributing to an insurance policy under which the entity (either directly, indirectly through the plan, through the mechanism for setting future premiums or through a related party relationship with the insurer) retains a legal or constructive obligation, the payment of the premiums does not amount to a defined contribution arrangement. It follows that the entity:

- (a) accounts for a qualifying insurance policy as a plan asset (see paragraph 8); and
- (b) recognises other insurance policies as reimbursement rights (if the policies satisfy the criterion in paragraph 116).

49 Where an insurance policy is in the name of a specified plan participant or a group of plan participants and the entity does not have any legal or constructive obligation to cover any loss on the policy, the entity has no obligation to pay benefits to the employees and the insurer has sole responsibility for paying the benefits. The payment of fixed premiums under such contracts is, in substance, the settlement of the employee benefit obligation, rather than an investment to meet the obligation. Consequently, the entity no longer has an asset or a liability. Therefore, an entity treats such payments as contributions to a defined contribution plan.

Post-employment benefits: defined contribution plans

50 Accounting for defined contribution plans is straightforward because the reporting entity's obligation for each period is determined by the amounts to be contributed for that period. Consequently, no actuarial assumptions are required to measure the obligation or the expense and there is no possibility of any actuarial gain or loss. Moreover, the obligations are measured on an undiscounted basis, except where they 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.

Recognition and measurement

51 **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 (see, for example, Ind AS 2 and Ind AS 16).**

52 **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 the discount rate specified in paragraph 83.**

Disclosure

53 **An entity shall disclose the amount recognised as an expense for defined contribution plans.**

54 Where required by Ind AS 24 an entity discloses information about contributions to defined contribution plans for key management personnel.

Post-employment benefits: defined benefit plans

55 Accounting for defined benefit plans is complex because actuarial assumptions are required to measure the obligation and the expense and there is a possibility of actuarial gains and losses. Moreover, the obligations are measured on a discounted basis because they may be settled many years after the employees render the related service.

Recognition and measurement

- 56 Defined benefit plans may be unfunded, or they may be wholly or partly funded by contributions by an entity, and sometimes its employees, into an entity, or fund, that is legally separate from the reporting entity and from which the employee benefits are paid. The payment of funded benefits when they fall due depends not only on the financial position and the investment performance of the fund but also on an entity's ability, and willingness, to make good any shortfall in the fund's assets. Therefore, the entity is, in substance, underwriting the actuarial and investment risks associated with the plan. Consequently, the expense recognised for a defined benefit plan is not necessarily the amount of the contribution due for the period.
- 57 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 (see paragraphs 67–69). This requires an entity to determine how much benefit is attributable to the current and prior periods (see paragraphs 70–74) and to make estimates (actuarial assumptions) about demographic variables (such as employee turnover and mortality) and financial variables (such as future increases in salaries and medical costs) that will affect the cost of the benefit (see paragraphs 75–98).
 - (ii) discounting that benefit in order to determine the present value of the defined benefit obligation and the current service cost (see paragraphs 67–69 and 83–86).
 - (iii) deducting the fair value of any plan assets (see paragraphs 113–115) 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 (see paragraph 64).
 - (c) determining amounts to be recognised in profit or loss:
 - (i) current service cost (see paragraphs 70–74 and paragraph 122A).
 - (ii) any past service cost and gain or loss on settlement (see paragraphs 99–112).
 - (iii) net interest on the net defined benefit liability (asset) (see paragraphs 123–126).
 - (d) determining the remeasurements of the net defined benefit liability (asset), to be recognised in other comprehensive income, comprising:
 - (i) actuarial gains and losses (see paragraphs 128 and 129);
 - (ii) return on plan assets, excluding amounts included in net interest on the net defined benefit liability (asset) (see paragraph 130); and
 - (iii) any change in the effect of the asset ceiling (see paragraph 64), excluding amounts included in net interest on the net defined benefit liability (asset).

Where an entity has more than one defined benefit plan, the entity applies these procedures for each material plan separately.

- 58 **An entity shall determine the net defined benefit liability (asset) with sufficient regularity that the amounts recognised in the financial statements do not differ materially from the amounts that would be determined at the end of the reporting period.**
- 59 This Standard encourages, but does not require, an entity to involve a qualified actuary in the measurement of all material post-employment benefit obligations. For practical reasons, an entity may request a qualified actuary to carry out a detailed valuation of the obligation before the end of the reporting period. Nevertheless, the results of that valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the end of the reporting period.
- 60 In some cases, estimates, averages and computational short cuts may provide a reliable approximation of the detailed computations illustrated in this Standard.

Accounting for the constructive obligation

- 61 **An entity shall account not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the entity's informal practices. Informal practices give rise to a constructive obligation where the entity has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the entity's informal practices would cause unacceptable damage to its relationship with employees.**

- 62 The formal terms of a defined benefit plan may permit an entity to terminate its obligation under the plan. Nevertheless, it is usually difficult for an entity to terminate its obligation under a plan (without payment) if employees are to be retained. Therefore, in the absence of evidence to the contrary, accounting for post-employment benefits assumes that an entity that is currently promising such benefits will continue to do so over the remaining working lives of employees.

Balance Sheet

- 63 **An entity shall recognise the net defined benefit liability (asset) in the balance sheet.**
- 64 **When an entity has a surplus in a defined benefit plan, it shall measure the net defined benefit asset at the lower of:**

- (a) **the surplus in the defined benefit plan; and**
 (b) **the asset ceiling, determined using the discount rate specified in paragraph 83.**

- 65 A net defined benefit asset may arise where a defined benefit plan has been overfunded or where actuarial gains have arisen. An entity recognises a net defined benefit asset in such cases because:

- (a) the entity controls a resource, which is the ability to use the surplus to generate future benefits;
 (b) that control is a result of past events (contributions paid by the entity and service rendered by the employee); and
 (c) future economic benefits are available to the entity in the form of a reduction in future contributions or a cash refund, either directly to the entity or indirectly to another plan in deficit. The asset ceiling is the present value of those future benefits.

Recognition and measurement: present value of defined benefit obligations and current service cost

- 66 The ultimate cost of a defined benefit plan may be influenced by many variables, such as final salaries, employee turnover and mortality, employee contributions and medical cost trends. The ultimate cost of the plan is uncertain and this uncertainty is likely to persist over a long period of time. In order to measure the present value of the post-employment benefit obligations and the related current service cost, it is necessary:

- (a) to apply an actuarial valuation method (see paragraphs 67–69);
 (b) to attribute benefit to periods of service (see paragraphs 70–74); and
 (c) to make actuarial assumptions (see paragraphs 75–98).

Actuarial valuation method

- 67 **An entity shall use the projected unit credit method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost.**
- 68 The projected unit credit method (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement (see paragraphs 70–74) and measures each unit separately to build up the final obligation (see paragraphs 75–98).

Example illustrating paragraph 68

A lump sum benefit is payable on termination of service and equal to 1 per cent of final salary for each year of service. The salary in year 1 is Rs.10,000 and is assumed to increase at 7 per cent (compound) each year. The discount rate used is 10 per cent per year. The following table shows how the obligation builds up for an employee who is expected to leave at the end of year 5, assuming that there are no changes in actuarial assumptions. For simplicity, this example ignores the additional adjustment needed to reflect the probability that the employee may leave the entity at an earlier or later date.

Year	1	2	3	4	5
	Rs.	Rs.	Rs.	Rs.	Rs.
<i>Benefit attributed to:</i>					
– prior years	0	131	262	393	524
– current year (1% of final salary)	131	131	131	131	131
– current and prior years	<u>131</u>	<u>262</u>	<u>393</u>	<u>524</u>	<u>655</u>
Opening Obligation	–	89	196	324	476
Interest at 10%	–	9	20	33	48
Current service cost	89	98	108	119	131
Closing Obligation	<u>89</u>	<u>196</u>	<u>324</u>	<u>476</u>	<u>655</u>

Note:

1. *The opening obligation is the present value of the benefit attributed to prior years.*
2. *The current service cost is the present value of the benefit attributed to the current year.*
3. *The closing obligation is the present value of the benefit attributed to current and prior years.*

69 An entity discounts the whole of a post-employment benefit obligation, even if part of the obligation is expected to be settled before twelve months after the reporting period.

Attributing benefit to periods of service

70 **In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, an entity shall attribute benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, an entity shall attribute benefit on a straight-line basis from:**

- (a) **the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service) until**
- (b) **the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.**

71 The projected unit credit method requires an entity to attribute benefit to the current period (in order to determine current service cost) and the current and prior periods (in order to determine the present value of defined benefit obligations). An entity attributes benefit to periods in which the obligation to provide post-employment benefits arises. That obligation arises as employees render services in return for post-employment benefits that an entity expects to pay in future reporting periods.

Actuarial techniques allow an entity to measure that obligation with sufficient reliability to justify recognition of a liability.

Examples illustrating paragraph 71

1. A defined benefit plan provides a lump sum benefit of Rs.100 payable on retirement for each year of service.

A benefit of Rs.100 is attributed to each year. The current service cost is the present value of Rs.100. The present value of the defined benefit obligation is the present value of Rs.100, multiplied by the number of years of service up to the end of the reporting period.

If the benefit is payable immediately when the employee leaves the entity, the current service cost and the present value of the defined benefit obligation reflect the date at which the employee is expected to leave. Thus, because of the effect of discounting, they are less than the amounts that would be determined if the employee left at the end of the reporting period.

2. A plan provides a monthly pension of 0.2 per cent of final salary for each year of service. The pension is payable from the age of 65.

Benefit equal to the present value, at the expected retirement date, of a monthly pension of 0.2 per cent of the estimated final salary payable from the expected retirement date until the expected date of death is attributed to each year of service. The current service cost is the present value of that benefit. The present value of the defined benefit obligation is the present value of monthly pension payments of 0.2 per cent of final salary, multiplied by the number of years of service up to the end of the reporting period. The current service cost and the present value of the defined benefit obligation are discounted because pension payments begin at the age of 65.

72 Employee service gives rise to an obligation under a defined benefit plan even if the benefits are conditional on future employment (in other words they are not vested). Employee service before the vesting date gives rise to a constructive obligation because, at the end of each successive reporting period, the amount of future service that an employee will have to render before becoming entitled to the benefit is reduced. In measuring its defined benefit obligation, an entity considers the probability that some employees may not satisfy any vesting requirements. Similarly, although some post-employment benefits, for example, post-employment medical benefits, become payable only if a specified event occurs when an employee is no longer employed, an obligation is created when the employee renders service that will provide entitlement to the benefit if the specified event occurs. The probability that the specified event will occur affects the measurement of the obligation, but does not determine whether the obligation exists.

Examples illustrating paragraph 72

1. A plan pays a benefit of Rs.100 for each year of service. The benefits vest after ten years of service.
A benefit of Rs.100 is attributed to each year. In each of the first ten years, the current service cost and the present value of the obligation reflect the probability that the employee may not complete ten years of service.
2. A plan pays a benefit of Rs.100 for each year of service, excluding service before the age of 25. The benefits vest immediately.
No benefit is attributed to service before the age of 25 because service before that date does not lead to benefits (conditional or unconditional). A benefit of Rs.100 is attributed to each subsequent year.

- 73 The obligation increases until the date when further service by the employee will lead to no material amount of further benefits. Therefore, all benefit is attributed to periods ending on or before that date. Benefit is attributed to individual accounting periods under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, an entity attributes benefit on a straight-line basis until the date when further service by the employee will lead to no material amount of further benefits. That is because the employee's service throughout the entire period will ultimately lead to benefit at that higher level.

Examples illustrating paragraph 73

1. A plan pays a lump sum benefit of Rs.1,000 that vests after ten years of service. The plan provides no further benefit for subsequent service.
*A benefit of Rs.100 (Rs.1,000 divided by ten) is attributed to each of the first ten years.
The current service cost in each of the first ten years reflects the probability that the employee may not complete ten years of service. No benefit is attributed to subsequent years.*
2. A plan pays a lump sum retirement benefit of Rs.2,000 to all employees who are still employed at the age of 55 after twenty years of service, or who are still employed at the age of 65, regardless of their length of service.
*For employees who join before the age of 35, service first leads to benefits under the plan at the age of 35 (an employee could leave at the age of 30 and return at the age of 33, with no effect on the amount or timing of benefits). Those benefits are conditional on further service. Also, service beyond the age of 55 will lead to no material amount of further benefits. For these employees, the entity attributes benefit of Rs.100 (Rs.2,000 divided by twenty) to each year from the age of 35 to the age of 55.
For employees who join between the ages of 35 and 45, service beyond twenty years will lead to no material amount of further benefits. For these employees, the entity attributes benefit of 100 (2,000 divided by twenty) to each of the first twenty years.
For an employee who joins at the age of 55, service beyond ten years will lead to no material amount of further benefits. For this employee, the entity attributes benefit of Rs.200 (Rs.2,000 divided by ten) to each of the first ten years.
For all employees, the current service cost and the present value of the obligation reflect the probability that the employee may not complete the necessary period of service.*
3. A post-employment medical plan reimburses 40 per cent of an employee's post-employment medical costs if the employee leaves after more than ten and less than twenty years of service and 50 per cent of those costs if the employee leaves after twenty or more years of service.
Under the plan's benefit formula, the entity attributes 4 per cent of the present value of the expected medical costs (40 per cent divided by ten) to each of the first ten years and 1 per cent (10 per cent divided by ten) to each of the second ten years. The current service cost in each year reflects the probability that the employee may not complete the necessary period of service to earn part or all of the benefits. For employees expected to leave within ten years, no benefit is attributed.
4. A post-employment medical plan reimburses 10 per cent of an employee's post-employment medical costs if the employee leaves after more than ten and less than twenty years of service and 50 per cent of those costs if the employee leaves after twenty or more years of service.
Service in later years will lead to a materially higher level of benefit than in earlier years. Therefore, for employees expected to leave after twenty or more years, the entity attributes benefit on a straight-line basis under paragraph 71. Service beyond twenty years will lead to no material amount of further benefits. Therefore, the benefit attributed to each of the first twenty years is 2.5 per cent of the present value of the expected medical costs (50 per cent divided by twenty).

For employees expected to leave between ten and twenty years, the benefit attributed to each of the first ten years is 1 per cent of the present value of the expected medical costs.

For these employees, no benefit is attributed to service between the end of the tenth year and the estimated date of leaving.

For employees expected to leave within ten years, no benefit is attributed.

5. An entity has 1,000 employees. As per the statutory requirements, gratuity shall be payable to an employee on the termination of his employment after he has rendered continuous service for not less than five years (a) on his superannuation, or (b) on his retirement or resignation, or (c) on his death or disablement due to accident or disease. The completion of continuous service of five years shall not be necessary where the termination of the employment of any employee is due to death or disablement. The amount payable is determined by a formula linked to number of years of service and last drawn salary. As per the law, the amount payable shall not exceed Rs.1,000,000.

The amount of gratuity attributed to each year of service will be calculated as follows: Number of employees not likely to fulfil the eligibility criteria will be ignored.

Other employees will be grouped according to period of service they are expected to render taking into account mortality rate, disablement and resignation after 5 years. Gratuity payable will be calculated in accordance with the formula prescribed in the governing statute based on the period of service and the salary at the time of termination of employment, assuming promotion, salary increases etc.

For those employees for whom the amount payable as per the formula does not exceed Rs.1,000,000, over the expected period of service, the amount payable will be divided by the expected period of service and the resulting amount will be attributed to each year of the expected period of service, including the period before the stipulated period of 5 years.

In case of the remaining employees, the amount as per the formula exceeds Rs. 1,000,000 over the expected period of service of 10 years, and the amount of the statutory threshold of Rs. 1,000,000 is reached at the end of 8 years. Rs. 1,25,000 (Rs. 1,000,000 divided by 8) is attributed to each of the first 8 years. In this case, no benefit is attributed to subsequent two years. This is because service beyond 8 years will lead to no material amount of further benefits

- 74 Where the amount of a benefit is a constant proportion of final salary for each year of service, future salary increases will affect the amount required to settle the obligation that exists for service before the end of the reporting period, but do not create an additional obligation. Therefore:

- (a) for the purpose of paragraph 70(b), salary increases do not lead to further benefits, even though the amount of the benefits is dependent on final salary; and
- (b) the amount of benefit attributed to each period is a constant proportion of the salary to which the benefit is linked.

Example illustrating paragraph 74

Employees are entitled to a benefit of 3 per cent of final salary for each year of service before the age of 55.

Benefit of 3 per cent of estimated final salary is attributed to each year up to the age of 55. This is the date when further service by the employee will lead to no material amount of further benefits under the plan. No benefit is attributed to service after that age.

Actuarial assumptions

- 75 **Actuarial assumptions shall be unbiased and mutually compatible.**

- 76 Actuarial assumptions are an entity's best estimates of the variables that will determine the ultimate cost of providing post-employment benefits. Actuarial assumptions comprise:

- (a) demographic assumptions about the future characteristics of current and former employees (and their dependants) who are eligible for benefits. Demographic assumptions deal with matters such as:
 - (i) mortality (see paragraphs 81 and 82);
 - (ii) rates of employee turnover, disability and early retirement;
 - (iii) the proportion of plan members with dependants who will be eligible for benefits;
 - (iv) the proportion of plan members who will select each form of payment option available under the plan terms; and
 - (v) claim rates under medical plans.

- (b) financial assumptions, dealing with items such as:
 - (i) the discount rate (see paragraphs 83–86);
 - (ii) benefit levels, excluding any cost of the benefits to be met by employees, and future salary (see paragraphs 87–95);
 - (iii) in the case of medical benefits, future medical costs, including claim handling costs (ie the costs that will be incurred in processing and resolving claims, including legal and adjuster’s fees) (see paragraphs 96–98); and
 - (iv) taxes payable by the plan on contributions relating to service before the reporting date or on benefits resulting from that service.

77 Actuarial assumptions are unbiased if they are neither imprudent nor excessively conservative.

78 Actuarial assumptions are mutually compatible if they reflect the economic relationships between factors such as inflation, rates of salary increase and discount rates. For example, all assumptions that depend on a particular inflation level (such as assumptions about interest rates and salary and benefit increases) in any given future period assume the same inflation level in that period.

79 An entity determines the discount rate and other financial assumptions in nominal (stated) terms, unless estimates in real (inflation-adjusted) terms are more reliable, for example, in a hyperinflationary economy (see Ind AS 29, *Financial Reporting in Hyperinflationary Economies*), or where the benefit is index-linked and there is a deep market in index-linked bonds of the same currency and term.

80 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.

Actuarial assumptions: mortality

81 An entity shall determine its mortality assumptions by reference to its best estimate of the mortality of plan members both during and after employment.

82 In order to estimate the ultimate cost of the benefit an entity takes into consideration expected changes in mortality, for example by modifying standard mortality tables with estimates of mortality improvements.

Actuarial assumptions: discount rate

83 The rate used to discount post-employment benefit obligations (both funded and unfunded) shall be determined by reference to market yields at the end of the reporting period on government bonds. However, for currencies other than Indian rupee for which there is deep market in high quality corporate bonds, the market yields (at the end of the reporting period) on such high quality corporate bonds denominated in that currency shall be used. The currency and term of the government bonds or corporate bonds shall be consistent with the currency and estimated term of the post-employment benefit obligations.

84 One actuarial assumption that has a material effect is the discount rate. The discount rate reflects the time value of money but not the actuarial or investment risk. Furthermore, the discount rate does not reflect the entity-specific credit risk borne by the entity’s creditors, nor does it reflect the risk that future experience may differ from actuarial assumptions.

85 The discount rate reflects the estimated timing of benefit payments. In practice, an entity often achieves this by applying a single weighted average discount rate that reflects the estimated timing and amount of benefit payments and the currency in which the benefits are to be paid.

86 In some cases, there may be no deep market in government bonds with a sufficiently long maturity to match the estimated maturity of all the benefit payments. In such cases, an entity uses current market rates of the appropriate term to discount shorter-term payments, and estimates the discount rate for longer maturities by extrapolating current market rates along the yield curve. The total present value of a defined benefit obligation is unlikely to be particularly sensitive to the discount rate applied to the portion of benefits that is payable beyond the final maturity of the available government bonds.

Actuarial assumptions: salaries, benefits and medical costs

87 An entity shall measure its defined benefit obligations on a basis that reflects:

- (a) the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the end of the reporting period;**
 - (b) any estimated future salary increases that affect the benefits payable;**
 - (c) the effect of any limit on the employer’s share of the cost of the future benefits;**
 - (d) contributions from employees or third parties that reduce the ultimate cost to the entity of those benefits;**
- and**

- (e) **estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:**
- (i) **those changes were enacted before the end of the reporting period; or**
 - (ii) **historical data, or other reliable evidence, indicate that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.**
- 88 Actuarial assumptions reflect future benefit changes that are set out in the formal terms of a plan (or a constructive obligation that goes beyond those terms) at the end of the reporting period. This is the case if, for example:
- (a) the entity has a history of increasing benefits, for example, to mitigate the effects of inflation, and there is no indication that this practice will change in the future;
 - (b) the entity is obliged, by either the formal terms of a plan (or a constructive obligation that goes beyond those terms) or legislation, to use any surplus in the plan for the benefit of plan participants (see paragraph 108(c)); or
 - (c) benefits vary in response to a performance target or other criteria. For example, the terms of the plan may state that it will pay reduced benefits or require additional contributions from employees if the plan assets are insufficient. The measurement of the obligation reflects the best estimate of the effect of the performance target or other criteria.
- 89 Actuarial assumptions do not reflect future benefit changes that are not set out in the formal terms of the plan (or a constructive obligation) at the end of the reporting period. Such changes will result in:
- (a) past service cost, to the extent that they change benefits for service before the change; and
 - (b) current service cost for periods after the change, to the extent that they change benefits for service after the change.
- 90 Estimates of future salary increases take account of inflation, seniority, promotion and other relevant factors, such as supply and demand in the employment market.
- 91 Some defined benefit plans limit the contributions that an entity is required to pay. The ultimate cost of the benefits takes account of the effect of a limit on contributions. The effect of a limit on contributions is determined over the shorter of:
- (a) the estimated life of the entity; and
 - (b) the estimated life of the plan.
- 92 Some defined benefit plans require employees or third parties to contribute to the cost of the plan. Contributions by employees reduce the cost of the benefits to the entity. An entity considers whether third-party contributions reduce the cost of the benefits to the entity, or are a reimbursement right as described in paragraph 116. Contributions by employees or third parties are either set out in the formal terms of the plan (or arise from a constructive obligation that goes beyond those terms), or are discretionary. Discretionary contributions by employees or third parties reduce service cost upon payment of these contributions to the plan.
- 93 Contributions from employees or third parties set out in the formal terms of the plan either reduce service cost (if they are linked to service), or affect remeasurements of the net defined benefit liability (asset) (if they are not linked to service). An example of contributions that are not linked to service is when the contributions are required to reduce a deficit arising from losses on plan assets or from actuarial losses. If contributions from employees or third parties are linked to service, those contributions reduce the service cost as follows:
- (a) if the amount of the contributions is dependent on the number of years of service, an entity shall attribute the contributions to periods of service using the same attribution method required by paragraph 70 for the gross benefit (ie either using the plan's contribution formula or on a straight-line basis); or
 - (b) if the amount of the contributions is independent of the number of years of service, the entity is permitted to recognise such contributions as a reduction of the service cost in the period in which the related service is rendered. Examples of contributions that are independent of the number of years of service include those that are a fixed percentage of the employee's salary, a fixed amount throughout the service period or dependent on the employee's age.
- Appendix A provides related application guidance.
- 94 For contributions from employees or third parties that are attributed to periods of service in accordance with paragraph 93(a), changes in the contributions result in:
- (a) current and past service cost (if those changes are not set out in the formal terms of a plan and do not arise from a constructive obligation); or

- (b) actuarial gains and losses (if those changes are set out in the formal terms of a plan, or arise from a constructive obligation).
- 95 Some post-employment benefits are linked to variables such as the level of state retirement benefits or state medical care. The measurement of such benefits reflects the best estimate of such variables, based on historical data and other reliable evidence.
- 96 **Assumptions about medical costs shall take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.**
- 97 Measurement of post-employment medical benefits requires assumptions about the level and frequency of future claims and the cost of meeting those claims. An entity estimates future medical costs on the basis of historical data about the entity's own experience, supplemented where necessary by historical data from other entities, insurance companies, medical providers or other sources. Estimates of future medical costs consider the effect of technological advances, changes in health care utilisation or delivery patterns and changes in the health status of plan participants.
- 98 The level and frequency of claims is particularly sensitive to the age, health status and sex of employees (and their dependants) and may be sensitive to other factors such as geographical location. Therefore, historical data are adjusted to the extent that the demographic mix of the population differs from that of the population used as a basis for the data. They are also adjusted where there is reliable evidence that historical trends will not continue.

Past service cost and gains and losses on settlement

- 99 **When determining past service cost, or a gain or loss on settlement, an entity shall remeasure the net defined benefit liability (asset) using the current fair value of plan assets and current actuarial assumptions, including current market interest rates and other current market prices, reflecting:**
- (a) **the benefits offered under the plan and the plan assets before the plan amendment, curtailment or settlement; and**
- (b) **the benefits offered under the plan and the plan assets after the plan amendment, curtailment or settlement.**
- 100 An entity need not distinguish between past service cost resulting from a plan amendment, past service cost resulting from a curtailment and a gain or loss on settlement if these transactions occur together. In some cases, a plan amendment occurs before a settlement, such as when an entity changes the benefits under the plan and settles the amended benefits later. In those cases an entity recognises past service cost before any gain or loss on settlement.
- 101 A settlement occurs together with a plan amendment and curtailment if a plan is terminated with the result that the obligation is settled and the plan ceases to exist. However, the termination of a plan is not a settlement if the plan is replaced by a new plan that offers benefits that are, in substance, the same.
- 101A When a plan amendment, curtailment or settlement occurs, an entity shall recognise and measure any past service cost, or a gain or loss on settlement, in accordance with paragraphs 99–101 and paragraphs 102–112. In doing so, an entity shall not consider the effect of the asset ceiling. An entity shall then determine the effect of the asset ceiling after the plan amendment, curtailment or settlement and shall recognise any change in that effect in accordance with paragraph 57(d).

Past service cost

- 102 Past service cost is the change in the present value of the defined benefit obligation resulting from a plan amendment or curtailment.
- 103 **An entity shall recognise past service cost as an expense at the earlier of the following dates:**
- (a) **when the plan amendment or curtailment occurs; and**
- (b) **when the entity recognises related restructuring costs (see Ind AS 37) or termination benefits (see paragraph 165).**
- 104 A plan amendment occurs when an entity introduces, or withdraws, a defined benefit plan or changes the benefits payable under an existing defined benefit plan.
- 105 A curtailment occurs when an entity significantly reduces the number of employees covered by a plan. A curtailment may arise from an isolated event, such as the closing of a plant, discontinuance of an operation or termination or suspension of a plan.
- 106 Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when benefits are withdrawn or changed so that the present value of the defined benefit obligation decreases).

- 107 Where an entity reduces benefits payable under an existing defined benefit plan and, at the same time, increases other benefits payable under the plan for the same employees, the entity treats the change as a single net change.
- 108 Past service cost excludes:
- (a) the effect of differences between actual and previously assumed salary increases on the obligation to pay benefits for service in prior years (there is no past service cost because actuarial assumptions allow for projected salaries);
 - (b) underestimates and overestimates of discretionary pension increases when an entity has a constructive obligation to grant such increases (there is no past service cost because actuarial assumptions allow for such increases);
 - (c) estimates of benefit improvements that result from actuarial gains or from the return on plan assets that have been recognised in the financial statements if the entity is obliged, by either the formal terms of a plan (or a constructive obligation that goes beyond those terms) or legislation, to use any surplus in the plan for the benefit of plan participants, even if the benefit increase has not yet been formally awarded (there is no past service cost because the resulting increase in the obligation is an actuarial loss, see paragraph 88); and
 - (d) the increase in vested benefits (ie benefits that are not conditional on future employment, see paragraph 72) when, in the absence of new or improved benefits, employees complete vesting requirements (there is no past service cost because the entity recognised the estimated cost of benefits as current service cost as the service was rendered).

Gains and losses on settlement

- 109 The gain or loss on a settlement is the difference between:
- (a) the present value of the defined benefit obligation being settled, as determined on the date of settlement; and
 - (b) the settlement price, including any plan assets transferred and any payments made directly by the entity in connection with the settlement.
- 110 **An entity shall recognise a gain or loss on the settlement of a defined benefit plan when the settlement occurs.**
- 111 A settlement occurs when an entity enters into a transaction that eliminates all further legal or constructive obligation for part or all of the benefits provided under a defined benefit plan (other than a payment of benefits to, or on behalf of, employees in accordance with the terms of the plan and included in the actuarial assumptions). For example, a one-off transfer of significant employer obligations under the plan to an insurance company through the purchase of an insurance policy is a settlement; a lump sum cash payment, under the terms of the plan, to plan participants in exchange for their rights to receive specified post-employment benefits is not.
- 112 In some cases, an entity acquires an insurance policy to fund some or all of the employee benefits relating to employee service in the current and prior periods. The acquisition of such a policy is not a settlement if the entity retains a legal or constructive obligation (see paragraph 46) to pay further amounts if the insurer does not pay the employee benefits specified in the insurance policy. Paragraphs 116–119 deal with the recognition and measurement of reimbursement rights under insurance policies that are not plan assets.

Recognition and measurement: plan assets**Fair value of plan assets**

- 113 The fair value of any plan assets is deducted from the present value of the defined benefit obligation in determining the deficit or surplus.
- 114 Plan assets exclude unpaid contributions due from the reporting entity to the fund, as well as any non-transferable financial instruments issued by the entity and held by the fund. Plan assets are reduced by any liabilities of the fund that do not relate to employee benefits, for example, trade and other payables and liabilities resulting from derivative financial instruments.
- 115 Where plan assets include qualifying insurance policies that exactly match the amount and timing of some or all of the benefits payable under the plan, the fair value of those insurance policies is deemed to be the present value of the related obligations (subject to any reduction required if the amounts receivable under the insurance policies are not recoverable in full).

Reimbursements

- 116 **When, and only when, it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, an entity shall:**
- (a) **recognise its right to reimbursement as a separate asset. The entity shall measure the asset at fair value.**
 - (b) **disaggregate and recognise changes in the fair value of its right to reimbursement in the same way as for changes in the fair value of plan assets (see paragraphs 124 and 125). The components of defined benefit cost recognised in accordance with paragraph 120 may be recognised net of amounts relating to changes in the carrying amount of the right to reimbursement.**

- 117 Sometimes, an entity is able to look to another party, such as an insurer, to pay part or all of the expenditure required to settle a defined benefit obligation. Qualifying insurance policies, as defined in paragraph 8, are plan assets. An entity accounts for qualifying insurance policies in the same way as for all other plan assets and paragraph 116 is not relevant (see paragraphs 46–49 and 115).
- 118 When an insurance policy held by an entity is not a qualifying insurance policy, that insurance policy is not a plan asset. Paragraph 116 is relevant to such cases: the entity recognises its right to reimbursement under the insurance policy as a separate asset, rather than as a deduction in determining the defined benefit deficit or surplus. Paragraph 140(b) requires the entity to disclose a brief description of the link between the reimbursement right and the related obligation.
- 119 If the right to reimbursement arises under an insurance policy that exactly matches the amount and timing of some or all of the benefits payable under a defined benefit plan, the fair value of the reimbursement right is deemed to be the present value of the related obligation (subject to any reduction required if the reimbursement is not recoverable in full).

Components of defined benefit cost

- 120 **An entity shall recognise the components of defined benefit cost, except to the extent that another Ind AS requires or permits their inclusion in the cost of an asset, as follows:**
- (a) **service cost (see paragraphs 66–112 and paragraph 122A) in profit or loss;**
 - (b) **net interest on the net defined benefit liability (asset) (see paragraphs 123–126) in profit or loss; and**
 - (c) **remeasurements of the net defined benefit liability (asset) (see paragraphs 127–130) in other comprehensive income.**
- 121 Other Ind ASs require the inclusion of some employee benefit costs within the cost of assets, such as inventories and property, plant and equipment (see Ind AS 2 and Ind AS 16). Any post-employment benefit costs included in the cost of such assets include the appropriate proportion of the components listed in paragraph 120.
- 122 **Remeasurements of the net defined benefit liability (asset) recognised in other comprehensive income shall not be reclassified to profit or loss in a subsequent period. However, the entity may transfer those amounts recognised in other comprehensive income within equity.**

Current service cost

- 122A **An entity shall determine current service cost using actuarial assumptions determined at the start of the annual reporting period. However, if an entity remeasures the net defined benefit liability (asset) in accordance with paragraph 99, it shall determine current service cost for the remainder of the annual reporting period after the plan amendment, curtailment or settlement using the actuarial assumptions used to remeasure the net defined benefit liability (asset) in accordance with paragraph 99(b).**

Net interest on the net defined benefit liability (asset)

- 123 **An entity shall determine net interest on the net defined benefit liability (asset) by multiplying the net defined benefit liability (asset) by the discount rate specified in paragraph 83.**
- 123A **To determine net interest in accordance with paragraph 123, an entity shall use the net defined benefit liability (asset) and the discount rate determined at the start of the annual reporting period. However, if an entity remeasures the net defined benefit liability (asset) in accordance with paragraph 99, the entity shall determine net interest for the remainder of the annual reporting period after the plan amendment, curtailment or settlement using:**
- (a) **the net defined benefit liability (asset) determined in accordance with paragraph 99(b); and**
 - (b) **the discount rate used to remeasure the net defined benefit liability (asset) in accordance with paragraph 99(b).**

In applying paragraph 123A, the entity shall also take into account any changes in the net defined benefit liability (asset) during the period resulting from contributions or benefit payments.

- 124 Net interest on the net defined benefit liability (asset) can be viewed as comprising interest income on plan assets, interest cost on the defined benefit obligation and interest on the effect of the asset ceiling mentioned in paragraph 64.
- 125 Interest income on plan assets is a component of the return on plan assets, and is determined by multiplying the fair value of the plan assets by the discount rate specified in paragraph 123A. An entity shall determine the fair value of the plan assets at the start of the annual reporting period. However, if an entity remeasures the net defined benefit liability (asset) in accordance with paragraph 99, the entity shall determine interest income for the remainder of the annual reporting period after the plan amendment, curtailment or settlement using the plan assets used to remeasure the net defined benefit liability (asset) in accordance with paragraph 99(b). In applying paragraph 125, the entity

shall also take into account any changes in the plan assets held during the period resulting from contributions or benefit payments. The difference between the interest income on plan assets and the return on plan assets is included in the remeasurement of the net defined benefit liability (asset).

- 126 Interest on the effect of the asset ceiling is part of the total change in the effect of the asset ceiling, and is determined by multiplying the effect of the asset ceiling by the discount rate specified in paragraph 123A. An entity shall determine the effect of the asset ceiling at the start of the annual reporting period. However, if an entity remeasures the net defined benefit liability (asset) in accordance with paragraph 99, the entity shall determine interest on the effect of the asset ceiling for the remainder of the annual reporting period after the plan amendment, curtailment or settlement taking into account any change in the effect of the asset ceiling determined in accordance with paragraph 101A. The difference between interest on the effect of the asset ceiling and the total change in the effect of the asset ceiling is included in the remeasurement of the net defined benefit liability (asset).

Remeasurements of the net defined benefit liability (asset)

- 127 Remeasurements of the net defined benefit liability (asset) comprise:
- (a) actuarial gains and losses (see paragraphs 128 and 129);
 - (b) the return on plan assets (see paragraph 130), excluding amounts included in net interest on the net defined benefit liability (asset) (see paragraph 125); and
 - (c) any change in the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit liability (asset) (see paragraph 126).
- 128 Actuarial gains and losses result from increases or decreases in the present value of the defined benefit obligation because of changes in actuarial assumptions and experience adjustments. Causes of actuarial gains and losses include, for example:
- (a) unexpectedly high or low rates of employee turnover, early retirement or mortality or of increases in salaries, benefits (if the formal or constructive terms of a plan provide for inflationary benefit increases) or medical costs;
 - (b) the effect of changes to assumptions concerning benefit payment options;
 - (c) the effect of changes in estimates of future employee turnover, early retirement or mortality or of increases in salaries, benefits (if the formal or constructive terms of a plan provide for inflationary benefit increases) or medical costs; and
 - (d) the effect of changes in the discount rate.
- 129 Actuarial gains and losses do not include changes in the present value of the defined benefit obligation because of the introduction, amendment, curtailment or settlement of the defined benefit plan, or changes to the benefits payable under the defined benefit plan. Such changes result in past service cost or gains or losses on settlement.
- 130 In determining the return on plan assets, an entity deducts the costs of managing the plan assets and any tax payable by the plan itself, other than tax included in the actuarial assumptions used to measure the defined benefit obligation (paragraph 76). Other administration costs are not deducted from the return on plan assets.

Presentation

Offset

- 131 **An entity shall offset an asset relating to one plan against a liability relating to another plan when, and only when, the entity:**
- (a) **has a legally enforceable right to use a surplus in one plan to settle obligations under the other plan; and**
 - (b) **intends either to settle the obligations on a net basis, or to realize the surplus in one plan and settle its obligation under the other plan simultaneously.**

- 132 The offsetting criteria are similar to those established for financial instruments in Ind AS 32,

Financial Instruments: Presentation.

Current/non-current distinction

- 133 Some entities distinguish current assets and liabilities from non-current assets and liabilities. This Standard does not specify whether an entity should distinguish current and non-current portions of assets and liabilities arising from post-employment benefits.

Components of defined benefit cost

- 134 Paragraph 120 requires an entity to recognise service cost and net interest on the net defined benefit liability (asset) in profit or loss. This Standard does not specify how an entity should present service cost and net interest on the net defined benefit liability (asset). An entity presents those components in accordance with Ind AS 1.

Disclosure

135 An entity shall disclose information that:

- (a) explains the characteristics of its defined benefit plans and risks associated with them (see paragraph 139);
- (b) identifies and explains the amounts in its financial statements arising from its defined benefit plans (see paragraphs 140–144); and
- (c) describes how its defined benefit plans may affect the amount, timing and uncertainty of the entity's future cash flows (see paragraphs 145–147).

136 To meet the objectives in paragraph 135, an entity shall consider all the following:

- (a) the level of detail necessary to satisfy the disclosure requirements;
- (b) how much emphasis to place on each of the various requirements; (c) how much aggregation or disaggregation to undertake; and
- (d) whether users of financial statements need additional information to evaluate the quantitative information disclosed.

137 If the disclosures provided in accordance with the requirements in this Standard and other Ind ASs are insufficient to meet the objectives in paragraph 135, an entity shall disclose additional information necessary to meet those objectives. For example, an entity may present an analysis of the present value of the defined benefit obligation that distinguishes the nature, characteristics and risks of the obligation. Such a disclosure could distinguish:

- (a) between amounts owing to active members, deferred members, and pensioners.
- (b) between vested benefits and accrued but not vested benefits.
- (c) between conditional benefits, amounts attributable to future salary increases and other benefits.

138 An entity shall assess whether all or some disclosures should be disaggregated to distinguish plans or groups of plans with materially different risks. For example, an entity may disaggregate disclosure about plans showing one or more of the following features:

- (a) different geographical locations.
- (b) different characteristics such as flat salary pension plans, final salary pension plans or post-employment medical plans.
- (c) different regulatory environments.
- (d) different reporting segments.
- (e) different funding arrangements (eg wholly unfunded, wholly or partly funded).

Characteristics of defined benefit plans and risks associated with them

139 An entity shall disclose:

- (a) information about the characteristics of its defined benefit plans, including:
 - (i) the nature of the benefits provided by the plan (eg final salary defined benefit plan or contribution-based plan with guarantee).
 - (ii) a description of the regulatory framework in which the plan operates, for example the level of any minimum funding requirements, and any effect of the regulatory framework on the plan, such as the asset ceiling (see paragraph 64).
 - (iii) a description of any other entity's responsibilities for the governance of the plan, for example responsibilities of trustees or of board members of the plan.
- (b) a description of the risks to which the plan exposes the entity, focused on any unusual, entity-specific or plan-specific risks, and of any significant concentrations of risk. For example, if plan assets are invested primarily in one class of investments, eg property, the plan may expose the entity to a concentration of property market risk.
- (c) a description of any plan amendments, curtailments and settlements.

Explanation of amounts in the financial statements

140 An entity shall provide a reconciliation from the opening balance to the closing balance for each of the following, if applicable:

- (a) the net defined benefit liability (asset), showing separate reconciliations for:
 - (i) plan assets.
 - (ii) the present value of the defined benefit obligation.
 - (iii) the effect of the asset ceiling.

- (b) any reimbursement rights. An entity shall also describe the relationship between any reimbursement right and the related obligation.

141 Each reconciliation listed in paragraph 140 shall show each of the following, if applicable:

- (a) current service cost.
- (b) interest income or expense.
- (c) remeasurements of the net defined benefit liability (asset), showing separately:
 - (i) the return on plan assets, excluding amounts included in interest in (b).
 - (ii) actuarial gains and losses arising from changes in demographic assumptions (see paragraph 76(a)).
 - (iii) actuarial gains and losses arising from changes in financial assumptions (see paragraph 76(b)).
 - (iv) changes in the effect of limiting a net defined benefit asset to the asset ceiling, excluding amounts included in interest in (b). An entity shall also disclose how it determined the maximum economic benefit available, ie whether those benefits would be in the form of refunds, reductions in future contributions or a combination of both.
- (d) past service cost and gains and losses arising from settlements. As permitted by paragraph 100, past service cost and gains and losses arising from settlements need not be distinguished if they occur together.
- (e) the effect of changes in foreign exchange rates.
- (f) contributions to the plan, showing separately those by the employer and by plan participants.
- (g) payments from the plan, showing separately the amount paid in respect of any settlements.
- (h) the effects of business combinations and disposals.

142 An entity shall disaggregate the fair value of the plan assets into classes that distinguish the nature and risks of those assets, subdividing each class of plan asset into those that have a quoted market price in an active market (as defined in Ind AS 113, *Fair Value Measurement*) and those that do not. For example, and considering the level of disclosure discussed in paragraph 136, an entity could distinguish between:

- (a) cash and cash equivalents;
- (b) equity instruments (segregated by industry type, company size, geography etc);
- (c) debt instruments (segregated by type of issuer, credit quality, geography etc);
- (d) real estate (segregated by geography etc);
- (e) derivatives (segregated by type of underlying risk in the contract, for example, interest rate contracts, foreign exchange contracts, equity contracts, credit contracts, longevity swaps etc);
- (f) investment funds (segregated by type of fund);
- (g) asset-backed securities; and
- (h) structured debt.

143 An entity shall disclose the fair value of the entity's own transferable financial instruments held as plan assets, and the fair value of plan assets that are property occupied by, or other assets used by, the entity.

144 An entity shall disclose the significant actuarial assumptions used to determine the present value of the defined benefit obligation (see paragraph 76). Such disclosure shall be in absolute terms (eg as an absolute percentage, and not just as a margin between different percentages and other variables). When an entity provides disclosures in total for a grouping of plans, it shall provide such disclosures in the form of weighted averages or relatively narrow ranges.

Amount, timing and uncertainty of future cash flows

145 An entity shall disclose:

- (a) a sensitivity analysis for each significant actuarial assumption (as disclosed under paragraph 144) as of the end of the reporting period, showing how the defined benefit obligation would have been affected by changes in the relevant actuarial assumption that were reasonably possible at that date.
- (b) the methods and assumptions used in preparing the sensitivity analyses required by (a) and the limitations of those methods.
- (c) changes from the previous period in the methods and assumptions used in preparing the sensitivity analyses, and the reasons for such changes.

146 An entity shall disclose a description of any asset-liability matching strategies used by the plan or the entity, including the use of annuities and other techniques, such as longevity swaps, to manage risk.

147 To provide an indication of the effect of the defined benefit plan on the entity's future cash flows, an entity shall disclose:

- (a) a description of any funding arrangements and funding policy that affect future contributions.
- (b) the expected contributions to the plan for the next annual reporting period.
- (c) information about the maturity profile of the defined benefit obligation. This will include the weighted average duration of the defined benefit obligation and may include other information about the distribution of the timing of benefit payments, such as a maturity analysis of the benefit payments.

Multi-employer plans

148 If an entity participates in a multi-employer defined benefit plan, it shall disclose:

- (a) a description of the funding arrangements, including the method used to determine the entity's rate of contributions and any minimum funding requirements.
- (b) a description of the extent to which the entity can be liable to the plan for other entities' obligations under the terms and conditions of the multi-employer plan.
- (c) a description of any agreed allocation of a deficit or surplus on:
 - (i) wind-up of the plan; or
 - (ii) the entity's withdrawal from the plan.
- (d) if the entity accounts for that plan as if it were a defined contribution plan in accordance with paragraph 34, it shall disclose the following, in addition to the information required by (a)–(c) and instead of the information required by paragraphs 139–147:
 - (i) the fact that the plan is a defined benefit plan.
 - (ii) the reason why sufficient information is not available to enable the entity to account for the plan as a defined benefit plan.
 - (iii) the expected contributions to the plan for the next annual reporting period.
 - (iv) information about any deficit or surplus in the plan that may affect the amount of future contributions, including the basis used to determine that deficit or surplus and the implications, if any, for the entity.
 - (v) an indication of the level of participation of the entity in the plan compared with other participating entities. Examples of measures that might provide such an indication include the entity's proportion of the total contributions to the plan or the entity's proportion of the total number of active members, retired members, and former members entitled to benefits, if that information is available.

Defined benefit plans that share risks between entities under common control

149 If an entity participates in a defined benefit plan that shares risks between entities under common control, it shall disclose:

- (a) the contractual agreement or stated policy for charging the net defined benefit cost or the fact that there is no such policy.
- (b) the policy for determining the contribution to be paid by the entity.
- (c) if the entity accounts for an allocation of the net defined benefit cost as noted in paragraph 41, all the information about the plan as a whole required by paragraphs 135–147.
- (d) if the entity accounts for the contribution payable for the period as noted in paragraph 41, the information about the plan as a whole required by paragraphs 135–137, 139, 142–144 and 147(a) and (b).

150 The information required by paragraph 149(c) and (d) can be disclosed by cross-reference to disclosures in another group entity's financial statements if:

- (a) that group entity's financial statements separately identify and disclose the information required about the plan; and
- (b) that group entity's financial statements are available to users of the financial statements on the same terms as the financial statements of the entity and at the same time as, or earlier than, the financial statements of the entity.

Disclosure requirements in other Ind ASs

151 Where required by Ind AS 24 an entity discloses information about:

- (a) related party transactions with post-employment benefit plans; and
- (b) post-employment benefits for key management personnel.

152 Where required by Ind AS 37 an entity discloses information about contingent liabilities arising from post-employment benefit obligations.

Other long-term employee benefits

153 Other long-term employee benefits include items such as the following, if 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:

- (a) long-term paid absences such as long-service or sabbatical leave; (b) jubilee or other long-service benefits;
- (c) long-term disability benefits;
- (d) profit-sharing and bonuses; and
- (e) deferred remuneration.

154 The measurement of other long-term employee benefits is not usually subject to the same degree of uncertainty as the measurement of post-employment benefits. For this reason, this 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 remeasurements in other comprehensive income.

Recognition and measurement

155 **In recognising and measuring the surplus or deficit in an other long-term employee benefit plan, an entity shall apply paragraphs 56–98 and 113–115. An entity shall apply paragraphs 116–119 in recognising and measuring any reimbursement right.**

156 **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:**

- (a) **service cost (see paragraphs 66–112 and paragraph 122A);**
- (b) **net interest on the net defined benefit liability (asset) (see paragraphs 123–126); and**
- (c) **remeasurements of the net defined benefit liability (asset) (see paragraphs 127–130).**

157 One form of other long-term employee benefit is long-term disability benefit. If the level of benefit depends on the length of service, an obligation arises when the service is rendered. Measurement of that obligation reflects the probability that payment will be required and the length of time for which payment is expected to be made. If the level of benefit is the same for any disabled employee regardless of years of service, the expected cost of those benefits is recognised when an event occurs that causes a long-term disability.

Disclosure

158 Although this Standard does not require specific disclosures about other long-term employee benefits, other Ind ASs may require disclosures. For example, Ind AS 24 requires disclosures about employee benefits for key management personnel. Ind AS 1 requires disclosure of employee benefits expense.

Termination benefits

159 This Standard deals with termination benefits separately from other employee benefits because the event that gives rise to an obligation is the termination of employment rather than employee service. Termination benefits result from either an entity's decision to terminate the employment or an employee's decision to accept an entity's offer of benefits in exchange for termination of employment.

160 Termination benefits do not include employee benefits resulting from termination of employment at the request of the employee without an entity's offer, or as a result of mandatory retirement requirements, because those benefits are post-employment benefits. Some entities provide a lower level of benefit for termination of employment at the request of the employee (in substance, a post-employment benefit) than for termination of employment at the request of the entity. The difference between the benefit provided for termination of employment at the request of the employee and a higher benefit provided at the request of the entity is a termination benefit.

161 The form of the employee benefit does not determine whether it is provided in exchange for service or in exchange for termination of the employee's employment. Termination benefits are typically lump sum payments, but sometimes also include:

- (a) enhancement of post-employment benefits, either indirectly through an employee benefit plan or directly.
- (b) salary until the end of a specified notice period if the employee renders no further service that provides economic benefits to the entity.

162 Indicators that an employee benefit is provided in exchange for services include the following:

- (a) the benefit is conditional on future service being provided (including benefits that increase if further service is provided).
- (b) the benefit is provided in accordance with the terms of an employee benefit plan.

- 163 Some termination benefits are provided in accordance with the terms of an existing employee benefit plan. For example, they may be specified by statute, employment contract or union agreement, or may be implied as a result of the employer's past practice of providing similar benefits. As another example, if an entity makes an offer of benefits available for more than a short period, or there is more than a short period between the offer and the expected date of actual termination, the entity considers whether it has established a new employee benefit plan and hence whether the benefits offered under that plan are termination benefits or post-employment benefits. Employee benefits provided in accordance with the terms of an employee benefit plan are termination benefits if they both result from an entity's decision to terminate an employee's employment and are not conditional on future service being provided.
- 164 Some employee benefits are provided regardless of the reason for the employee's departure. The payment of such benefits is certain (subject to any vesting or minimum service requirements) but the timing of their payment is uncertain. Although such benefits are described in some jurisdictions as termination indemnities or termination gratuities, they are post-employment benefits rather than termination benefits, and an entity accounts for them as post-employment benefits.

Recognition

- 165 **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.**
- 166 For termination benefits payable as a result of an employee's decision to accept an offer of benefits in exchange for the termination of employment, the time when an entity can no longer withdraw the offer of termination benefits is the earlier of:
- (a) when the employee accepts the offer; and
 - (b) when a restriction (eg a legal, regulatory or contractual requirement or other restriction) on the entity's ability to withdraw the offer takes effect. This would be when the offer is made, if the restriction existed at the time of the offer.
- 167 For termination benefits payable as a result of an entity's decision to terminate an employee's employment, the entity can no longer withdraw the offer when the entity has communicated to the affected employees a plan of termination meeting all of the following criteria:
- (a) Actions required to complete the plan indicate that it is unlikely that significant changes to the plan will be made.
 - (b) The plan identifies the number of employees whose employment is to be terminated, their job classifications or functions and their locations (but the plan need not identify each individual employee) and the expected completion date.
 - (c) The plan establishes the termination benefits that employees will receive in sufficient detail that employees can determine the type and amount of benefits they will receive when their employment is terminated.
- 168 When an entity recognises termination benefits, the entity may also have to account for a plan amendment or a curtailment of other employee benefits (see paragraph 103).

Measurement

- 169 **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:**
- (a) **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.**
 - (b) **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.**
- 170 Because termination benefits are not provided in exchange for service, paragraphs 70–74 relating to the attribution of the benefit to periods of service are not relevant.

Example illustrating paragraphs 159–170*Background*

As a result of a recent acquisition, an entity plans to close a factory in ten months and, at that time, terminate the employment of all of the remaining employees at the factory. Because the entity needs the expertise of the employees at the factory to complete some contracts, it announces a plan of termination as follows.

Each employee who stays and renders service until the closure of the factory will receive on the termination date a cash payment of Rs 30,000. Employees leaving before closure of the factory will receive Rs.10,000.

There are 120 employees at the factory. At the time of announcing the plan, the entity expects 20 of them to leave before closure. Therefore, the total expected cash outflows under the plan are Rs.3,200,000 (ie $20 \times \text{RS}.10,000 + 100 \times \text{Rs}.30,000$). As required by paragraph 160, the entity accounts for benefits provided in exchange for termination of employment as termination benefits and accounts for benefits provided in exchange for services as short-term employee benefits.

Termination benefits

The benefit provided in exchange for termination of employment is Rs.10,000. This is the amount that an entity would have to pay for terminating the employment regardless of whether the employees stay and render service until closure of the factory or they leave before closure. Even though the employees can leave before closure, the termination of all employees' employment is a result of the entity's decision to close the factory and terminate their employment (ie all employees will leave employment when the factory closes). Therefore the entity recognises a liability of Rs.1,200,000 (ie $120 \times \text{Rs}.10,000$) for the termination benefits provided in accordance with the employee benefit plan at the earlier of when the plan of termination is announced and when the entity recognises the restructuring costs associated with the closure of the factory.

Benefits provided in exchange for service

The incremental benefits that employees will receive if they provide services for the full ten-month period are in exchange for services provided over that period. The entity accounts for them as short-term employee benefits because the entity expects to settle them before twelve months after the end of the annual reporting period. In this example, discounting is not required, so an expense of Rs.200,000 (ie $\text{Rs}.2,000,000 \div 10$) is recognised in each month during the service period of ten months, with a corresponding increase in the carrying amount of the liability.

Disclosure

171 Although this Standard does not require specific disclosures about termination benefits, other Ind ASs may require disclosures. For example, Ind AS 24 requires disclosures about employee benefits for key management personnel. Ind AS 1 requires disclosure of employee benefits expense.

Transition and effective date

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179 *Plan Amendment, Curtailment or Settlement* (Amendments to Ind AS 19), added paragraphs 101A, 122A and 123A, and amended paragraphs 57, 99, 120, 123, 125, 126 and 156. An entity shall apply these amendments to plan amendments, curtailments or settlements occurring on or after the beginning of the first annual reporting period that begins on or after 1 April, 2019.

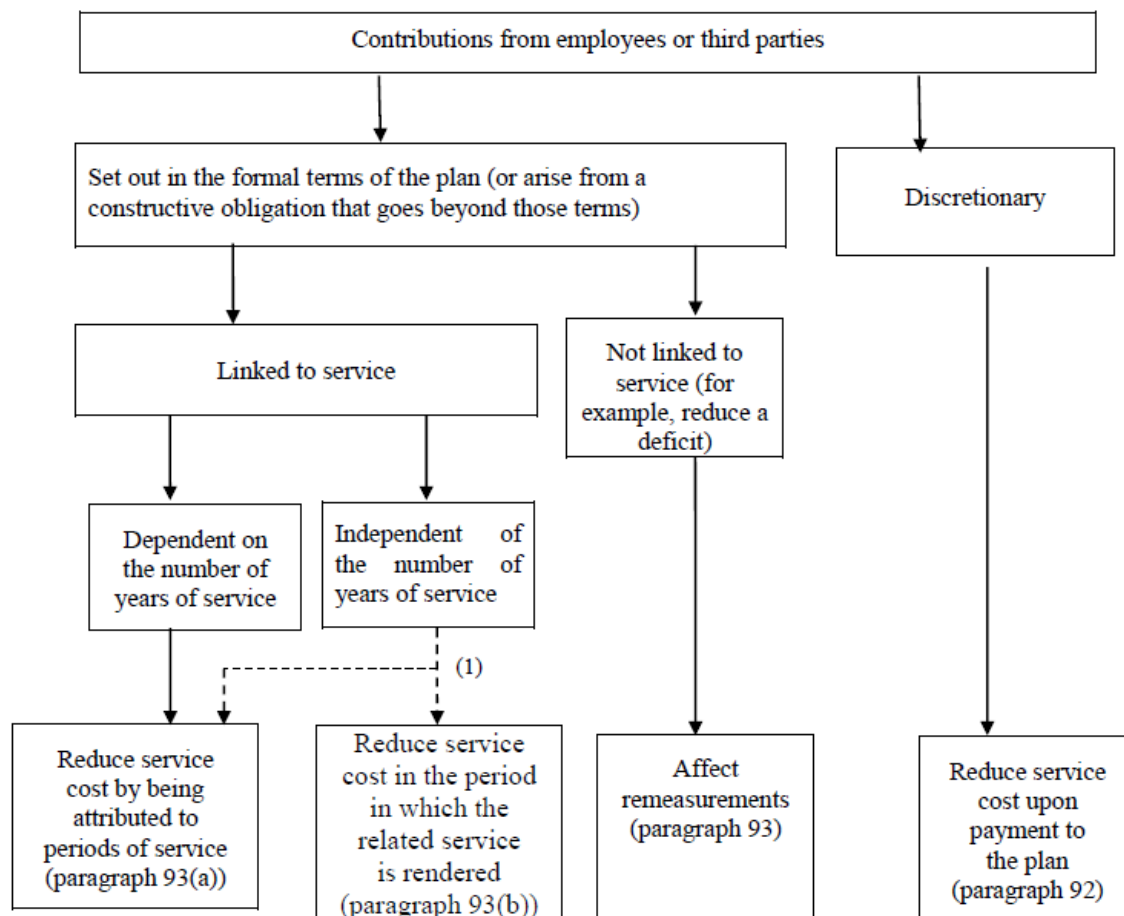
* Refer Appendix 1

Appendix A

Application Guidance

This appendix is an integral part of the Ind AS. It describes the application of paragraphs 92– 93 and has the same authority as the other parts of the Ind AS.

A1 The accounting requirements for contributions from employees or third parties are illustrated in the diagram below.



(1) This dotted arrow means that an entity is permitted to choose either accounting.

Appendix B

Ind AS 19 — The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

This Appendix is an integral part of the Ind AS.

Background

- Paragraph 64 of Ind 19 limits the measurement of a net defined benefit asset to the lower of the surplus in the defined benefit plan and the asset ceiling. Paragraph 8 of Ind AS 19 defines the asset ceiling as ‘the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan’. Questions have arisen about when refunds or reductions in future contributions should be regarded as available, particularly when a minimum funding requirement exists.
- Minimum funding requirements exist in many countries to improve the security of the post-employment benefit promise made to members of an employee benefit plan. Such requirements normally stipulate a minimum amount or level of contributions that must be made to a plan over a given period. Therefore, a minimum funding requirement may limit the ability of the entity to reduce future contributions.
- Further, the limit on the measurement of a defined benefit asset may cause a minimum funding requirement to be onerous. Normally, a requirement to make contributions to a plan would not affect the measurement of the defined

benefit asset or liability. This is because the contributions, once paid, will become plan assets and so the additional net liability is nil. However, a minimum funding requirement may give rise to a liability if the required contributions will not be available to the entity once they have been paid.

3A [Refer Appendix 1].

Scope

- 4 This Appendix applies to all post-employment defined benefits and other long-term employee defined benefits.
- 5 For the purpose of this Appendix, minimum funding requirements are any requirements to fund a post-employment or other long-term defined benefit plan.

Issues

- 6 The issues addressed in this Appendix are:
 - (a) when refunds or reductions in future contributions should be regarded as available in accordance with the definition of the asset ceiling in paragraph 8 of Ind AS 19 .
 - (b) how a minimum funding requirement might affect the availability of reductions in future contributions.
 - (c) when a minimum funding requirement might give rise to a liability.

Principles

Availability of a refund or reduction in future contributions

- 7 An entity shall determine the availability of a refund or a reduction in future contributions in accordance with the terms and conditions of the plan and any statutory requirements in the jurisdiction of the plan.
- 8 An economic benefit, in the form of a refund or a reduction in future contributions, is available if the entity can realise it at some point during the life of the plan or when the plan liabilities are settled. In particular, such an economic benefit may be available even if it is not realisable immediately at the end of the reporting period.
- 9 The economic benefit available does not depend on how the entity intends to use the surplus.

An entity shall determine the maximum economic benefit that is available from refunds, reductions in future contributions or a combination of both. An entity shall not recognise economic benefits from a combination of refunds and reductions in future contributions based on assumptions that are mutually exclusive.
- 10 In accordance with Ind AS 1, the entity shall disclose information about the key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amount of the net asset or liability recognised in the balance sheet. This might include disclosure of any restrictions on the current realisability of the surplus or disclosure of the basis used to determine the amount of the economic benefit available.

The economic benefit available as a refund

The right to a refund

- 11 A refund is available to an entity only if the entity has an unconditional right to a refund:
 - (a) during the life of the plan, without assuming that the plan liabilities must be settled in order to obtain the refund (eg in some jurisdictions, the entity may have a right to a refund during the life of the plan, irrespective of whether the plan liabilities are settled); or
 - (b) assuming the gradual settlement of the plan liabilities over time until all members have left the plan; or
 - (c) assuming the full settlement of the plan liabilities in a single event (ie as a plan wind- up).

An unconditional right to a refund can exist whatever the funding level of a plan at the end of the reporting period.

- 12 If the entity's right to a refund of a surplus depends on the occurrence or non-occurrence of one or more uncertain future events not wholly within its control, the entity does not have an unconditional right and shall not recognise an asset.

Measurement of the economic benefit

- 13 An entity shall measure the economic benefit available as a refund as the amount of the surplus at the end of the reporting period (being the fair value of the plan assets less the present value of the defined benefit obligation) that the entity has a right to receive as a refund, less any associated costs. For instance, if a refund would be subject to a tax other than income tax, an entity shall measure the amount of the refund net of the tax.
- 14 In measuring the amount of a refund available when the plan is wound up (paragraph 11(c)), an entity shall include the costs to the plan of settling the plan liabilities and making the refund. For example, an entity shall deduct professional fees if these are paid by the plan rather than the entity, and the costs of any insurance premiums that may be required to secure the liability on wind-up.

- 15 If the amount of a refund is determined as the full amount or a proportion of the surplus, rather than a fixed amount, an entity shall make no adjustment for the time value of money, even if the refund is realisable only at a future date.

The economic benefit available as a contribution reduction

- 16 If there is no minimum funding requirement for contributions relating to future service, the economic benefit available as a reduction in future contributions is the future service cost to the entity for each period over the shorter of the expected life of the plan and the expected life of the entity. The future service cost to the entity excludes amounts that will be borne by employees.
- 17 An entity shall determine the future service costs using assumptions consistent with those used to determine the defined benefit obligation and with the situation that exists at the end of the reporting period as determined by Ind AS 19. Therefore, an entity shall assume no change to the benefits to be provided by a plan in the future until the plan is amended and shall assume a stable workforce in the future unless the entity makes a reduction in the number of employees covered by the plan. In the latter case, the assumption about the future workforce shall include the reduction.

The effect of a minimum funding requirement on the economic benefit available as a reduction in future contributions

- 18 An entity shall analyse any minimum funding requirement at a given date into contributions that are required to cover (a) any existing shortfall for past service on the minimum funding basis and (b) future service.
- 19 Contributions to cover any existing shortfall on the minimum funding basis in respect of services already received do not affect future contributions for future service. They may give rise to a liability in accordance with paragraphs 23–26.
- 20 If there is a minimum funding requirement for contributions relating to future service, the economic benefit available as a reduction in future contributions is the sum of:
- (a) any amount that reduces future minimum funding requirement contributions for future service because the entity made a prepayment (ie paid the amount before being required to do so); and
 - (b) the estimated future service cost in each period in accordance with paragraphs 16 and 17, less the estimated minimum funding requirement contributions that would be required for future service in those periods if there were no prepayment as described in (a).
- 21 An entity shall estimate the future minimum funding requirement contributions for future service taking into account the effect of any existing surplus determined using the minimum funding basis but excluding the prepayment described in paragraph 20(a). An entity shall use assumptions consistent with the minimum funding basis and, for any factors not specified by that basis, assumptions consistent with those used to determine the defined benefit obligation and with the situation that exists at the end of the reporting period as determined by Ind AS 19. The estimate shall include any changes expected as a result of the entity paying the minimum contributions when they are due. However, the estimate shall not include the effect of expected changes in the terms and conditions of the minimum funding basis that are not substantively enacted or contractually agreed at the end of the reporting period.
- 22 When an entity determines the amount described in paragraph 20(b), if the future minimum funding requirement contributions for future service exceed the future IAS 19 service cost in any given period, that excess reduces the amount of the economic benefit available as a reduction in future contributions. However, the amount described in paragraph 20(b) can never be less than zero.

When a minimum funding requirement may give rise to a liability

- 23 If an entity has an obligation under a minimum funding requirement to pay contributions to cover an existing shortfall on the minimum funding basis in respect of services already received, the entity shall determine whether the contributions payable will be available as a refund or reduction in future contributions after they are paid into the plan.
- 24 To the extent that the contributions payable will not be available after they are paid into the plan, the entity shall recognise a liability when the obligation arises. The liability shall reduce the net defined benefit asset or increase the net defined benefit liability so that no gain or loss is expected to result from applying paragraph 64 of Ind AS 19 when the contributions are paid.

25-26 (refer Appendix 1)

Appendix 1

Note: This Appendix is not a part of the Indian Accounting Standard. The purpose of this Appendix is only to bring out the major differences, if any, between Indian Accounting Standard (Ind AS) 19 and the corresponding International Accounting Standard (IAS) 19, Employee Benefits, and IFRIC 14, IAS 19 — The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction, issued by the International Accounting Standards Board.

Comparison with IAS 19, Employee Benefits, and IFRIC 14

- 1 Paragraph numbers 25-26 appear as 'Deleted' in IFRIC 14. In order to maintain consistency with paragraph numbers of IFRIC 14, the paragraph numbers are retained in Appendix B of Ind AS 19.
- 2 According to Ind AS 19 the rate to be used to discount post-employment benefit obligation shall be determined by reference to the market yields on government bonds, whereas under IAS 19, the government bonds can be used only for those currencies where there is no deep market of high quality corporate bonds. However, requirements given in IAS 19 in this regard have been retained with appropriate modifications for currencies other than Indian rupee.
- 3 To illustrate treatment of gratuity subject to ceiling under Indian Gratuity Rules, an example has been added in paragraph 73.
- 4 Different terminology is used in this standard, e.g., the term 'balance sheet' is used instead of 'Statement of financial position'. The words 'approval of the financial statements for issue have been used instead of 'authorisation of the financial statements for issue ' in the context of financial statements considered for the purpose of events after the reporting period.
- 5 Paragraph 3A of Appendix B is deleted as this paragraph deals with reason for amending IFRIC 14, which is irrelevant for Appendix B to Ind AS 19.
- 6 Paragraphs 172 to 177 of IAS 19 have not been included as these paragraphs relate to transition and effective date that are not relevant in Indian context. Paragraph 178 has not been included as it refers to amendments due to issuance of IFRS 17, *Insurance Contracts*, for which corresponding Ind AS is under formulation. However, in order to maintain consistency with paragraph numbers of IAS 19, the paragraph numbers are retained in Ind AS 19.

Indian Accounting Standard (Ind AS) 20

Accounting for Government Grants and Disclosure of Government Assistance

(This Indian Accounting Standard includes paragraphs set in **bold** type and plain type, which have equal authority. Paragraphs in bold type indicate the main principles.)

Scope

- 1 **This Standard shall be applied in accounting for, and in the disclosure of, government grants and in the disclosure of other forms of government assistance.**
- 2 This Standard does not deal with:
 - (a) the special problems arising in accounting for government grants in financial statements reflecting the effects of changing prices or in supplementary information of a similar nature.
 - (b) government assistance that is provided for an entity in the form of benefits that are available in determining taxable profit or tax loss, or are determined or limited on the basis of income tax liability. Examples of such benefits are income tax holidays, investment tax credits, accelerated depreciation.
 - (c) government participation in the ownership of the entity.
 - (d) government grants covered by Ind AS 41, *Agriculture*.

Definitions

- 3 **The following terms are used in this Standard with the meanings specified:**

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

Government assistance is action by government designed to provide an economic benefit specific to an entity or range of entities qualifying under certain criteria. Government assistance for the purpose of this Standard does not include benefits provided only indirectly through action affecting general trading conditions, such as the provision of infrastructure in development areas or the imposition of trading constraints on competitors.

Government grants are assistance by government in the form of transfers of resources to an entity in return for past or future compliance with certain conditions relating to the operating activities of the entity. They exclude those forms of government assistance which cannot reasonably have a value placed upon them and transactions with government which cannot be distinguished from the normal trading transactions of the entity¹.

Grants related to assets are government grants whose primary condition is that an entity qualifying for them should purchase, construct or otherwise acquire long-term assets. Subsidiary conditions may also be attached restricting the type or location of the assets or the periods during which they are to be acquired or held.

Grants related to income are government grants other than those related to assets.

Forgivable loans are loans which the lender undertakes to waive repayment of under certain prescribed conditions.

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. (See Ind AS 113, *Fair Value Measurement*)

- 4 Government assistance takes many forms varying both in the nature of the assistance given and in the conditions which are usually attached to it. The purpose of the assistance may be to encourage an entity to embark on a course of action which it would not normally have taken if the assistance was not provided.
- 5 The receipt of government assistance by an entity may be significant for the preparation of the financial statements for two reasons. Firstly, if resources have been transferred, an appropriate method of accounting for the transfer must be found. Secondly, it is desirable to give an indication of the extent to which the entity has benefited from such assistance during the reporting period. This facilitates comparison of an entity's financial statements with those of prior periods and with those of other entities.
- 6 Government grants are sometimes called by other names such as subsidies, subventions, or premiums.

¹ See Appendix A *Government Assistance—No Specific Relation to Operating Activities*

Government grants

- 7 Government grants, including non-monetary grants at fair value, shall not be recognised until there is reasonable assurance that:**
- (a) the entity will comply with the conditions attaching to them; and**
 - (b) the grants will be received.**
- 8 A government grant is not recognised until there is reasonable assurance that the entity will comply with the conditions attaching to it, and that the grant will be received. Receipt of a grant does not of itself provide conclusive evidence that the conditions attaching to the grant have been or will be fulfilled.
- 9 The manner in which a grant is received does not affect the accounting method to be adopted in regard to the grant. Thus a grant is accounted for in the same manner whether it is received in cash or as a reduction of a liability to the government.
- 10 A forgivable loan from government is treated as a government grant when there is reasonable assurance that the entity will meet the terms for forgiveness of the loan.
- 10A The benefit of a government loan at a below-market rate of interest is treated as a government grant. The loan shall be recognised and measured in accordance with Ind AS 109, *Financial Instruments*. The benefit of the below-market rate of interest shall be measured as the difference between the initial carrying value of the loan determined in accordance with Ind AS 109, and the proceeds received. The benefit is accounted for in accordance with this Standard. The entity shall consider the conditions and obligations that have been, or must be, met when identifying the costs for which the benefit of the loan is intended to compensate.
- 11 Once a government grant is recognised, any related contingent liability or contingent asset is treated in accordance with Ind AS 37, *Provisions, Contingent Liabilities and Contingent Assets*.
- 12 Government grants shall be recognised in profit or loss on a systematic basis over the periods in which the entity recognises as expenses the related costs for which the grants are intended to compensate.**
- 13 There are two broad approaches to the accounting for government grants: the capital approach, under which a grant is recognised outside profit or loss, and the income approach, under which a grant is recognised in profit or loss over one or more periods.
- 14 Those in support of the capital approach argue as follows:
- (a)** government grants are a financing device and should be dealt with as such in the balance sheet rather than be recognised in profit or loss to offset the items of expense that they finance. Because no repayment is expected, such grants should be recognised outside profit or loss.
 - (b)** it is inappropriate to recognise government grants in profit or loss, because they are not earned but represent an incentive provided by government without related costs.
- 15 Arguments in support of the income approach are as follows:
- (a)** because government grants are receipts from a source other than shareholders, they should not be recognised directly in equity but should be recognised in profit or loss in appropriate periods.
 - (b)** government grants are rarely gratuitous. The entity earns them through compliance with their conditions and meeting the envisaged obligations. They should therefore be recognised in profit or loss over the periods in which the entity recognises as expenses the related costs for which the grant is intended to compensate.
 - (c)** because income and other taxes are expenses, it is logical to deal also with government grants, which are an extension of fiscal policies, in profit or loss.
- 16 It is fundamental to the income approach that government grants should be recognised in profit or loss on a systematic basis over the periods in which the entity recognises as expenses the related costs for which the grant is intended to compensate. Recognition of government grants in profit or loss on a receipts basis is not in accordance with the accrual accounting assumption (see Ind AS 1, *Presentation of Financial Statements*) and would be acceptable only if no basis existed for allocating a grant to periods other than the one in which it was received.
- 17 In most cases the periods over which an entity recognises the costs or expenses related to a government grant are readily ascertainable. Thus grants in recognition of specific expenses are recognised in profit or loss in the same period as the relevant expenses. Similarly, grants related to depreciable assets are usually recognised in profit or loss over the periods and in the proportions in which depreciation expense on those assets is recognised.
- 18 Grants related to non-depreciable assets may also require the fulfilment of certain obligations and would then be recognised in profit or loss over the periods that bear the cost of meeting the obligations. As an example, a grant of land may be conditional upon the erection of a building on the site and it may be appropriate to recognise the grant in profit or loss over the life of the building.

- 19 Grants are sometimes received as part of a package of financial or fiscal aids to which a number of conditions are attached. In such cases, care is needed in identifying the conditions giving rise to costs and expenses which determine the periods over which the grant will be earned. It may be appropriate to allocate part of a grant on one basis and part on another.
- 20 A government grant that becomes receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the entity with no future related costs shall be recognised in profit or loss of the period in which it becomes receivable.**
- 21 In some circumstances, a government grant may be awarded for the purpose of giving immediate financial support to an entity rather than as an incentive to undertake specific expenditures. Such grants may be confined to a particular entity and may not be available to a whole class of beneficiaries. These circumstances may warrant recognising a grant in profit or loss of the period in which the entity qualifies to receive it, with disclosure to ensure that its effect is clearly understood.
- 22 A government grant may become receivable by an entity as compensation for expenses or losses incurred in a previous period. Such a grant is recognised in profit or loss of the period in which it becomes receivable, with disclosure to ensure that its effect is clearly understood.
- 23 A Government grant may take the form of a transfer of a non-monetary asset, such as land or other resources, for the use of the entity. In these circumstances, it is usual to assess the fair value of the non-monetary asset and to account for both grant and asset at that fair value. An alternative course that is sometimes followed is to record both asset and grant at a nominal amount.
- 24 Government grants related to assets, including non-monetary grants at fair value, shall be presented in the balance sheet either by setting up the grant as deferred income or by deducting the grant in arriving at the carrying amount of the asset.**
- 25 Two methods of presentation in financial statements of grants or the appropriate portions of grants related to assets are regarded as acceptable alternatives.
- 26 One method recognises the grant as deferred income that is recognised in profit or loss on a systematic basis over the useful life of the asset.
- 27 The other method deducts the grant in calculating the carrying amount of the asset. The grant is recognised in profit or loss over the life of a depreciable asset as a reduced depreciation expense.
- 28 The purchase of assets and the receipt of related grants can cause major movements in the cash flow of an entity. For this reason and in order to show the gross investment in assets, such movements are often disclosed as separate items in the statement of cash flows regardless of whether or not the grant is deducted from the related asset for presentation purposes in the balance sheet.

Presentation of grants related to income

- 29 Grants related to income are presented as part of profit or loss, either separately or under a general heading such as 'Other income'; alternatively, they are deducted in reporting the related expense.
- 29A [Refer Appendix 1]
- 30 Supporters of the first method claim that it is inappropriate to net income and expense items and that separation of the grant from the expense facilitates comparison with other expenses not affected by a grant. For the second method it is argued that the expenses might well not have been incurred by the entity if the grant had not been available and presentation of the expense without offsetting the grant may therefore be misleading.
- 31 Both methods are regarded as acceptable for the presentation of grants related to income. Disclosure of the grant may be necessary for a proper understanding of the financial statements. Disclosure of the effect of the grants on any item of income or expense which is required to be separately disclosed is usually appropriate.

Repayment of government grants

- 32 A Government grant that becomes repayable shall be accounted for as a change in accounting estimate (see Ind AS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*). Repayment of a grant related to income shall be applied first against any unamortised deferred credit recognised in respect of the grant. To the extent that the repayment exceeds any such deferred credit, or when no deferred credit exists, the repayment shall be recognised immediately in profit or loss. Repayment of a grant related to an asset shall be recognised by increasing the carrying amount of the asset or reducing the deferred income balance by the amount repayable. The cumulative additional depreciation that would have been recognised in profit or loss to date in the absence of the grant shall be recognised immediately in profit or loss.**
- 33 Circumstances giving rise to repayment of a grant related to an asset may require consideration to be given to the possible impairment of the new carrying amount of the asset.

Government assistance

- 34 Excluded from the definition of government grants in paragraph 3 are certain forms of government assistance which cannot reasonably have a value placed upon them and transactions with government which cannot be distinguished from the normal trading transactions of the entity.
- 35 Examples of assistance that cannot reasonably have a value placed upon them are free technical or marketing advice and the provision of guarantees. An example of assistance that cannot be distinguished from the normal trading transactions of the entity is a government procurement policy that is responsible for a portion of the entity's sales. The existence of the benefit might be unquestioned but any attempt to segregate the trading activities from government assistance could well be arbitrary.
- 36 The significance of the benefit in the above examples may be such that disclosure of the nature, extent and duration of the assistance is necessary in order that the financial statements may not be misleading.
- 37 [Refer Appendix 1]
- 38 In this Standard, government assistance does not include the provision of infrastructure by improvement to the general transport and communication network and the supply of improved facilities such as irrigation or water reticulation which is available on an ongoing indeterminate basis for the benefit of an entire local community.

Disclosure**39 The following matters shall be disclosed:**

- (a) the accounting policy adopted for government grants, including the methods of presentation adopted in the financial statements;
- (b) the nature and extent of government grants recognised in the financial statements and an indication of other forms of government assistance from which the entity has directly benefited; and
- (c) unfulfilled conditions and other contingencies attaching to government assistance that has been recognised.

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"Effective date

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48A Paragraphs 23-24, 26, 28 and 32 are amended, and paragraphs 25, 27, 33 and 40-48A have been added to allow the option of recording of non-monetary government grants at nominal value and presentation of government grants related to assets by deducting the same from the carrying amount of the asset. An entity shall apply these amendments for the annual periods beginning on or after April 1, 2018.

* Refer Appendix 1

Appendix A***Government Assistance—No Specific Relation to Operating Activities***

This appendix is an integral part of the Ind AS.

Issue

- 1 In some countries government assistance to entities may be aimed at encouragement or long-term support of business activities either in certain regions or industry sectors. Conditions to receive such assistance may not be specifically related to the operating activities of the entity. Examples of such assistance are transfers of resources by governments to entities which:
- (a) operate in a particular industry;
 - (b) continue operating in recently privatised industries; or
 - (c) start or continue to run their business in underdeveloped areas.
- 2 The issue is whether such government assistance is a 'government grant' within the scope of Ind AS 20 and, therefore, should be accounted for in accordance with this Standard.

Accounting Principle

- 3 Government assistance to entities meets the definition of government grants in Ind AS 20, even if there are no conditions specifically relating to the operating activities of the entity other than the requirement to operate in certain regions or industry sectors. Such grants shall therefore not be credited directly to shareholders' interests.

Appendix B**References to matters contained in other Indian Accounting Standards**

This appendix is an integral part of the Ind AS.

- 1 Appendix C, *Levies*, contained in Ind AS 37, *Provisions, Contingent Liabilities and Contingent Assets*.

Appendix 1

Note: This Appendix is not a part of the Indian Accounting Standard. The purpose of this Appendix is only to bring out the major differences, if any, between Indian Accounting Standard (Ind AS) 20 and the corresponding International Accounting Standard (IAS) 20, Accounting for Government Grants and Disclosure of Government Assistance, and SIC 10 Government Assistance- No Specific Relation to Operating Activities, issued by the International Accounting Standards Board.

Comparison with IAS 20, Accounting for Government Grants and Disclosure of Government Assistance and SIC 10

[Paragraphs 1 and 2 shall be omitted by Companies (Indian Accounting Standards) Second Amendment Rules, 2018, dated 20-9-2018]

- 3 Requirements regarding presentation of grants related to income in the separate income statement, where separate income statement is presented under paragraph 29A of IAS 20 have been deleted. This change is 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. However, paragraph number 29A has been retained in Ind AS 20 to maintain consistency with paragraph numbers of IAS 20.
- 4 Different terminology is used in this standard, eg, the term 'balance sheet' is used instead of 'Statement of financial position' and 'Statement of profit and loss' is used instead of 'Statement of comprehensive income'.
- 5 Paragraph number 37 appear as 'Deleted' in IAS 20. In order to maintain consistency with paragraph numbers of IAS 20, the paragraph number is retained in Ind AS 20.
- 6 Paragraph 40 of IAS 20 related to transitional provisions has not been included in Ind AS 20 since transitional provisions considered relevant have been included in Ind AS 101, *First Time Adoption of Indian Accounting Standards*.
- 7 Paragraphs 41-48 of Effective date of IAS 20 have not been included in Ind AS 20 since these are not relevant in Indian context."

Indian Accounting Standard (Ind AS) 21

The Effects of Changes in Foreign Exchange Rates

(This Indian Accounting Standard includes paragraphs set in **bold** type and plain type, which have equal authority. Paragraphs in bold type indicate the main principles.)

Objective

- 1 An entity may carry on foreign activities in two ways. It may have transactions in foreign currencies or 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 and how to translate financial statements into a presentation currency.
- 2 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.

Scope

3 This Standard shall be applied:

- (a) **in accounting for transactions and balances in foreign currencies, except for those derivative transactions and balances that are within the scope of Ind AS 109, *Financial Instruments*;**
 - (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.**
- 4 Ind AS 109 applies to many foreign currency derivatives and, accordingly, these are excluded from the scope of this Standard. However, those foreign currency derivatives that are not within the scope of Ind AS 109 (eg some foreign currency derivatives that are embedded in other contracts) are within the scope of this Standard. In addition, this Standard applies when an entity translates amounts relating to derivatives from its functional currency to its presentation currency.
 - 5 This Standard does not apply to hedge accounting for foreign currency items, including the hedging of a net investment in a foreign operation. Ind AS 109 applies to hedge accounting.
 - 6 This Standard applies to the presentation of an entity's financial statements in a foreign currency and sets out requirements for the resulting financial statements to be described as complying with Indian Accounting Standards (Ind ASs). For translations of financial information into a foreign currency that do not meet these requirements, this Standard specifies information to be disclosed.
 - 7 This Standard does not apply to 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 (see Ind AS 7, *Statement of Cash Flows*).
- 7AA This Standard does not also apply to long-term foreign currency monetary items for which an entity has opted for the exemption given in paragraph D13AA of Appendix D to Ind AS 101. Such an entity may continue to apply the accounting policy so opted for such long-term foreign currency monetary items.

Definitions

8 The following terms are used in this Standard with the meanings specified:

Closing rate is the spot exchange rate at the end of the reporting period.

Exchange difference is the difference resulting from translating a given number of units of one currency into another currency at different exchange rates.

Exchange rate is the ratio of exchange for two currencies.

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. (See Ind AS 13, *Fair Value Measurement*.)

Foreign currency is a currency other than the functional currency of the entity.

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.

Functional currency is the currency of the primary economic environment in which the entity operates.

A group is a parent and all its subsidiaries.

Monetary items are units of currency held and assets and liabilities to be received or paid in a fixed or determinable number of units of currency.

Net investment in a foreign operation is the amount of the reporting entity's interest in the net assets of that operation.

Presentation currency is the currency in which the financial statements are presented.

Spot exchange rate is the exchange rate for immediate delivery.

Elaboration on the definitions

Functional currency

- 9 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).
- 10 The following factors may also provide evidence of an entity's functional currency:
 - (a) the currency in which funds from financing activities (ie issuing debt and equity instruments) are generated.
 - (b) the currency in which receipts from operating activities are usually retained.
- 11 The following additional factors are considered in determining the functional currency of a foreign operation, and whether its functional currency is the same as that of the reporting entity (the reporting entity, in this context, being the entity that has the foreign operation as its subsidiary, branch, associate or joint arrangement):
 - (a) whether the activities of the foreign operation are carried out as an extension of the reporting entity, rather than being carried out with a significant degree of autonomy. An example of the former is when the foreign operation only sells goods imported from the reporting entity and remits the proceeds to it. An example of the latter is when the operation accumulates cash and other monetary items, incurs expenses, generates income and arranges borrowings, all substantially in its local currency.
 - (b) whether transactions with the reporting entity are a high or a low proportion of the foreign operation's activities
 - (c) whether cash flows from the activities of the foreign operation directly affect the cash flows of the reporting entity and are readily available for remittance to it.
 - (d) whether cash flows from the activities of the foreign operation are sufficient to service existing and normally expected debt obligations without funds being made available by the reporting entity.
- 12 When the above indicators are mixed and the functional currency is not obvious, management uses its judgement to determine the functional currency that most faithfully represents the economic effects of the underlying transactions, events and conditions. As part of this approach, management gives priority to the primary indicators in paragraph 9 before considering the indicators in paragraphs 10 and 11, which are designed to provide additional supporting evidence to determine an entity's functional currency.
- 13 An entity's functional currency reflects the underlying transactions, events and conditions that are relevant to it. Accordingly, once determined, the functional currency is not changed unless there is a change in those underlying transactions, events and conditions.
- 14 If the functional currency is the currency of a hyperinflationary economy, the entity's financial statements are restated in accordance with Ind AS 29, *Financial Reporting in Hyperinflationary Economies*. An entity cannot avoid restatement in accordance with Ind AS 29 by, for example, adopting as its functional currency a currency other than the functional currency determined in accordance with this Standard (such as the functional currency of its parent).

Net investment in a foreign operation

- 15 An entity may have a monetary item that is receivable from or payable to a foreign operation. An item for which settlement is neither planned nor likely to occur in the foreseeable future is, in substance, a part of the entity's net investment in that foreign operation, and is accounted for in accordance with paragraphs 32 and 33. Such monetary items may include long-term receivables or loans. They do not include trade receivables or trade payables.
- 15A The entity that has a monetary item receivable from or payable to a foreign operation described in paragraph 15 may be any subsidiary of the group. For example, an entity has two subsidiaries, A and B. Subsidiary B is a foreign operation. Subsidiary A grants a loan to Subsidiary B. Subsidiary A's loan receivable from Subsidiary B would be

part of the entity's net investment in Subsidiary B if settlement of the loan is neither planned nor likely to occur in the foreseeable future. This would also be true if Subsidiary A were itself a foreign operation.

Monetary items

- 16 The essential feature of a monetary item is a right to receive (or an obligation to deliver) a fixed or determinable number of units of currency. Examples include: pensions and other employee benefits to be paid in cash; provisions that are to be settled in cash; lease liabilities; and cash dividends that are recognised as a liability. Similarly, a contract to receive (or deliver) a variable number of the entity's own equity instruments or a variable amount of assets in which the fair value to be received (or delivered) equals a fixed or determinable number of units of currency is a monetary item. Conversely, the essential feature of a non-monetary item is the absence of a right to receive (or an obligation to deliver) a fixed or determinable number of units of currency. Examples include: amounts prepaid for goods and services; goodwill; intangible assets; inventories; property, plant and equipment; right-of-use assets and provisions that are to be settled by the delivery of a non-monetary asset.

Summary of the approach required by this Standard

- 17 In preparing financial statements, each entity—whether a stand-alone entity, an entity with foreign operations (such as a parent) or a foreign operation (such as a subsidiary or branch)—determines its functional currency in accordance with paragraphs 9–14. The entity translates foreign currency items into its functional currency and reports the effects of such translation in accordance with paragraphs 20–37 and 50.
- 18 Many reporting entities comprise a number of individual entities (eg a group is made up of a parent and one or more subsidiaries). Various types of entities, whether members of a group or otherwise, may have investments in associates or joint arrangements. They may also have branches. It is necessary for the results and financial position of each individual entity included in the reporting entity to be translated into the currency in which the reporting entity presents its financial statements. This Standard permits the presentation currency of a reporting entity to be any currency (or currencies). The results and financial position of any individual entity within the reporting entity whose functional currency differs from the presentation currency are translated in accordance with paragraphs 38–50.
- 19 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 in accordance with paragraphs 38–50.

Reporting foreign currency transactions in the functional currency

Initial recognition

- 20 A foreign currency transaction is a transaction that is denominated or requires settlement in a foreign currency, including transactions arising when an entity:
- buys or sells goods or services whose price is denominated in a foreign currency;
 - borrowes or lends funds when the amounts payable or receivable are denominated in a foreign currency; or
 - otherwise acquires or disposes of assets, or incurs or settles liabilities, denominated in a foreign currency.
- 21 **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.**
- 22 The date of a transaction is the date on which the transaction first qualifies for recognition in accordance with Ind ASs. For practical reasons, a rate that approximates the actual rate at the date of the transaction is often used, for example, an average rate for a week or a month might be used for all transactions in each foreign currency occurring during that period. However, if exchange rates fluctuate significantly, the use of the average rate for a period is inappropriate.

Reporting at the ends of subsequent reporting periods

- 23 **At the end of each reporting period:**
- foreign currency monetary items shall be translated using the closing rate;**
 - 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**
 - 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.**

- 24 The carrying amount of an item is determined in conjunction with other relevant Standards. For example, property, plant and equipment may be measured in terms of fair value or historical cost in accordance with Ind AS 16, *Property, Plant and Equipment*. Whether the carrying amount is determined on the basis of historical cost or on the basis of fair value, if the amount is determined in a foreign currency it is then translated into the functional currency in accordance with this Standard.
- 25 The carrying amount of some items is determined by comparing two or more amounts. For example, the carrying amount of inventories is the lower of cost and net realisable value in accordance with Ind AS 2, *Inventories*. Similarly, in accordance with Ind AS 36, *Impairment of Assets*, the carrying amount of an asset for which there is an indication of impairment is the lower of its carrying amount before considering possible impairment losses and its recoverable amount. When such an asset is non-monetary and is measured in a foreign currency, the carrying amount is determined by comparing:
- (a) the cost or carrying amount, as appropriate, translated at the exchange rate at the date when that amount was determined (ie the rate at the date of the transaction for an item measured in terms of historical cost); and
 - (b) the net realisable value or recoverable amount, as appropriate, translated at the exchange rate at the date when that value was determined (eg the closing rate at the end of the reporting period).
- The effect of this comparison may be that an impairment loss is recognised in the functional currency but would not be recognised in the foreign currency, or vice versa.
- 26 When several exchange rates are available, the rate used is that at which the future cash flows represented by the transaction or balance could have been settled if those cash flows had occurred at the measurement date. If exchangeability between two currencies is temporarily lacking, the rate used is the first subsequent rate at which exchanges could be made.

Recognition of exchange differences

- 27 As noted in paragraph 3 (a) and 5, Ind AS 109 applies to hedge accounting for foreign currency items. The application of hedge accounting requires an entity to account for some exchange differences differently from the treatment of exchange differences required by this Standard. For example, Ind AS 109 requires that exchange differences on monetary items that qualify as hedging instruments in a cash flow hedge are recognised initially in other comprehensive income to the extent that the hedge is effective.
- 28 **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, except as described in paragraph 32.**
- 29 When monetary items arise from a foreign currency transaction and there is a change in the exchange rate between the transaction date and the date of settlement, an exchange difference results. When the transaction is settled within the same accounting period as that in which it occurred, all the exchange difference is recognised in that period. However, when the transaction is settled in a subsequent accounting period, the exchange difference recognised in each period up to the date of settlement is determined by the change in exchange rates during each period.
- 30 **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.**
- 31 Other Ind ASs require some gains and losses to be recognised in other comprehensive income. For example, Ind AS 16 requires some gains and losses arising on a revaluation of property, plant and equipment to be recognised in other comprehensive income. When such an asset is measured in a foreign currency, paragraph 23(c) of this Standard requires the revalued amount to be translated using the rate at the date the value is determined, resulting in an exchange difference that is also recognised in other comprehensive income.
- 32 **Exchange differences arising on a monetary item that forms part of a reporting entity's net investment in a foreign operation (see paragraph 15) 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 (eg 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 in accordance with paragraph 48.**
- 33 When a monetary item forms part of a reporting entity's net investment in a foreign operation and is denominated in the functional currency of the reporting entity, an exchange difference arises in the foreign operation's individual financial statements in accordance with paragraph 28. If such an item is denominated in the functional currency of the foreign operation, an exchange difference arises in the reporting entity's separate financial statements in

accordance with paragraph 28. If such an item is denominated in a currency other than the functional currency of either the reporting entity or the foreign operation, an exchange difference arises in the reporting entity's separate financial statements and in the foreign operation's individual financial statements in accordance with paragraph 28. Such exchange differences are recognised in other comprehensive income in the financial statements that include the foreign operation and the reporting entity (ie financial statements in which the foreign operation is consolidated or accounted for using the equity method).

- 34 When an entity keeps its books and records in a currency other than its functional currency, at the time the entity prepares its financial statements all amounts are translated into the functional currency in accordance with paragraphs 20–26. This produces the same amounts in the functional currency as would have occurred had the items been recorded initially in the functional currency. For example, monetary items are translated into the functional currency using the closing rate, and non-monetary items that are measured on a historical cost basis are translated using the exchange rate at the date of the transaction that resulted in their recognition.

Change in functional currency

- 35 **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.**
- 36 As noted in paragraph 13, the functional currency of an entity reflects the underlying transactions, events and conditions that are relevant to the entity. Accordingly, once the functional currency is determined, it can be changed only if there is a change to those underlying transactions, events and conditions. For example, a change in the currency that mainly influences the sales prices of goods and services may lead to a change in an entity's functional currency.
- 37 The effect of a change in functional currency is accounted for prospectively.

In other words, an entity translates all items into the new functional currency using the exchange rate at the date of the change. The resulting translated amounts for non-monetary items are treated as their historical cost. Exchange differences arising from the translation of a foreign operation previously recognised in other comprehensive income in accordance with paragraphs 32 and 39(c) are not reclassified from equity to profit or loss until the disposal of the operation.

Use of a presentation currency other than the functional currency

Translation to the presentation currency

- 38 An entity may present its financial statements in any currency (or currencies).
If the presentation currency differs from the entity's functional currency, it translates its results and financial position into the presentation currency. For example, when a group contains individual entities with different functional currencies, the results and financial position of each entity are expressed in a common currency so that consolidated financial statements may be presented.
- 39 **The results and financial position of an entity whose functional currency is not the currency of a hyperinflationary economy shall be translated into a different presentation currency using the following procedures:**
- assets and liabilities for each balance sheet presented (ie including comparatives) shall be translated at the closing rate at the date of that balance sheet;**
 - income and expenses for each statement of profit and loss presented (ie including comparatives) shall be translated at exchange rates at the dates of the transactions; and**
 - all resulting exchange differences shall be recognised in other comprehensive income.**
- 40 For practical reasons, a rate that approximates the exchange rates at the dates of the transactions, for example an average rate for the period, is often used to translate income and expense items. However, if exchange rates fluctuate significantly, the use of the average rate for a period is inappropriate.
- 41 The exchange differences referred to in paragraph 39(c) result from:
- translating income and expenses at the exchange rates at the dates of the transactions and assets and liabilities at the closing rate.
 - translating the opening net assets at a closing rate that differs from the previous closing rate.

These exchange differences are not recognised in profit or loss because the changes in exchange rates have little or no direct effect on the present and future cash flows from operations. The cumulative amount of the exchange differences is presented in a separate component of equity until disposal of the foreign operation. When the exchange differences relate to a foreign operation that is consolidated but not wholly-owned, accumulated exchange differences arising from translation and attributable to non-controlling interests are allocated to, and recognised as part of, non-controlling interests in the consolidated balance sheet.

- 42 **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 (ie 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 (ie not adjusted for subsequent changes in the price level or subsequent changes in exchange rates).**
- 43 **When an entity's functional currency is the currency of a hyperinflationary economy, the entity shall restate its financial statements in accordance with Ind AS 29 before applying the translation method set out in paragraph 42, except for comparative amounts that are translated into a currency of a non-hyperinflationary economy (see paragraph 42(b)). When the economy ceases to be hyperinflationary and the entity no longer restates its financial statements in accordance with Ind AS 29, it shall use as the historical costs for translation into the presentation currency the amounts restated to the price level at the date the entity ceased restating its financial statements.**

Translation of a foreign operation

- 44 Paragraphs 45–47, in addition to paragraphs 38–43, apply when the results and financial position of a foreign operation are translated into a presentation currency so that the foreign operation can be included in the financial statements of the reporting entity by consolidation or the equity method.
- 45 The incorporation of the results and financial position of a foreign operation with those of the reporting entity follows normal consolidation procedures, such as the elimination of intragroup balances and intragroup transactions of a subsidiary (see Ind AS 110, *Consolidated Financial Statements*). However, an intragroup monetary asset (or liability), whether short-term or long-term, cannot be eliminated against the corresponding intragroup liability (or asset) without showing the results of currency fluctuations in the consolidated financial statements. This is because the monetary item represents a commitment to convert one currency into another and exposes the reporting entity to a gain or loss through currency fluctuations. Accordingly, in the consolidated financial statements of the reporting entity, such an exchange difference is recognised in profit or loss or, if it arises from the circumstances described in paragraph 32, it is recognised in other comprehensive income and accumulated in a separate component of equity until the disposal of the foreign operation.
- 46 When the financial statements of a foreign operation are as of a date different from that of the reporting entity, the foreign operation often prepares additional statements as of the same date as the reporting entity's financial statements. When this is not done, Ind AS 110 allows the use of a different date provided that the difference is no greater than three months and adjustments are made for the effects of any significant transactions or other events that occur between the different dates. In such a case, the assets and liabilities of the foreign operation are translated at the exchange rate at the end of the reporting period of the foreign operation. Adjustments are made for significant changes in exchange rates up to the end of the reporting period of the reporting entity in accordance with Ind AS 110. The same approach is used in applying the equity method to associates and joint ventures in accordance with Ind AS 28.
- 47 **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 in accordance with paragraphs 39 and 42.**

Disposal or partial disposal of a foreign operation

- 48 **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 (see Ind AS 1, *Presentation of Financial Statements*).**
- 48A In addition to the disposal of an entity's entire interest in a foreign operation, the following partial disposals are accounted for as disposals:
- (a) when the partial disposal involves the loss of control of a subsidiary that includes a foreign operation, regardless of whether the entity retains a non- controlling interest in its former subsidiary after the partial disposal; and
 - (b) when the retained interest after the partial disposal of an interest in a joint arrangement or a partial disposal of an interest in an associate that includes a foreign operation is a financial asset that includes a foreign operation.

48B On disposal of a subsidiary that includes a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation that have been attributed to the non-controlling interests shall be derecognised, but shall not be reclassified to profit or loss.

48C 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.

48DA partial disposal of an entity's interest in a foreign operation is any reduction in an entity's ownership interest in a foreign operation, except those reductions in paragraph 48A that are accounted for as disposals.

49 An entity may dispose or partially dispose of its interest in a foreign operation through sale, liquidation, repayment of share capital or abandonment of all, or part of, that entity. A write-down of the carrying amount of a foreign operation, either because of its own losses or because of an impairment recognised by the investor, does not constitute a partial disposal. Accordingly, no part of the foreign exchange gain or loss recognised in other comprehensive income is reclassified to profit or loss at the time of a write-down.

Tax effects of all exchange differences

50 Gains and losses on foreign currency transactions and exchange differences arising on translating the results and financial position of an entity (including a foreign operation) into a different currency may have tax effects. Ind AS 12, *Income Taxes*, applies to these tax effects.

Disclosure

51 **In paragraphs 53 and 55–57 references to ‘functional currency’ apply, in the case of a group, to the functional currency of the parent.**

52 **An entity shall disclose:**

- (a) **the amount of exchange differences recognised in profit or loss except for those arising on financial instruments measured at fair value through profit or loss in accordance with Ind AS 109; and**
- (b) **net exchange differences recognised in other comprehensive income and accumulated in a separate component of equity, and a reconciliation of the amount of such exchange differences at the beginning and end of the period.**

53 **When the presentation currency is different from the functional currency, that fact shall be stated, together with disclosure of the functional currency and the reason for using a different presentation currency.**

54 **When there is a change in the functional currency of either the reporting entity or a significant foreign operation, that fact, the reason for the change in functional currency and the date of change in functional currency shall be disclosed.**

55 **When an entity presents its financial statements in a currency that is different from its functional currency, it shall describe the financial statements as complying with Ind ASs only if they comply with all the requirements of each applicable Standard including the translation method set out in paragraphs 39 and 42.**

56 An entity sometimes presents its financial statements or other financial information in a currency that is not its functional currency without meeting the requirements of paragraph 55. For example, an entity may convert into another currency only selected items from its financial statements. Or, an entity whose functional currency is not the currency of a hyperinflationary economy may convert the financial statements into another currency by translating all items at the most recent closing rate. Such conversions are not in accordance with Ind ASs and the disclosures set out in paragraph 57 are required.

57 **When an entity displays its financial statements or other financial information in a currency that is different from either its functional currency or its presentation currency and the requirements of paragraph 55 are not met, it shall:**

- (a) **clearly identify the information as supplementary information to distinguish it from the information that complies with Ind ASs;**
- (b) **disclose the currency in which the supplementary information is displayed; and**
- (c) **disclose the entity's functional currency and the method of translation used to determine the supplementary information.**

Effective date and transition

58-60J *Omitted**

60K Ind AS 116 amended paragraph 16. An entity shall apply that amendment when it applies Ind AS 116.

* Refer Appendix 1

Appendix A

References to matters contained in other Indian Accounting Standards

This Appendix is an integral part of the Ind AS.

This appendix lists the appendix which is a part of another Indian Accounting Standard and makes reference to Ind AS 21, *The Effects of Changes in Foreign Exchange Rates*.

1. Appendix C, *Hedges of a Net Investment in a Foreign Operation*, contained in Ind AS 109, *Financial instruments* makes reference to this Standard also.

Appendix B

Foreign Currency Transactions and Advance Consideration

This appendix is an integral part of the Ind AS

Background

- 1 Paragraph 21 of Ind AS 21, *The Effects of Changes in Foreign Exchange Rates*, requires an entity to record a foreign currency transaction, on initial recognition in its functional currency, by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency (the exchange rate) at the date of the transaction. Paragraph 22 of Ind AS 21 states that the date of the transaction is the date on which the transaction first qualifies for recognition in accordance with Ind AS Standards (Standards).
- 2 When an entity pays or receives consideration in advance in a foreign currency, it generally recognises a non-monetary asset or non-monetary liability¹ before the recognition of the related asset, expense or income. The related asset, expense or income (or part of it) is the amount recognised applying relevant Standards, which results in the derecognition of the non-monetary asset or non-monetary liability arising from the advance consideration.
- 3 Initially, the issue was how to determine ‘the date of the transaction’ applying paragraphs 21 - 22 of Ind AS 21 when recognising revenue. The question specifically addressed circumstances in which an entity recognises a non-monetary liability arising from the receipt of advance consideration before it recognises the related revenue. It was noted that the receipt or payment of advance consideration in a foreign currency is not restricted to revenue transactions. Accordingly, this appendix clarifies the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income when an entity has received or paid advance consideration in a foreign currency.

Scope

- 4 This Appendix applies to a foreign currency transaction (or part of it) when an entity recognises a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration before the entity recognises the related asset, expense or income (or part of it).
- 5 This Appendix does not apply when an entity measures the related asset, expense or income on initial recognition:
 - (a) at fair value; or
 - (b) at the fair value of the consideration paid or received at a date other than the date of initial recognition of the non-monetary asset or non-monetary liability arising from advance consideration (for example, the measurement of goodwill applying Ind AS 103, *Business Combinations*).
- 6 An entity is not required to apply this Appendix to:
 - (a) income taxes; or
 - (b) insurance contracts (including reinsurance contracts) that it issues or reinsurance contracts that it holds.

Issue

- 7 This Appendix addresses how to determine the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration in a foreign currency.

Accounting Principles

- 8 Applying paragraphs 21–22 of Ind AS 21, the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity

¹ For example, paragraph 106 of Ind AS 115, *Revenue from Contracts with Customers*, requires that if a customer pays consideration, or an entity has a right to an amount of consideration that is unconditional (ie a receivable), before the entity transfers a good or service to the customer, the entity shall present the contract as a contract liability when the payment is made or the payment is due (whichever is earlier).

initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

- 9 If there are multiple payments or receipts in advance, the entity shall determine a date of the transaction for each payment or receipt of advance consideration.

Effective date and transition of Appendix B

This is an integral part of Appendix B and has the same authority as the other parts of the Appendix B.

Effective date

A1 An entity shall apply this Appendix for annual reporting periods beginning on or after April 1, 2018.

A2 On initial application, an entity shall apply this Appendix either:

- (a) retrospectively applying Ind AS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*; or
- (b) prospectively to all assets, expenses and income in the scope of the Appendix initially recognised on or after:
 - (i) the beginning of the reporting period in which the entity first applies the Appendix; or
 - (ii) the beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the Appendix.

A3 An entity that applies paragraph A2(b) shall, on initial application, apply the Appendix to assets, expenses and income initially recognised on or after the beginning of the reporting period in paragraph A2(b)(i) or (ii) for which the entity has recognised non-monetary assets or non-monetary liabilities arising from advance consideration before that date.’’;

(ii) in Appendix 1,—

- (a) in the related *Note*, after the words ‘*Exchange Rates*,’ and before the words ‘*issued by*’ the words ‘*and IFRIC 22 Foreign Currency Transactions and Advance Consideration*’ shall be inserted.
- (b) in the heading, after the words ‘*Exchange Rates*’, ‘*and IFRIC 22*’ shall be inserted.

Appendix 1

Note: This Appendix is not a part of the Indian Accounting Standard. The purpose of this Appendix is only to bring out the major differences, if any, between Indian Accounting Standard (Ind AS) 21 and the corresponding International Accounting Standard (IAS) 21, The Effects of Changes in Foreign Exchange Rates, issued by the International Accounting Standards Board.

Comparison with IAS 21, The Effects of Changes in Foreign Exchange Rates

- 1 The transitional provisions given in IAS 21 have not been given in the Ind AS 21, since all transitional provisions related to Indian ASs, wherever considered appropriate, have been included in Ind AS 101, *First-time Adoption of Indian Accounting Standards*, corresponding to IFRS 1, *First-time Adoption of International Financial Reporting Standards*.
- 2 Paragraph 7AA has been inserted to scope out the 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 allowing to continue the policy adopted for accounting for exchange differences arising from translation of such long-term foreign currency monetary items recognised in the financial statements for the period ending immediately before beginning of the first Ind AS financial reporting period as per the previous GAAP.
- 3 When there is a change in functional currency of either the reporting currency or a significant foreign operation, 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.
- 4 Different terminology is used in this Standard eg, the term ‘balance sheet’ is used instead of ‘Statement of financial position’.
- 5 Paragraphs 58-60J of IAS 21 have not been included in Ind AS 21 as these paragraphs relate to Effective date and transition. However, in order to maintain consistency with paragraph numbers of IAS 21, these paragraph numbers are retained in Ind AS 21.

Indian Accounting Standard (Ind AS) 23

Borrowing Costs

(This Indian Accounting Standard includes paragraphs set in **bold** type and plain type, which have equal authority. Paragraphs in bold type indicate the main principles.)

Core principle

- 1 Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset form part of the cost of that asset. Other borrowing costs are recognised as an expense.**

Scope

- 2 An entity shall apply this Standard in accounting for borrowing costs.**
- 3 The Standard does not deal with the actual or imputed cost of equity, including preferred capital not classified as a liability.
- 4 An entity is not required to apply the Standard to borrowing costs directly attributable to the acquisition, construction or production of:
- (a) a qualifying asset measured at fair value, for example, a biological asset within the scope of Ind AS 41 *Agriculture*; or
 - (b) inventories that are manufactured, or otherwise produced, in large quantities on a repetitive basis.

Definitions

- 5 This Standard uses the following terms with the meanings specified:**

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

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

- 6 Borrowing costs may include:
- (a) interest expense calculated using the effective interest method as described in Ind AS 109, *Financial Instruments*;
 - (b) [Refer Appendix 1]
 - (c) [Refer Appendix 1]
 - (d) interest in respect of lease liabilities recognised in accordance with Ind AS 116, *Leases*; and
 - (e) exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs.
- 6A. With regard to exchange difference required to be treated as borrowing costs in accordance with paragraph 6(e), the manner of arriving at the adjustments stated therein shall be as follows:**
- (i) **the adjustment should be of an amount which is equivalent to the extent to which the exchange loss does not exceed the difference between the cost of borrowing in functional currency when compared to the cost of borrowing in a foreign currency.**
 - (ii) **where there is an unrealised exchange loss which is treated as an adjustment to interest and subsequently there is a realised or unrealised gain in respect of the settlement or translation of the same borrowing, the gain to the extent of the loss previously recognised as an adjustment should also be recognised as an adjustment to interest.**
- 7 Depending on the circumstances, any of the following may be qualifying assets:
- (a) inventories
 - (b) manufacturing plants
 - (c) power generation facilities
 - (d) intangible assets
 - (e) investment properties
 - (f) bearer plants.

Financial assets, and inventories that are manufactured, or otherwise produced, over a short period of time, are not qualifying assets. Assets that are ready for their intended use or sale when acquired are not qualifying assets.

Recognition

- 8 An entity shall capitalise borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. An entity shall recognise other borrowing costs as an expense in the period in which it incurs them.**
- 9 Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are included in the cost of that asset. Such borrowing costs are capitalised as part of the cost of the asset when it is probable that they will result in future economic benefits to the entity and the costs can be measured reliably. When an entity applies Ind AS 29 *Financial Reporting in Hyperinflationary Economies*, it recognises as an expense the part of borrowing costs that compensates for inflation during the same period in accordance with paragraph 21 of that Standard.

Borrowing costs eligible for capitalisation

- 10 The borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are those borrowing costs that would have been avoided if the expenditure on the qualifying asset had not been made. When an entity borrows funds specifically for the purpose of obtaining a particular qualifying asset, the borrowing costs that directly relate to that qualifying asset can be readily identified.
- 11 It may be difficult to identify a direct relationship between particular borrowings and a qualifying asset and to determine the borrowings that could otherwise have been avoided. Such a difficulty occurs, for example, when the financing activity of an entity is co-ordinated centrally. Difficulties also arise when a group uses a range of debt instruments to borrow funds at varying rates of interest, and lends those funds on various bases to other entities in the group. Other complications arise through the use of loans denominated in or linked to foreign currencies, when the group operates in highly inflationary economies, and from fluctuations in exchange rates. As a result, the determination of the amount of borrowing costs that are directly attributable to the acquisition of a qualifying asset is difficult and the exercise of judgement is required.
- 12 To the extent that an entity borrows funds specifically for the purpose of obtaining a qualifying asset, the entity shall determine the amount of borrowing costs eligible for capitalisation as the actual borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of those borrowings.**
- 13 The financing arrangements for a qualifying asset may result in an entity obtaining borrowed funds and incurring associated borrowing costs before some or all of the funds are used for expenditures on the qualifying asset. In such circumstances, the funds are often temporarily invested pending their expenditure on the qualifying asset. In determining the amount of borrowing costs eligible for capitalisation during a period, any investment income earned on such funds is deducted from the borrowing costs incurred.
- 14 To the extent that an entity borrows funds generally and uses them for the purpose of obtaining a qualifying asset, the entity shall determine the amount of borrowing costs eligible for capitalisation by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate shall be the weighted average of the borrowing costs applicable to all borrowings of the entity that are outstanding during the period. However, an entity shall exclude from this calculation borrowing costs applicable to borrowings made specifically for the purpose of obtaining a qualifying asset until substantially all the activities necessary to prepare that asset for its intended use or sale are complete. The amount of borrowing costs that an entity capitalises during a period shall not exceed the amount of borrowing costs it incurred during that period.**
- 15 In some circumstances, it is appropriate to include all borrowings of the parent and its subsidiaries when computing a weighted average of the borrowing costs; in other circumstances, it is appropriate for each subsidiary to use a weighted average of the borrowing costs applicable to its own borrowings.

Excess of the carrying amount of the qualifying asset over recoverable amount

- 16 When the carrying amount or the expected ultimate cost of the qualifying asset exceeds its recoverable amount or net realisable value, the carrying amount is written down or written off in accordance with the requirements of other Standards. In certain circumstances, the amount of the write-down or write-off is written back in accordance with those other Standards.

Commencement of capitalisation

- 17 An entity shall begin capitalising borrowing costs as part of the cost of a qualifying asset on the commencement date. The commencement date for capitalisation is the date when the entity first meets all of the following conditions:**
- (a) it incurs expenditures for the asset;
 - (b) it incurs borrowing costs; and
 - (c) it undertakes activities that are necessary to prepare the asset for its intended use or sale.

- 18 Expenditures on a qualifying asset include only those expenditures that have resulted in payments of cash, transfers of other assets or the assumption of interest-bearing liabilities. Expenditures are reduced by any progress payments received and grants received in connection with the asset (see Ind AS 20, *Accounting for Government Grants and Disclosure of Government Assistance*). The average carrying amount of the asset during a period, including borrowing costs previously capitalised, is normally a reasonable approximation of the expenditures to which the capitalisation rate is applied in that period.
- 19 The activities necessary to prepare the asset for its intended use or sale encompass more than the physical construction of the asset. They include technical and administrative work prior to the commencement of physical construction, such as the activities associated with obtaining permits prior to the commencement of the physical construction. However, such activities exclude the holding of an asset when no production or development that changes the asset's condition is taking place. For example, borrowing costs incurred while land is under development are capitalised during the period in which activities related to the development are being undertaken. However, borrowing costs incurred while land acquired for building purposes is held without any associated development activity do not qualify for capitalisation.

Suspension of capitalisation

- 20 An entity shall suspend capitalisation of borrowing costs during extended periods in which it suspends active development of a qualifying asset.**
- 21 An entity may incur borrowing costs during an extended period in which it suspends the activities necessary to prepare an asset for its intended use or sale. Such costs are costs of holding partially completed assets and do not qualify for capitalisation. However, an entity does not normally suspend capitalising borrowing costs during a period when it carries out substantial technical and administrative work. An entity also does not suspend capitalising borrowing costs when a temporary delay is a necessary part of the process of getting an asset ready for its intended use or sale. For example, capitalisation continues during the extended period that high water levels delay construction of a bridge, if such high water levels are common during the construction period in the geographical region involved.

Cessation of capitalisation

- 22 An entity shall cease capitalising borrowing costs when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.**
- 23 An asset is normally ready for its intended use or sale when the physical construction of the asset is complete even though routine administrative work might still continue. If minor modifications, such as the decoration of a property to the purchaser's or user's specification, are all that are outstanding, this indicates that substantially all the activities are complete.
- 24 When an entity completes the construction of a qualifying asset in parts and each part is capable of being used while construction continues on other parts, the entity shall cease capitalising borrowing costs when it completes substantially all the activities necessary to prepare that part for its intended use or sale.**
- 25 A business park comprising several buildings, each of which can be used individually, is an example of a qualifying asset for which each part is capable of being usable while construction continues on other parts. An example of a qualifying asset that needs to be complete before any part can be used is an industrial plant involving several processes which are carried out in sequence at different parts of the plant within the same site, such as a steel mill.

Disclosure

- 26 An entity shall disclose:**
- (a) **the amount of borrowing costs capitalised during the period; and**
 - (b) **the capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation.**

Transitional provisions

- 27-28 *Omitted**
- 28A *Annual Improvements to Ind AS (2018)* amended paragraph 14. An entity shall apply those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments.

Effective date

- 29-29B *Omitted**
- 29C Ind AS 116 amended paragraph 6. An entity shall apply that amendment when it applies Ind AS 116.

* Refer Appendix 1

29D *Annual Improvements to Ind AS (2018)* amended paragraph 14 and added paragraph 28A. An entity shall apply those amendments for annual reporting periods beginning on or after 1 April, 2019.

Appendix A

References to matters contained in other Indian Accounting Standards (Ind ASs)

This Appendix is an integral part of the Ind AS.

1. Appendix A, *Service Concession Arrangements* contained in Ind AS 11, *Construction Contracts*, makes reference to this Standard also.
2. Appendix D, *Service Concession Arrangements* contained in Ind AS 115, *Revenue from Contracts with Customers*, makes reference to this Standard also.

Appendix 1

Note: This Appendix is not a part of the Indian Accounting Standard. The purpose of this Appendix is only to bring out the major differences, if any, between Indian Accounting Standard (Ind AS) 23 and the corresponding International Accounting Standard (IAS) 23, Borrowing Costs, issued by the International Accounting Standards Board.

Comparison with IAS 23, Borrowing Costs

- 1 IAS 23 provides no guidance as to how the adjustment prescribed in paragraph 6(e) is to be determined. Paragraph 6A is added in Ind AS 23 to provide the guidance.
- 2 The following paragraph numbers appear as 'Deleted' in IAS 23. In order to maintain consistency with paragraph numbers of IAS 23, the paragraph numbers are retained in Ind AS 23:
 - (i) paragraph 6(b)
 - (ii) paragraph 6(c)
- 3 Paragraphs 27-28 related to transitional provisions given in IAS 23 have not been given in Ind AS 23, since all transitional provisions related to Ind ASs, wherever considered appropriate have been included in Ind AS 101, *First-time Adoption of Indian Accounting Standards*, corresponding to IFRS 1, *First-time Adoption of International Financial Reporting Standards*. Paragraphs 29-29B of IAS 23 have not been included in Ind AS 23 as these paragraphs relate to effective date which are not relevant in Indian context. However, in order to maintain consistency with paragraph numbers of IAS 23, these paragraph numbers are retained in Ind AS 23.

Indian Accounting Standard (Ind AS) 24

Related Party Disclosures

(This Indian Accounting Standard includes paragraphs set in **bold** type and plain type, which have equal authority. Paragraphs in **bold** type indicate the main principles.).

Objective

- 1 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.

Scope

- 2 **This Standard shall be applied in:**
 - (a) **identifying related party relationships and transactions;**
 - (b) **identifying outstanding balances, including commitments, between an entity and its related parties;**
 - (c) **identifying the circumstances in which disclosure of the items in (a) and (b) is required; and**
 - (d) **determining the disclosures to be made about those items.**
- 3 **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 Ind AS 110, Consolidated Financial Statements, or Ind AS 27, Separate Financial Statements. This Standard also applies to individual financial statements.**
- 4 Related party transactions and outstanding balances with other entities in a group are disclosed in an entity's financial statements. Intragroup related party transactions and outstanding balances are eliminated, except for those between an investment entity and its subsidiaries measured at fair value through profit or loss, in the preparation of consolidated financial statements of the group.
- 4A Related party disclosure requirements as laid down in this Standard do not apply 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.
- 4B 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.

Purpose of related party disclosures

- 5 Related party relationships are a normal feature of commerce and business. For example, entities frequently carry on parts of their activities through subsidiaries, joint ventures and associates. In those circumstances, the entity has the ability to affect the financial and operating policies of the investee through the presence of control, joint control or significant influence.
- 6 A related party relationship could have an effect on the profit or loss and financial position of an entity. Related parties may enter into transactions that unrelated parties would not. For example, an entity that sells goods to its parent at cost might not sell on those terms to another customer. Also, transactions between related parties may not be made at the same amounts as between unrelated parties.
- 7 The profit or loss and financial position of an entity may be affected by a related party relationship even if related party transactions do not occur. The mere existence of the relationship may be sufficient to affect the transactions of the entity with other parties. For example, a subsidiary may terminate relations with a trading partner on acquisition by the parent of a fellow subsidiary engaged in the same activity as the former trading partner. Alternatively, one party may refrain from acting because of the significant influence of another—for example, a subsidiary may be instructed by its parent not to engage in research and development.
- 8 For these reasons, knowledge of an entity's transactions, outstanding balances, including commitments, and relationships with related parties may affect assessments of its operations by users of financial statements, including assessments of the risks and opportunities facing the entity.

Definitions

9 The following terms are used in this Standard with the meanings specified:

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.

(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.

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.

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.

Compensation includes all employee benefits (as defined in Ind AS 19, *Employee Benefits*) including employee benefits to which Ind AS 102, *Share-based Payments*, applies. Employee benefits are all forms of consideration paid, payable or provided by the entity, or on behalf of the entity, in exchange for services rendered to the entity. It also includes such consideration paid on behalf of a parent of the entity in respect of the entity. Compensation includes:

- (a) short-term employee benefits, such as wages, salaries and social security contributions, paid annual leave and paid sick leave, profit-sharing and bonuses (if payable within twelve months of the end of the period) and non-monetary benefits (such as medical care, housing, cars and free or subsidised goods or services) for current employees;
- (b) post-employment benefits such as pensions, other retirement benefits, post-employment life insurance and post-employment medical care;
- (c) other long-term employee benefits, including long-service leave or sabbatical leave, jubilee or other long-service benefits, long-term disability benefits and, if they are not payable wholly within twelve months after the end of the period, profit-sharing, bonuses and deferred compensation;
- (d) termination benefits; and
- (e) share-based payment.

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.

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

A **government-related entity** is an entity that is controlled, jointly controlled or significantly influenced by a government.

The terms ‘control’ and ‘investment entity’, ‘joint control’ and ‘significant influence’ are defined in Ind AS 110, Ind AS 111, *Joint Arrangements*, and Ind AS 28, *Investments in Associates and Joint Ventures*, respectively and are used in this Standard with the meanings specified in those Ind ASs.

- 10 In considering each possible related party relationship, attention is directed to the substance of the relationship and not merely the legal form.
- 11 In the context of this Standard, 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).
 - (d) 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.
- 12 In the definition of a related party, an associate includes subsidiaries of the associate and a joint venture includes subsidiaries of the joint venture. Therefore, for example, an associate’s subsidiary and the investor that has significant influence over the associate are related to each other.

Disclosures

All entities

- 13 **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.**
- 14 To enable users of financial statements to form a view about the effects of related party relationships on an entity, it is appropriate to disclose the related party relationship when control exists, irrespective of whether there have been transactions between the related parties. This is because the existence of control relationship may prevent the reporting entity from being independent in making its financial and operating decisions. The disclosure of the name of the related party and the nature of the related party relationship where control exists may sometimes be at least as relevant in appraising an entity’s prospects as are the operating results and the financial position presented in its financial statements. Such a related party may establish the entity’s credit standing, determine the source and price of its raw materials, and determine to whom and at what price the product is sold.
- 15 The requirement to disclose related party relationships between a parent and its subsidiaries is in addition to the disclosure requirements in Ind AS 27 and Ind AS 112, *Disclosure of Interests in Other Entities*.
- 16 Paragraph 13 refers to the next most senior parent. This is the first parent in the group above the immediate parent that produces consolidated financial statements available for public use.
- 17 **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.**

- 17A If an entity obtains key management personnel services from another entity (the ‘management entity’), the entity is not required to apply the requirements in paragraph 17 to the compensation paid or payable by the management entity to the management entity’s employees or directors.
- 18 If an entity has had related party transactions during the periods covered by the financial statements, it shall disclose the nature of the related party relationship as well as information about those transactions and outstanding balances, including commitments, necessary for users to understand the potential effect of the relationship on the financial statements. These disclosure requirements are in addition to those in paragraph 17. At a minimum, disclosures shall include:
- (a) the amount of the transactions;
 - (b) the amount of outstanding balances, including commitments, and:
 - (i) their terms and conditions, including whether they are secured, and the nature of the consideration to be provided in settlement; and
 - (ii) details of any guarantees given or received;
 - (c) provisions for doubtful debts related to the amount of outstanding balances; and
 - (d) the expense recognised during the period in respect of bad or doubtful debts due from related parties.
- 18A. Amounts incurred by the entity for the provision of key management personnel services that are provided by a separate management entity shall be disclosed.
- 19 The disclosures required by paragraph 18 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.
- 20 The classification of amounts payable to, and receivable from, related parties in the different categories as required in paragraph 19 is an extension of the disclosure requirement in Ind AS 1, *Presentation of Financial Statements*, for information to be presented either in the balance sheet or in the notes. The categories are extended to provide a more comprehensive analysis of related party balances and apply to related party transactions.
- 21 The following are examples of transactions that are disclosed if they are with a related party:
- (a) purchases or sales of goods (finished or unfinished);
 - (b) purchases or sales of property and other assets;
 - (c) rendering or receiving of services;
 - (d) leases;
 - (e) transfers of research and development;
 - (f) transfers under licence agreements;
 - (g) transfers under finance arrangements (including loans and equity contributions in cash or in kind);
 - (h) provision of guarantees or collateral;
 - (i) commitments to do something if a particular event occurs or does not occur in the future, including executory contracts¹ (recognised and unrecognised);
 - (j) settlement of liabilities on behalf of the entity or by the entity on behalf of that related party; and
 - (k) management contracts including for deputation of employees.
- 22 Participation by a parent or subsidiary in a defined benefit plan that shares risks between group entities is a transaction between related parties (see paragraph 42 of Ind AS 19).
- 23 Disclosures that related party transactions were made on terms equivalent to those that prevail in arm’s length transactions are made only if such terms can be substantiated.
- 24 **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.**

1 Ind AS 37, *Provisions, Contingent Liabilities and Contingent Assets*, defines executory contracts as contracts under which neither party has performed any of its obligations or both parties have partially performed their obligations to an equal extent.

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.

Government-related entities

25 **A reporting entity is exempt from the disclosure requirements of paragraph 18 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.**

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

- (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.**

27 In using its judgement to determine the level of detail to be disclosed in accordance with the requirements in paragraph 26(b), the reporting entity shall consider the closeness of the related party relationship and other factors relevant in establishing the level of significance of the transaction such as whether it is:

- (a) significant in terms of size;
- (b) carried out on non-market terms;
- (c) outside normal day-to-day business operations, such as the purchase and sale of businesses;
- (d) disclosed to regulatory or supervisory authorities;
- (e) reported to senior management;
- (f) subject to shareholder approval.

Appendix 1

Note: This Appendix is not a part of the Indian Accounting Standard. The purpose of this Appendix is only to bring out the major differences, if any, between Indian Accounting Standard (Ind AS) 24 and the corresponding International Accounting Standard (IAS) 24, Related Party Disclosures, issued by the International Accounting Standards Board.

Comparison with IAS 24, Related Party Disclosures

1. In the 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. (Paragraphs 4A and 4B of Ind AS 24).
2. Paragraph 24A has been included in the Ind AS 24. It provides additional clarificatory guidance regarding aggregation of transactions for disclosure.
3. Different terminology is used in this standard, eg, the term 'balance sheet' is used instead of 'Statement of financial position'.
4. Paragraph 14 has been modified to explain the rationale for disclosing related party relationship when control exists.
5. In paragraph 21 an example of related party transaction '(k) management contracts including for deputation or employees' has been added.
6. 'Definition of close members of the family of a person' in paragraph 9 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.

Indian Accounting Standard (Ind AS) 27

Separate Financial Statements

(This Indian Accounting Standard includes paragraphs set in **bold** type and plain type, which have equal authority. Paragraphs in bold type indicate the main principles.)

Objective

- 1 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.

Scope

- 2 **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.**
- 3 This Standard does not mandate which entities produce separate financial statements. It applies when an entity prepares separate financial statements that comply with Indian Accounting Standards.

Definitions

- 4 **The following terms are used in this Standard with the meanings specified:**

***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*.**

- 5 The following terms are defined in Appendix A of Ind AS 110, *Consolidated Financial Statements*, Appendix A of Ind AS 111, *Joint Arrangements*, and paragraph 3 of Ind AS 28, *Investments in Associates and Joint Ventures*:
 - associate
 - control of an investee
 - group
 - Investment Entity
 - joint control
 - joint venture
 - joint venturer
 - parent
 - significant influence
 - subsidiary.
- 6 Separate financial statements are those presented in addition to consolidated financial statements or in addition to financial statements in which investments in associates or joint ventures are accounted for using the equity method, other than in the circumstances set out in paragraphs 8-8A. Separate financial statements need not be appended to, or accompany, those statements.
- 7 Financial statements in which the equity method is applied are not separate financial statements. These may be termed as 'consolidated financial statements'. Similarly, the financial statements of an entity that does not have a subsidiary, associate or joint venturer's interest in a joint venture are not separate financial statements.
- 8 An entity that is exempted in accordance with paragraph 4(a) of Ind AS 110 from consolidation or paragraph 17 of Ind AS 28 from applying the equity method may present separate financial statements as its only financial statements.
- 8A An investment entity that is required, throughout the current period and all comparative periods presented, to apply the exception to consolidation for all of its subsidiaries in accordance with paragraph 31 of Ind AS 110 presents separate financial statements as its only financial statements.

Preparation of separate financial statements

- 9 **Separate financial statements shall be prepared in accordance with all applicable Ind AS, except as provided in paragraph 10.**

- 10 When an entity prepares separate financial statements, it shall account for investments in subsidiaries, joint ventures and associates either:**
- (a) at cost, or
 - (b) in accordance with Ind AS 109.
- 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.**
- 11 If an entity elects, in accordance with paragraph 18 of 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.
- 11A If a parent is required, in accordance with paragraph 31 of 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.
- 11B 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, in accordance with paragraph 10, 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.
- 12 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.**
- 13 When a parent reorganises the structure of its group by establishing a new entity as its parent in a manner that satisfies the following criteria:
- (a) the new parent obtains control of the original parent by issuing equity instruments in exchange for existing equity instruments of the original parent;
 - (b) the assets and liabilities of the new group and the original group are the same immediately before and after the reorganisation; and
 - (c) the owners of the original parent before the reorganisation have the same absolute and relative interests in the net assets of the original group and the new group immediately before and after the reorganisation,
- and the new parent accounts for its investment in the original parent in accordance with paragraph 10(a) in its separate financial statements, the new parent shall measure cost at the carrying amount of its share of the equity items shown in the separate financial statements of the original parent at the date of the reorganisation.
- 14 Similarly, an entity that is not a parent might establish a new entity as its parent in a manner that satisfies the criteria in paragraph 13. The requirements in paragraph 13 apply equally to such reorganisations. In such cases, references to 'original parent' and 'original group' are to the 'original entity'.

Disclosure

- 15 An entity shall apply all applicable Ind ASs when providing disclosures in its separate financial statements, including the requirements in paragraphs 16-17.**
- 16 When a parent, in accordance with paragraph 4(a) of Ind AS 110, elects not to prepare consolidated financial statements and instead prepares separate financial statements, it shall disclose in those separate financial statements:**
- (a) the fact that the financial statements are separate financial statements; that the exemption from consolidation has been used; the name and principal place of business (and country of incorporation, if different) of the entity whose consolidated financial statements that comply with Ind ASs have been produced for public use; and the address where those consolidated financial statements are obtainable.

- (b) a list of significant investments in subsidiaries, joint ventures and associates, including:

 - (i) the name of those investees.
 - (ii) the principal place of business (and country of incorporation, if different) of those investees.
 - (iii) its proportion of the ownership interest (and its proportion of the voting rights, if different) held in those investees.
 - (c) a description of the method used to account for the investments listed under (b).
- 16A** When an investment entity that is a parent prepares, in accordance with paragraph 8A, separate financial statements as its only financial statements, it shall disclose that fact. The investment entity shall also present the disclosures relating to investment entities required by Ind AS 112, *Disclosure of Interests in Other Entities*.
- 17** When a parent (other than a parent covered by paragraphs 16-16A) or an investor with joint control of, or significant influence over, an investee prepares separate financial statements, the parent or investor shall identify the financial statements prepared in accordance with Ind AS 110, Ind AS 111 or Ind AS 28 to which they relate. The parent or investor shall also disclose in its separate financial statements:
- (a) the fact that the statements are separate financial statements
 - (b) a list of significant investments in subsidiaries, joint ventures and associates, including:
 - (i) the name of those investees.
 - (ii) the principal place of business (and country of incorporation, if different) of those investees.
 - (iii) its proportion of the ownership interest (and its proportion of the voting rights, if different) held in those investees.
 - (c) a description of the method used to account for the investments listed under (b).

Appendix 1

Note: This Appendix is not a part of the Indian Accounting Standard. The purpose of this Appendix is only to bring out the major differences, if any, between Indian Accounting Standard (Ind AS) 27 and the corresponding International Accounting Standard (IAS) 27, Separate Financial Statements, issued by the International Accounting Standards Board.

Comparison with IAS 27, Separate Financial Statements

1. Paragraph 17 (a) of IAS 27 requires to disclose the reason for preparing separate financial statements if not required by law. As the Companies Act mandates preparation of separate financial statements, paragraph 17 (a) has been modified to remove such requirement.
2. 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). Such 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.

Indian Accounting Standard (Ind AS) 28

Investments in Associates and Joint Ventures

(This Indian Accounting Standard includes paragraphs set in **bold** type and plain type, which have equal authority. Paragraphs in bold type indicate the main principles.)

Objective

- 1 **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.**

Scope

- 2 **This Standard shall be applied by all entities that are investors with joint control of, or significant influence over, an investee.**

Definitions

- 3 **The following terms are used in this Standard with the meanings specified: An *associate* is an entity over which the investor has significant influence.**

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

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. 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.

A *joint arrangement* is an arrangement of which two or more parties have joint control.

***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 venture* is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

A *joint venturer* is a party to a joint venture that has joint control of that joint venture.

***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.**

- 4 The following terms are defined in paragraph 4 of Ind AS 27, *Separate Financial Statements*, and in Appendix A of Ind AS 110, *Consolidated Financial Statements*, and are used in this Standard with the meanings specified in the Ind ASs in which they are defined:

- control of an investee
- group
- parent
- separate financial statements
- subsidiary.

Significant influence

- 5 If an entity holds, directly or indirectly (eg through subsidiaries), 20 per cent or more of the voting power of the investee, it is presumed that the entity has significant influence, unless it can be clearly demonstrated that this is not the case. Conversely, if the entity holds, directly or indirectly (eg through subsidiaries), less than 20 per cent of the voting power of the investee, it is presumed that the entity does not have significant influence, unless such influence can be clearly demonstrated. A substantial or majority ownership by another investor does not necessarily preclude an entity from having significant influence.
- 6 The existence of significant influence by an entity is usually evidenced in one or more of the following ways:
 - (a) representation on the board of directors or equivalent governing body of the investee;
 - (b) participation in policy-making processes, including participation in decisions about dividends or other distributions;

- (c) material transactions between the entity and its investee; (d) interchange of managerial personnel; or
 - (e) provision of essential technical information.
- 7 An entity may own share warrants, share call options, debt or equity instruments that are convertible into ordinary shares, or other similar instruments that have the potential, if exercised or converted, to give the entity additional voting power or to reduce another party's voting power over the financial and operating policies of another entity (ie potential voting rights). The existence and effect of potential voting rights that are currently exercisable or convertible, including potential voting rights held by other entities, are considered when assessing whether an entity has significant influence. Potential voting rights are not currently exercisable or convertible when, for example, they cannot be exercised or converted until a future date or until the occurrence of a future event.
 - 8 In assessing whether potential voting rights contribute to significant influence, the entity examines all facts and circumstances (including the terms of exercise of the potential voting rights and any other contractual arrangements whether considered individually or in combination) that affect potential rights, except the intentions of management and the financial ability to exercise or convert those potential rights.
 - 9 An entity loses significant influence over an investee when it loses the power to participate in the financial and operating policy decisions of that investee. The loss of significant influence can occur with or without a change in absolute or relative ownership levels. It could occur, for example, when an associate becomes subject to the control of a government, court, administrator or regulator. It could also occur as a result of a contractual arrangement.

Equity method

- 10 Under the equity method, on initial recognition the investment in an associate or a joint venture is recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The investor's share of the investee's profit or loss is recognised in the investor's profit or loss. Distributions received from an investee reduce the carrying amount of the investment. Adjustments to the carrying amount may also be necessary for changes in the investor's proportionate interest in the investee arising from changes in the investee's 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 (see Ind AS 1, *Presentation of Financial Statements*).
- 11 The recognition of income on the basis of distributions received may not be an adequate measure of the income earned by an investor on an investment in an associate or a joint venture because the distributions received may bear little relation to the performance of the associate or joint venture. Because the investor has joint control of, or significant influence over, the investee, the investor has an interest in the associate's or joint venture's performance and, as a result, the return on its investment. The investor accounts for this interest by extending the scope of its financial statements to include its share of the profit or loss of such an investee. As a result, application of the equity method provides more informative reporting of the investor's net assets and profit or loss.
- 12 When potential voting rights or other derivatives containing potential voting rights exist, an entity's interest in an associate or a joint venture 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 derivative instruments, unless paragraph 13 applies.
- 13 In some circumstances, an entity has, in substance, an existing ownership as a result of a transaction that currently gives it access to the returns associated with an ownership interest. In such circumstances, the proportion allocated to the entity is determined by taking into account the eventual exercise of those potential voting rights and other derivative instruments that currently give the entity access to the returns.
- 14 Ind AS 109, *Financial Instruments*, does not apply to interests in associates and joint ventures that are accounted for using the equity method. When instruments containing potential voting rights in substance currently give access to the returns associated with an ownership interest in an associate or a joint venture, the instruments are not subject to Ind AS 109. In all other cases, instruments containing potential voting rights in an associate or a joint venture are accounted for in accordance with Ind AS 109.
- 14A An entity also applies Ind AS 109 to other financial instruments in an associate or joint venture to which the equity method is not applied. These include long-term interests that, in substance, form part of the entity's net investment in an associate or joint venture (see paragraph 38). An entity applies Ind AS 109 to such long-term interests before it applies paragraph 38 and paragraphs 40–43 of this Standard. In applying Ind AS 109, the entity does not take account of any adjustments to the carrying amount of long-term interests that arise from applying this Standard.
- 15 Unless an investment, or a portion of an investment, in an associate or a joint venture is classified as held for sale in accordance with Ind AS 105, *Non-current Assets Held for Sale and Discontinued Operations*, the investment, or any retained interest in the investment not classified as held for sale, shall be classified as a non-current asset.

Application of the equity method

- 16 An entity with joint control of, or significant influence over, an investee shall account for its investment in an associate or a joint venture using the equity method except when that investment qualifies for exemption in accordance with paragraphs 17–19.

Exemptions from applying the equity method

- 17 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 in paragraph 4(a) 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 ASs, in which subsidiaries are consolidated or are measured at fair value through profit or loss in accordance with Ind AS 110.
- 18 When an 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, the entity may elect to measure that investment at fair value through profit or loss in accordance with Ind AS 109. An entity shall make this election separately for each associate or joint venture, at initial recognition of the associate or joint venture.
- 19 When an entity has an investment in an associate, a portion of which is held indirectly through a venture capital organisation, or a mutual fund, unit trust and similar entities including investment-linked insurance funds, the entity may 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 the venture capital organisation has significant influence over that portion of the investment. If the entity makes that election, the entity shall apply the equity method to any remaining portion of its investment in an associate that is not held through a venture capital organisation.

Classification as held for sale

- 20 An entity shall apply Ind AS 105 to an investment, or a portion of an investment, in an associate or a joint venture that meets the criteria to be classified as held for sale. Any retained portion of an investment in an associate or a joint venture that has not been classified as held for sale shall be accounted for using the equity method until disposal of the portion that is classified as held for sale takes place. After the disposal takes place, an entity shall account for any retained interest in the associate or joint venture in accordance with Ind AS 109 unless the retained interest continues to be an associate or a joint venture, in which case the entity uses the equity method.
- 21 When an investment, or a portion of an investment, in an associate or a joint venture previously classified as held for sale no longer meets the criteria to be so classified, it shall be accounted for using the equity method retrospectively as from the date of its classification as held for sale. Financial statements for the periods since classification as held for sale shall be amended accordingly.

Discontinuing the use of the equity method

- 22 **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.**
 - (c) **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.**

23 Therefore, if a gain or loss previously recognised in other comprehensive income by the investee would be reclassified to profit or loss on the disposal of the related assets or liabilities, the entity reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the equity method is discontinued. For example, if an associate or a joint venture has cumulative exchange differences relating to a foreign operation and the entity discontinues the use of the equity method, the entity shall reclassify to profit or loss the gain or loss that had previously been recognised in other comprehensive income in relation to the foreign operation.

24 **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 remeasure the retained interest.**

Changes in ownership interest

25 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.

Equity method procedures

26 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. Furthermore, the concepts underlying the procedures used in accounting for the acquisition of a subsidiary are also adopted in accounting for the acquisition of an investment in an associate or a joint venture.

27 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 (see paragraphs 35–36A).

28 Gains and losses resulting from 'upstream' and 'downstream' transactions between an entity (including its consolidated subsidiaries) and its associate or joint venture are recognised in the entity's financial statements only to the extent of unrelated investors' interests in the associate or joint venture. 'Upstream' transactions are, for example, sales of assets from an associate or a joint venture to the investor. 'Downstream' transactions are, for example, sales or contributions of assets from the investor to its associate or its joint venture. The investor's share in the associate's or joint venture's gains or losses resulting from these transactions is eliminated.

29 When downstream transactions provide evidence of a reduction in the net realisable value of the assets to be sold or contributed, or of an impairment loss of those assets, those losses shall be recognised in full by the investor. When upstream transactions provide evidence of a reduction in the net realisable value of the assets to be purchased or of an impairment loss of those assets, the investor shall recognise its share in those losses.

30 The contribution of a non-monetary asset to an associate or a joint venture in exchange for an equity interest in the associate or joint venture shall be accounted for in accordance with paragraph 28, except when the contribution lacks commercial substance, as that term is described in Ind AS 16, *Property, Plant and Equipment*. If such a contribution lacks commercial substance, the gain or loss is regarded as unrealised and is not recognised unless paragraph 31 also applies. Such unrealised gains and losses shall be eliminated against the investment accounted for using the equity method and shall not be presented as deferred gains or losses in the entity's consolidated balance sheet or in the entity's balance sheet in which investments are accounted for using the equity method.

31 If, in addition to receiving an equity interest in an associate or a joint venture, an entity receives monetary or non-monetary assets, the entity recognises in full in profit or loss the portion of the gain or loss on the non-monetary contribution relating to the monetary or non-monetary assets received.

32 An investment is accounted for using the equity method from the date on which it becomes an associate or a joint venture. 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:

(a) 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.

(b) 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.

Appropriate adjustments to the entity's share of the associate's or joint venture's profit or loss after acquisition are made in order to account, for example, for depreciation of the depreciable assets based on their fair values at the acquisition date. Similarly, appropriate adjustments to the entity's share of the associate's or joint venture's profit or loss after acquisition are made for impairment losses such as for goodwill or property, plant and equipment.

- 33 **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.**
- 34 **When, in accordance with paragraph 33, 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 length of the reporting periods and any difference between the ends of the reporting periods shall be the same from period to period.**
- 35 **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.**
- 36 Except as described in paragraph 36A, if an associate or a joint venture uses accounting policies other than those of the entity for like transactions and events in similar circumstances, adjustments shall be made to make the associate's or joint venture's accounting policies conform to those of the entity when the associate's or joint venture's financial statements are used by the entity in applying the equity method.
- 36A Notwithstanding the requirement in paragraph 36, if an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which (a) the investment entity associate or joint venture is initially recognised; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent.
- 37 If an associate or a joint venture has outstanding cumulative preference shares that are held by parties other than the entity and are classified as equity, the entity computes its share of profit or loss after adjusting for the dividends on such shares, whether or not the dividends have been declared.
- 38 If an entity's share of losses of an associate or a joint venture equals or exceeds its interest in the associate or joint venture, the entity discontinues recognising its share of further losses. The interest in an associate or a joint venture is the carrying amount of the 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. For example, an item for which settlement is neither planned nor likely to occur in the foreseeable future is, in substance, an extension of the entity's investment in that associate or joint venture. Such items may include preference shares and long-term receivables or loans, but do not include trade receivables, trade payables or any long-term receivables for which adequate collateral exists, such as secured loans. Losses recognised using the equity method in excess of the entity's investment in ordinary shares are applied to the other components of the entity's interest in an associate or a joint venture in the reverse order of their seniority (ie priority in liquidation).
- 39 After the entity's interest is reduced to zero, additional losses are provided for, and a liability is recognised, only to the extent that the entity has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture. If the associate or joint venture subsequently reports profits, the entity resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

Impairment losses

- 40 After application of the equity method, including recognising the associate's or joint venture's losses in accordance with paragraph 38, the entity applies paragraphs 41A-41C to determine whether it is any objective evidence that its net investment in the associate or joint venture is impaired.
- 41 *Omitted.*
- 41A The net investment in an associate or joint venture is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the net investment (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows from the net investment that can be reliably estimated. It may not be possible to identify a single, discrete event that caused the impairment. Rather the combined effect of several events may have caused the impairment. Losses expected as a result of future events, no matter how likely, are not recognised. Objective evidence that the net investment is impaired includes observable data that comes to the attention of the entity about the following loss events:

- (a) significant financial difficulty of the associate or joint venture;
 - (b) a breach of contract, such as a default or delinquency in payments by the associate or joint venture;
 - (c) the entity, for economic or legal reasons relating to its associate's or joint venture's financial difficulty, granting to the associate or joint venture a concession that the entity would not otherwise consider;
 - (d) it becoming probable that the associate or joint venture will enter bankruptcy or other financial reorganisation;
or
 - (e) the disappearance of an active market for the net investment because of financial difficulties of the associate or joint venture.
- 41B The disappearance of an active market because the associate's or joint venture's equity or financial instruments are no longer publicly traded is not evidence of impairment. A downgrade of an associate's or joint venture's credit rating or a decline in the fair value of the associate or joint venture, is not of itself, evidence of impairment, although it may be evidence of impairment when considered with other available information.
- 41C In addition to the types of events in paragraph 41A, objective evidence of impairment for the net investment in the equity instruments of the associate or joint venture includes information about significant changes with an adverse effect that have taken place in the technological, market, economic or legal environment in which the associate or joint venture operates, and indicates that the cost of the investment in the equity instrument may not be recovered. A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost is also objective evidence of impairment.
- 42 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 of disposal) with its carrying amount, whenever application of paragraphs 41A-41C indicates that the net investment may be impaired. An impairment loss recognised in those circumstances is not allocated to any asset, including goodwill, that forms part of the carrying amount of the net investment in the associate or joint venture. Accordingly, any reversal of that impairment loss is recognised in accordance with Ind AS 36 to the extent that the recoverable amount of the net investment subsequently increases. In determining the value in use of the net investment, an entity estimates:
- (a) its share of the present value of the estimated future cash flows expected to be generated by the associate or joint venture, including the cash flows from the operations of the associate or joint venture and the proceeds from the ultimate disposal of the investment; or
 - (b) the present value of the estimated future cash flows expected to arise from dividends to be received from the investment and from its ultimate disposal.
- Using appropriate assumptions, both methods give the same result.
- 43 The recoverable amount of an investment in an associate or a joint venture shall be assessed for each associate or joint venture, unless the associate or joint venture does not generate cash inflows from continuing use that are largely independent of those from other assets of the entity.

Separate financial statements

- 44 An investment in an associate or a joint venture shall be accounted for in the entity's separate financial statements in accordance with paragraph 10 of Ind AS 27.

Effective date and transition

- 45 *
- 45A *
- 45B *
- 45C *
- 45D *
- 45E Annual Improvements to Ind AS - Amendments in Ind AS 112 and 28, amended paragraphs 18 and 36A. An entity shall apply those amendments retrospectively in accordance with Ind AS 8 for annual periods beginning on or after 1st April, 2018.
- 45F *

* Refer Appendix 1

- 45G *Long-term Interests in Associates and Joint Ventures*, added paragraph 14A and deleted paragraph 41. An entity shall apply those amendments retrospectively in accordance with Ind AS 8 for annual reporting periods beginning on or after 1 April, 2019, except as specified in paragraphs 45H–K
- 45H An entity that first applies the amendments in paragraph 45G at the same time it first applies Ind AS 109 shall apply the transition requirements in Ind AS 109 to the long-term interests described in paragraph 14A.
- 45I An entity that first applies the amendments in paragraph 45G after it first applies Ind AS 109 shall apply the transition requirements in Ind AS 109 necessary for applying the requirements set out in paragraph 14A to long-term interests. For that purpose, references to the date of initial application in Ind AS 109 shall be read as referring to the beginning of the annual reporting period in which the entity first applies the amendments (the date of initial application of the amendments). The entity is not required to restate prior periods to reflect the application of the amendments. The entity may restate prior periods only if it is possible without the use of hindsight.
- 45J *
- 45K If an entity does not restate prior periods applying paragraph 45I, at the date of initial application of the amendments it shall recognise in the opening retained earnings (or other component of equity, as appropriate) any difference between:
- the previous carrying amount of long-term interests described in paragraph 14A at that date; and
 - the carrying amount of those long-term interests at that date.

Appendix A

Illustrative Example-Long-term Interests in Associates and Joint Ventures

This example portrays a hypothetical situation illustrating how an entity (investor) accounts for long-term interests that, in substance, form part of the entity's net investment in an associate (long-term interests) applying Ind AS 109 and Ind AS 28 based on the assumptions presented. The entity applies Ind AS 109 in accounting for long-term interests. The entity applies Ind AS 28 to its net investment in the associate, which includes long-term interests. The analysis in this example is not intended to represent the only manner in which the requirements in Ind AS 28 could be applied.

Assumptions

The investor has the following three types of interests in the associate:

- O Shares—ordinary shares representing a 40% ownership interest to which the investor applies the equity method. This interest is the least senior of the three interests, based on their relative priority in liquidation.
- P Shares—non-cumulative preference shares that form part of the net investment in the associate and that the investor measures at fair value through profit or loss applying Ind AS 109.
- LT Loan—a long-term loan that forms part of the net investment in the associate and that the investor measures at amortised cost applying Ind AS 109, with a stated interest rate and an effective interest rate of 5% a year. The associate makes interest-only payments to the investor each year. The LT Loan is the most senior of the three interests.

The LT Loan is not an originated credit-impaired loan. Throughout the years illustrated, there has not been any objective evidence that the net investment in the associate is impaired applying Ind AS 28, nor does the LT Loan become credit-impaired applying Ind AS 109.

The associate does not have any outstanding cumulative preference shares classified as equity, as described in paragraph 37 of Ind AS 28. Throughout the years illustrated, the associate neither declares nor pays dividends on O Shares or P Shares.

The investor has not incurred any legal or constructive obligations, nor made payments on behalf of the associate, as described in paragraph 39 of Ind AS 28. Accordingly, the investor does not recognise its share of the associate's losses once the carrying amount of its net investment in the associate is reduced to zero.

The amount of the investor's initial investment in O Shares is Rs. 200, in P Shares is Rs. 100 and in the LT Loan is Rs. 100. On acquisition of the investment, the cost of the investment equals the investor's share of the net fair value of the associate's identifiable assets and liabilities.

This table summarises the carrying amount at the end of each year for P Shares and the LT Loan applying Ind AS 109 but before applying Ind AS 28, and the associate's profit (loss) for each year. The amounts for the LT Loan are shown net of the loss allowance.

At the end of	P Shares applying Ind AS 109 (fair value)	LT Loan applying Ind AS 109 (amortised cost)	Profit (Loss) of the associate
Year 1	Rs. 110	Rs. 90	Rs. 50
Year 2	Rs. 90	Rs. 70	Rs. (200)
Year 3	Rs. 50	Rs. 50	Rs. (500)
Year 4	Rs. 40	Rs. 50	Rs. (150)
Year 5	Rs. 60	Rs. 60	–
Year 6	Rs. 80	Rs. 70	Rs. 500
Year 7	Rs. 110	Rs. 90	Rs. 500

Analysis

Year 1

The investor recognises the following in Year 1:

Investments in the associate:

DR O Shares	Rs. 200	
DR P Shares	Rs. 100	
LT Loan	Rs. 100	
CR. Cash		Rs. 400

To recognise the initial investment in the associate

DR. P Shares	Rs. 10	
CR. Profit or loss		Rs. 10

To recognise the change in fair value (Rs. 110 – Rs. 100)

DR. Profit or loss	Rs. 10	
CR. Loss allowance (LT Loan)		Rs. 10

To recognise an increase in the loss allowance (Rs. 90 – Rs. 100)

DR. O Shares	Rs. 20	
CR. Profit or loss		Rs. 20

To recognise the investor's share of the associate's profit (Rs. 50 × 40%)

At the end of Year 1, the carrying amount of O Shares is Rs. 220, P Shares is Rs. 110 and the LT Loan (net of loss allowance) is Rs. 90.

Year 2

The investor recognises the following in Year 2:

DR. Profit or loss	Rs. 20	
CR. P Shares		Rs. 20

To recognise the change in fair value (Rs. 90 – Rs. 110)

DR. Profit or loss	Rs. 20	
CR. Loss allowance (LT Loan)		Rs. 20

To recognise an increase in the loss allowance (Rs. 70 – Rs. 90)

DR. Profit or loss	Rs. 80	
CR. O Shares		Rs. 80

To recognise the investor's share of the associate's loss (Rs. 200 × 40%)

At the end of Year 2, the carrying amount of O Shares is Rs. 140, P Shares is Rs. 90 and the LT Loan (net of loss allowance) is Rs. 70.

Year 3

Applying paragraph 14A of Ind AS 28, the investor applies Ind AS 109 to P Shares and the LT Loan before it applies paragraph 38 of Ind AS 28. Accordingly, the investor recognises the following in Year 3:

DR. Profit or loss	Rs. 40	
CR. P Shares		Rs. 40

To recognise the change in fair value (Rs. 50 – Rs. 90)

DR. Profit or loss	Rs. 20	
CR. Loss allowance (LT Loan)		Rs. 20

To recognise an increase in the loss allowance (Rs. 50 – Rs. 70)

DR. Profit or loss	Rs. 200	
CR. O Shares		Rs. 140
CR. P Shares		Rs. 50
CR. LT Loan		Rs. 10

To recognise the investor's share of the associate's loss in reverse order of seniority as specified in paragraph 38 of Ind AS 28 (Rs. 500 × 40%)

At the end of Year 3, the carrying amount of O Shares is zero, P Shares is zero and the LT Loan (net of loss allowance) is Rs. 40.

Year 4

Applying Ind AS 109 to its interests in the associate, the investor recognises the following in Year 4:

DR. Profit or loss	Rs. 10	
CR. P Shares		Rs. 10

To recognise the change in fair value (Rs. 40 – Rs. 50)

Recognition of the change in fair value of Rs. 10 in Year 4 results in the carrying amount of P Shares being negative Rs. 10. Consequently, the investor recognises the following to reverse a portion of the associate's losses previously allocated to P Shares:

DR. P Shares	Rs. 10	
CR. Profit or loss		Rs. 10

To reverse a portion of the associate's losses previously allocated to P Shares

Applying paragraph 38 of Ind AS 28, the investor limits the recognition of the associate's losses to Rs. 40 because the carrying amount of its net investment in the associate is then zero. Accordingly, the investor recognises the following:

DR. Profit or loss	Rs. 40	
CR. LT Loan		Rs. 40

To recognise the investor's share of the associate's loss

At the end of Year 4, the carrying amount of O Shares is zero, P Shares is zero and the LT Loan (net of loss allowance) is zero. There is also an unrecognised share of the associate's losses of Rs. 30 (the investor's share of the associate's cumulative losses of Rs. 340 – Rs. 320 losses recognised cumulatively + Rs. 10 losses reversed).

Year 5

Applying Ind AS 109 to its interests in the associate, the investor recognises the following in Year 5:

DR. P Shares	Rs. 20	
CR. Profit or loss		Rs. 20

To recognise the change in fair value (Rs. 60 – Rs. 40)

DR. Loss allowance (LT Loan)	Rs. 10	
CR. Profit or loss		Rs. 10

To recognise a decrease in the loss allowance (Rs. 60 – Rs. 50)

After applying Ind AS 109 to P Shares and the LT Loan, these interests have a positive carrying amount. Consequently, the investor allocates the previously unrecognised share of the associate's losses of Rs. 30 to these interests.

DR. Profit or loss	Rs. 30	
CR. P Shares		Rs. 20
CR. LT Loan		Rs. 10

To recognise the previously unrecognised share of the associate's losses

At the end of Year 5, the carrying amount of O Shares is zero, P Shares is zero and the LT Loan (net of loss allowance) is zero.

Year 6

Applying Ind AS 109 to its interests in the associate, the investor recognises the following in Year 6:

DR. P Shares	Rs. 20	
CR. Profit or loss		Rs. 20

To recognise the change in fair value (Rs. 80 – Rs. 60)

DR. Loss allowance (LT Loan)	Rs. 10	
CR. Profit or loss		Rs. 10

To recognise a decrease in the loss allowance (Rs. 70 – Rs. 60)

The investor allocates the associate's profit to each interest in the order of seniority. The investor limits the amount of the associate's profit it allocates to P Shares and the LT Loan to the amount of equity method losses previously allocated to those interests, which in this example is Rs. 60 for both interests.

DR. O Shares	Rs. 80	
DR. P Shares	Rs. 60	
DR. LT Loan	Rs. 60	
CR. Profit or loss		Rs. 200

To recognise the investor's share of the associate's profit (Rs. 500 × 40%)

At the end of Year 6, the carrying amount of O Shares is Rs. 80, P Shares is Rs. 80 and the LT Loan (net of loss allowance) is Rs. 70.

Year 7

The investor recognises the following in Year 7:

DR. P Shares	Rs. 30	
CR. Profit or loss		Rs. 30

To recognise the change in fair value (Rs. 110 – Rs. 80)

DR. Loss allowance (LT Loan)	Rs. 20	
CR. Profit or loss		

To recognise a decrease in the loss allowance (Rs. 90 – Rs. 70)

DR. O Shares	Rs. 200	
CR. Profit or loss		Rs. 200

To recognise the investor's share of the associate's profit (Rs. 500 × 40%)

At the end of Year 7, the carrying amount of O Shares is Rs. 280, P Shares is Rs. 110 and the LT Loan (net of loss allowance) is Rs. 90.

Years 1–7

When recognising interest revenue on the LT Loan in each year, the investor does not take account of any adjustments to the carrying amount of the LT Loan that arose from applying Ind AS 28 (paragraph 14A of Ind AS 28). Accordingly, the investor recognises the following in each year:

DR. Cash	Rs. 5	
CR. Profit or loss		Rs. 5

To recognise interest revenue on LT Loan based on the effective interest rate of 5%

Summary of amounts recognised in profit or loss

This table summarises the amounts recognised in the investor's profit or loss.

Items recognised During	Impairment (losses), including reversals, applying Ind AS 109	Gains (losses) of P Shares applying Ind AS 109	Share of profit (loss) of the associate recognised applying the equity method	Interest revenue applying Ind AS 109
Year 1	Rs. (10)	Rs. 10	Rs. 20	Rs. 5
Year 2	Rs. (20)	Rs. (20)	Rs. (80)	Rs. 5
Year 3	Rs. (20)	Rs. (40)	Rs. (200)	Rs. 5
Year 4	–	Rs. (10)	Rs. (30)	Rs. 5
Year 5	Rs. 10	Rs. 20	Rs. (30)	Rs. 5
Year 6	Rs. 10	Rs. 20	Rs. 200	Rs. 5
Year 7	Rs. 20	Rs. 30	Rs. 200	Rs. 5

Appendix 1

Note: This Appendix is not a part of the Indian Accounting Standard. The purpose of this Appendix is only to bring out the major differences, if any, between Indian Accounting Standard (Ind AS) 28, Investments in Associates and Joint Ventures, and the corresponding International Accounting Standard (IAS) 28, Investments in Associates and Joint Ventures, issued by the International Accounting Standards Board.

Comparison with IAS 28, *Investments in Associates and Joint Ventures*

1. Paragraph 35 of Ind AS 28 requires use of uniform accounting policies, unless, in case of an associate, it is impracticable, which IAS 28 does not provide. This change has been made because the investor does not have 'control' over the associate, it may not be able to influence the associate to prepare additional financial statements or to follow the accounting policies that are followed by the investor.
2. 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 whereas in IAS 28, it is recognised in profit or loss.
3. Different terminology is used, as used in existing laws, eg, the term 'balance sheet' is used instead of 'Statement of financial position'.
4. Paragraphs 45 to 45D have not been included as these paragraphs relate to effective date and transition that are not relevant in Indian context. However, in order to maintain consistency with paragraph numbers of IAS 28, the paragraph numbers are retained in Ind AS 28.
5. Paragraph 41 appears as 'deleted' in IAS 28. In order to maintain consistency with paragraph numbers of IAS 28, the paragraph number is retained in Ind AS 28.
6. Paragraph 45F of IAS 28 has not been included as it refers to amendments due to issuance of IFRS 17, *Insurance Contracts*, for which corresponding Ind AS is under formulation. Paragraph 45J of IAS 28 related to temporary exemption from IFRS 9 in accordance with IFRS 4, *Insurance Contracts*, has not been included in Ind AS 28 since the said exemption has not been given under Ind AS 104. However, in order to maintain consistency with paragraphs numbers of IAS 28, the paragraph numbers are retained in Ind AS 28.

Indian Accounting Standard (Ind AS) 32

Financial Instruments: Presentation

(This Indian Accounting Standard includes paragraphs set in **bold** type and plain type, which have equal authority. Paragraphs in bold type indicate the main principles.)

Objective

- 1 [Refer Appendix 1]
- 2 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 the classification of financial instruments, from the perspective of the issuer, into financial assets, financial liabilities and equity instruments; the classification of related interest, dividends, losses and gains; and the circumstances in which financial assets and financial liabilities should be offset.
- 3 The principles in this Standard complement the principles for recognising and measuring financial assets and financial liabilities in Ind AS 109, *Financial Instruments*, and for disclosing information about them in Ind AS 107, *Financial Instruments: Disclosures*.

Scope

- 4 This Standard 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*. However, in some cases, Ind AS 110, Ind AS 27 or Ind AS 28 require or permit an entity to account for an interest in a subsidiary, associate or joint venture using Ind AS 109; in those cases, entities shall apply the requirements of this Standard. 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) [Refer Appendix 1]
 - (d) 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, but shall apply Ind AS 104 if the issuer elects, in accordance with paragraph 4(d) of Ind AS 104, to apply Ind AS 104 in recognising and measuring them.
 - (e) financial instruments that are within the scope of Ind AS 104 because they contain a discretionary participation feature. The issuer of these instruments is exempt from applying to these features paragraphs 15–32 and AG25–AG35 of this Standard regarding the distinction between financial liabilities and equity instruments. However, these instruments are subject to all other requirements of this Standard. Furthermore, this Standard applies to derivatives that are embedded in these instruments (see Ind AS 109).
 - (f) 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 paragraphs 8–10 of this Standard, to which this Standard applies,
 - (ii) paragraphs 33 and 34 of this Standard, which shall be applied 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.
- 5-7 [Refer Appendix 1]
- 8 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 paragraph 2.5 of Ind AS 109, *Financial Instruments*.

- 9 There are various ways in which a contract to buy or sell a non-financial item can be settled net in cash or another financial instrument or by exchanging financial instruments. These include:
- (a) when the terms of the contract permit either party to settle it net in cash or another financial instrument or by exchanging financial instruments;
 - (b) when the ability to settle net in cash or another financial instrument, or by exchanging financial instruments, is not explicit in the terms of the contract, but the entity has a practice of settling similar contracts net in cash or another financial instrument, or by exchanging financial instruments (whether with the counterparty, by entering into offsetting contracts or by selling the contract before its exercise or lapse);
 - (c) when, for similar contracts, the entity has a practice of taking delivery of the underlying and selling it within a short period after delivery for the purpose of generating a profit from short-term fluctuations in price or dealer's margin; and
 - (d) when the non-financial item that is the subject of the contract is readily convertible to cash.
- A contract to which (b) or (c) applies is not entered into for the purpose of the receipt or delivery of the non-financial item in accordance with the entity's expected purchase, sale or usage requirements, and, accordingly, is within the scope of this Standard. Other contracts to which paragraph 8 applies are evaluated to determine whether they were entered into and continue to be held for the purpose of the receipt or delivery of the non-financial item in accordance with the entity's expected purchase, sale or usage requirement, and accordingly, whether they are within the scope of this Standard.
- 10 A written option to buy or sell a non-financial item that can be settled net in cash or another financial instrument, or by exchanging financial instruments, in accordance with paragraph 9(a) or (d) is within the scope of this Standard. Such a contract cannot be entered into for the purpose of the receipt or delivery of the non-financial item in accordance with the entity's expected purchase, sale or usage requirements.

Definitions (see also paragraphs AG3–AG23)

11 The following terms are used in this Standard with the meanings specified:

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.

A *financial asset* is any asset that is:

- (a) cash;
- (b) an equity instrument of another entity;
- (c) a contractual right:
 - (i) to receive cash or another financial asset from another entity; or
 - (ii) to exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity; or
- (d) a contract that will or may be settled in the entity's own equity instruments and is:
 - (i) a non-derivative for which the entity is or may be obliged to receive a variable number of the entity's own equity instruments; or
 - (ii) a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments. For this purpose the entity's own equity instruments do not include puttable financial instruments classified as equity instruments in accordance with paragraphs 16A and 16B, instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation and are classified as equity instruments in accordance with paragraphs 16C and 16D, or instruments that are contracts for the future receipt or delivery of the entity's own equity instruments.

A *financial liability* is any liability that is:

- (a) a 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 entity; or
- (b) a contract that will or may be settled in the entity's own equity instruments and is:
 - (i) a non-derivative for which the entity is or may be obliged to deliver a variable number of the entity's own equity instruments; or

- (ii) a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments. For this purpose, rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency are equity instruments if the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments. Apart from the aforesaid, the equity conversion option embedded in a convertible bond denominated in foreign currency to acquire a fixed number of the entity's own equity instruments is an equity instrument if the exercise price is fixed in any currency. Also, for these purposes the entity's own equity instruments do not include puttable financial instruments that are classified as equity instruments in accordance with paragraphs 16A and 16B, instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation and are classified as equity instruments in accordance with paragraphs 16C and 16D, or instruments that are contracts for the future receipt or delivery of the entity's own equity instruments.

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.

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

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. (See Ind AS 113, *Fair Value Measurement*.)

A *puttable instrument* is a financial instrument that gives the holder 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.

- 12 The following terms are defined in Appendix A of Ind AS 109 and are used in this Standard with the meaning specified in Ind AS 109.
- amortised cost of a financial asset or financial liability
 - derecognition
 - derivative
 - effective interest method
 - financial guarantee contract
 - financial liability at fair value through profit or loss
 - firm commitment
 - forecast transaction
 - hedge effectiveness
 - hedged item
 - hedging instrument
 - held for trading
 - regular way purchase or sale
 - transaction costs.

- 13 In this Standard, 'contract' and 'contractual' refer to an agreement between two or more parties that has clear economic consequences that the parties have little, if any, discretion to avoid, usually because the agreement is enforceable by law. Contracts, and thus financial instruments, may take a variety of forms and need not be in writing.

- 14 In this Standard, 'entity' includes individuals, partnerships, incorporated bodies, trusts and government agencies.

Presentation

Liabilities and equity (see also paragraphs AG13–AG14J and AG25–AG29A)

- 15 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.

16 When an issuer applies the definitions in paragraph 11 to determine whether a financial instrument is an equity instrument rather than a financial liability, the instrument is an equity instrument if, and only if, both conditions (a) and (b) below are met.

- (a) The instrument includes no contractual obligation:
 - (i) to deliver cash or another financial asset to another entity; or
 - (ii) to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the issuer.
- (b) If the instrument will or may be settled in the issuer's own equity instruments, it is:
 - (i) a non-derivative that includes no contractual obligation for the issuer to deliver a variable number of its own equity instruments; or
 - (ii) a derivative that will be settled only by the issuer exchanging a fixed amount of cash or another financial asset for a fixed number of its own equity instruments. For this purpose, rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency are equity instruments if the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments. Apart from the aforesaid, the equity conversion option embedded in a convertible bond denominated in foreign currency to acquire a fixed number of the entity's own equity instruments is an equity instrument if the exercise price is fixed in any currency. Also, for these purposes the issuer's own equity instruments do not include instruments that have all the features and meet the conditions described in paragraphs 16A and 16B or paragraphs 16C and 16D, or instruments that are contracts for the future receipt or delivery of the issuer's own equity instruments.

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.

Puttable instruments

16AA puttable financial instrument includes a contractual obligation for the issuer to repurchase or redeem that instrument for cash or another financial asset on exercise of the put. As an exception to the definition of a financial liability, an instrument that includes such an obligation is classified as an equity instrument if it has all the following features:

- (a) It entitles the holder to a pro rata share of the entity's net assets in the event of the entity's liquidation. The entity's net assets are those assets that remain after deducting all other claims on its assets. A pro rata share is determined by:
 - (i) dividing the entity's net assets on liquidation into units of equal amount; and
 - (ii) multiplying that amount by the number of the units held by the financial instrument holder.
- (b) The instrument is in the class of instruments that is subordinate to all other classes of instruments. To be in such a class the instrument:
 - (i) has no priority over other claims to the assets of the entity on liquidation, and
 - (ii) does not need to be converted into another instrument before it is in the class of instruments that is subordinate to all other classes of instruments.
- (c) All financial instruments in the class of instruments that is subordinate to all other classes of instruments have identical features. For example, they must all be puttable, and the formula or other method used to calculate the repurchase or redemption price is the same for all instruments in that class.
- (d) Apart from the contractual obligation for the issuer to repurchase or redeem the instrument for cash or another financial asset, the instrument does not include any contractual obligation to deliver cash or another financial asset to another entity, or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity, and it is not a contract that will or may be settled in the entity's own equity instruments as set out in subparagraph (b) of the definition of a financial liability.
- (e) The total expected cash flows attributable to the instrument over the life of the instrument are based substantially on the profit or loss, the change in the recognised net assets or the change in the fair value of the recognised and unrecognised net assets of the entity over the life of the instrument (excluding any effects of the instrument).

16B For an instrument to be classified as an equity instrument, in addition to the instrument having all the above features, the issuer must have no other financial instrument or contract that has:

- (a) total cash flows based substantially on the profit or loss, the change in the recognised net assets or the change in the fair value of the recognised and unrecognised net assets of the entity (excluding any effects of such instrument or contract) and
- (b) the effect of substantially restricting or fixing the residual return to the puttable instrument holders.

For the purposes of applying this condition, the entity shall not consider non- financial contracts with a holder of an instrument described in paragraph 16A that have contractual terms and conditions that are similar to the contractual terms and conditions of an equivalent contract that might occur between a non-instrument holder and the issuing entity. If the entity cannot determine that this condition is met, it shall not classify the puttable instrument as an equity instrument.

Instruments, or components of instruments, that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation

16C Some financial instruments include a contractual obligation for the issuing entity to deliver to another entity a pro rata share of its net assets only on liquidation. The obligation arises because liquidation either is certain to occur and outside the control of the entity (for example, a limited life entity) or is uncertain to occur but is at the option of the instrument holder. As an exception to the definition of a financial liability, an instrument that includes such an obligation is classified as an equity instrument if it has all the following features:

- (a) It entitles the holder to a pro rata share of the entity's net assets in the event of the entity's liquidation. The entity's net assets are those assets that remain after deducting all other claims on its assets. A pro rata share is determined by:
 - (i) dividing the net assets of the entity on liquidation into units of equal amount; and
 - (ii) multiplying that amount by the number of the units held by the financial instrument holder.
- (b) The instrument is in the class of instruments that is subordinate to all other classes of instruments. To be in such a class the instrument:
 - (i) has no priority over other claims to the assets of the entity on liquidation, and
 - (ii) does not need to be converted into another instrument before it is in the class of instruments that is subordinate to all other classes of instruments.
- (c) All financial instruments in the class of instruments that is subordinate to all other classes of instruments must have an identical contractual obligation for the issuing entity to deliver a pro rata share of its net assets on liquidation.

16D For an instrument to be classified as an equity instrument, in addition to the instrument having all the above features, the issuer must have no other financial instrument or contract that has:

- (a) total cash flows based substantially on the profit or loss, the change in the recognised net assets or the change in the fair value of the recognised and unrecognised net assets of the entity (excluding any effects of such instrument or contract) and
- (b) the effect of substantially restricting or fixing the residual return to the instrument holders.

For the purposes of applying this condition, the entity shall not consider non- financial contracts with a holder of an instrument described in paragraph 16C that have contractual terms and conditions that are similar to the contractual terms and conditions of an equivalent contract that might occur between a non-instrument holder and the issuing entity. If the entity cannot determine that this condition is met, it shall not classify the instrument as an equity instrument.

Reclassification of puttable instruments and instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation

16E An entity shall classify a financial instrument as an equity instrument in accordance with paragraphs 16A and 16B or paragraphs 16C and 16D from the date when the instrument has all the features and meets the conditions set out in those paragraphs. An entity shall reclassify a financial instrument from the date when the instrument ceases to have all the features or meet all the conditions set out in those paragraphs. For example, if an entity redeems all its issued non- puttable instruments and any puttable instruments that remain outstanding have all the features and meet all the conditions in paragraphs 16A and 16B, the entity shall reclassify the puttable instruments as equity instruments from the date when it redeems the non-puttable instruments.

16F An entity shall account as follows for the reclassification of an instrument in accordance with paragraph 16E:

- (a) It shall reclassify an equity instrument as a financial liability from the date when the instrument ceases to have all the features or meet the conditions in paragraphs 16A and 16B or paragraphs 16C and 16D. The financial

liability shall be measured at the instrument's fair value at the date of reclassification. The entity shall recognise in equity any difference between the carrying value of the equity instrument and the fair value of the financial liability at the date of reclassification.

- (b) It shall reclassify a financial liability as equity from the date when the instrument has all the features and meets the conditions set out in paragraphs

16A and 16B or paragraphs 16C and 16D. An equity instrument shall be measured at the carrying value of the financial liability at the date of reclassification.

No contractual obligation to deliver cash or another financial asset (paragraph 16(a))

17 With the exception of the circumstances described in paragraphs 16A and 16B or paragraphs 16C and 16D, a critical feature in differentiating a financial liability from an equity instrument is the existence of a contractual obligation of one party to the financial instrument (the issuer) either to deliver cash or another financial asset to the other party (the holder) or to exchange financial assets or financial liabilities with the holder under conditions that are potentially unfavourable to the issuer. Although the holder of an equity instrument may be entitled to receive a pro rata share of any dividends or other distributions of equity, the issuer does not have a contractual obligation to make such distributions because it cannot be required to deliver cash or another financial asset to another party.

18 The substance of a financial instrument, rather than its legal form, governs its classification in the entity's balance sheet. Substance and legal form are commonly consistent, but not always. Some financial instruments take the legal form of equity but are liabilities in substance and others may combine features associated with equity instruments and features associated with financial liabilities. For example:

- (a) a preference share that provides for mandatory redemption by the issuer for a fixed or determinable amount at a fixed or determinable future date, or gives the holder the right to require the issuer to redeem the instrument at or after a particular date for a fixed or determinable amount, is a financial liability.
- (b) a financial instrument that gives the holder the right to put it back to the issuer for cash or another financial asset (a 'puttable instrument') is a financial liability, except for those instruments classified as equity instruments in accordance with paragraphs 16A and 16B or paragraphs 16C and 16D. The financial instrument is a financial liability even when the amount of cash or other financial assets is determined on the basis of an index or other item that has the potential to increase or decrease. The existence of an option for the holder to put the instrument back to the issuer for cash or another financial asset means that the puttable instrument meets the definition of a financial liability, except for those instruments classified as equity instruments in accordance with paragraphs 16A and 16B or paragraphs 16C and 16D. For example, open-ended mutual funds, unit trusts, partnerships and some co-operative entities may provide their unitholders or members with a right to redeem their interests in the issuer at any time for cash, which results in the unitholders' or members' interests being classified as financial liabilities, except for those instruments classified as equity instruments in accordance with paragraphs 16A and 16B or paragraphs 16C and 16D. However, classification as a financial liability does not preclude the use of descriptors such as 'net asset value attributable to unitholders' and 'change in net asset value attributable to unitholders' in the financial statements of an entity that has no contributed equity (such as some mutual funds and unit trusts) or the use of additional disclosure to show that total members' interests comprise items such as reserves that meet the definition of equity and puttable instruments that do not.

19 If an entity does not have an unconditional right to avoid delivering cash or another financial asset to settle a contractual obligation, the obligation meets the definition of a financial liability, except for those instruments classified as equity instruments in accordance with paragraphs 16A and 16B or paragraphs 16C and 16D. For example:

- (a) a restriction on the ability of an entity to satisfy a contractual obligation, such as lack of access to foreign currency or the need to obtain approval for payment from a regulatory authority, does not negate the entity's contractual obligation or the holder's contractual right under the instrument.
- (b) a contractual obligation that is conditional on a counterparty exercising its right to redeem is a financial liability because the entity does not have the unconditional right to avoid delivering cash or another financial asset.

20 A financial instrument that does not explicitly establish a contractual obligation to deliver cash or another financial asset may establish an obligation indirectly through its terms and conditions. For example:

- (a) a financial instrument may contain a non-financial obligation that must be settled if, and only if, the entity fails to make distributions or to redeem the instrument. If the entity can avoid a transfer of cash or another financial asset only by settling the non-financial obligation, the financial instrument is a financial liability.
- (b) a financial instrument is a financial liability if it provides that on settlement the entity will deliver either:
 - (i) cash or another financial asset; or
 - (ii) its own shares whose value is determined to exceed substantially the value of the cash or other financial asset.

Although the entity does not have an explicit contractual obligation to deliver cash or another financial asset, the value of the share settlement alternative is such that the entity will settle in cash. In any event, the holder has in substance been guaranteed receipt of an amount that is at least equal to the cash settlement option (see paragraph 21).

Settlement in the entity's own equity instruments (paragraph 16(b))

- 21 A contract is not an equity instrument solely because it may result in the receipt or delivery of the entity's own equity instruments. An entity may have a contractual right or obligation to receive or deliver a number of its own shares or other equity instruments that varies so that the fair value of the entity's own equity instruments to be received or delivered equals the amount of the contractual right or obligation. Such a contractual right or obligation may be for a fixed amount or an amount that fluctuates in part or in full in response to changes in a variable other than the market price of the entity's own equity instruments (eg an interest rate, a commodity price or a financial instrument price). Two examples are (a) a contract to deliver as many of the entity's own equity instruments as are equal in value to Rs. 100, and (b) a contract to deliver as many of the entity's own equity instruments as are equal in value to the value of 100 ounces of gold. Such a contract is a financial liability of the entity even though the entity must or can settle it by delivering its own equity instruments. It is not an equity instrument because the entity uses a variable number of its own equity instruments as a means to settle the contract. Accordingly, the contract does not evidence a residual interest in the entity's assets after deducting all of its liabilities.
- 22 Except as stated in paragraph 22A, a contract that will be settled by the entity (receiving or) delivering a fixed number of its own equity instruments in exchange for a fixed amount of cash or another financial asset is an equity instrument. For example, an issued share option that gives the counterparty a right to buy a fixed number of the entity's shares for a fixed price or for a fixed stated principal amount of a bond is an equity instrument. Changes in the fair value of a contract arising from variations in market interest rates that do not affect the amount of cash or other financial assets to be paid or received, or the number of equity instruments to be received or delivered, on settlement of the contract do not preclude the contract from being an equity instrument. Any consideration received (such as the premium received for a written option or warrant on the entity's own shares) is added directly to equity. Any consideration paid (such as the premium paid for a purchased option) is deducted directly from equity. Changes in the fair value of an equity instrument are not recognised in the financial statements.
- 22A If the entity's own equity instruments to be received, or delivered, by the entity upon settlement of a contract are puttable financial instruments with all the features and meeting the conditions described in paragraphs 16A and 16B, or instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation with all the features and meeting the conditions described in paragraphs 16C and 16D, the contract is a financial asset or a financial liability. This includes a contract that will be settled by the entity receiving or delivering a fixed number of such instruments in exchange for a fixed amount of cash or another financial asset.
- 23 With the exception of the circumstances described in paragraphs 16A and 16B or paragraphs 16C and 16D, a contract that contains an obligation for an entity to purchase its own equity instruments for cash or another financial asset gives rise to a financial liability for the present value of the redemption amount (for example, for the present value of the forward repurchase price, option exercise price or other redemption amount). This is the case even if the contract itself is an equity instrument. One example is an entity's obligation under a forward contract to purchase its own equity instruments for cash. The financial liability is recognised initially at the present value of the redemption amount, and is reclassified from equity. Subsequently, the financial liability is measured in accordance with Ind AS 109. If the contract expires without delivery, the carrying amount of the financial liability is reclassified to equity. An entity's contractual obligation to purchase its own equity instruments gives rise to a financial liability for the present value of the redemption amount even if the obligation to purchase is conditional on the counterparty exercising a right to redeem (eg a written put option that gives the counterparty the right to sell an entity's own equity instruments to the entity for a fixed price).
- 24 A contract that will be settled by the entity delivering or receiving a fixed number of its own equity instruments in exchange for a variable amount of cash or another financial asset is a financial asset or financial liability. An example is a contract for the entity to deliver 100 of its own equity instruments in return for an amount of cash calculated to equal the value of 100 ounces of gold.

Contingent settlement provisions

- 25 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. The issuer of such an instrument does not have the unconditional right to avoid delivering cash or another financial asset (or otherwise to settle it in such a way that it would be a financial liability). Therefore, it is a financial liability of the issuer unless:

- (a) the part of the contingent settlement provision that could require settlement in cash or another financial asset (or otherwise in such a way that it would be a financial liability) is not genuine;
- (b) the issuer can be required to settle the obligation in cash or another financial asset (or otherwise to settle it in such a way that it would be a financial liability) only in the event of liquidation of the issuer; or
- (c) the instrument has all the features and meets the conditions in paragraphs 16A and 16B.

Settlement options

- 26 When a derivative financial instrument gives one party a choice over how it is settled (eg the issuer or the holder can choose settlement net in cash or by exchanging shares for cash), it is a financial asset or a financial liability unless all of the settlement alternatives would result in it being an equity instrument.**
- 27 An example of a derivative financial instrument with a settlement option that is a financial liability is a share option that the issuer can decide to settle net in cash or by exchanging its own shares for cash. Similarly, some contracts to buy or sell a non-financial item in exchange for the entity's own equity instruments are within the scope of this Standard because they can be settled either by delivery of the non-financial item or net in cash or another financial instrument (see paragraphs 8–10). Such contracts are financial assets or financial liabilities and not equity instruments.

Compound financial instruments (see also paragraphs AG30–AG35)

- 28 The issuer of a non-derivative financial instrument shall evaluate the terms of the financial instrument to determine whether it contains both a liability and an equity component. Such components shall be classified separately as financial liabilities, financial assets or equity instruments in accordance with paragraph 15.**
- 29 An entity recognises separately the components of a financial instrument that (a) creates a financial liability of the entity and (b) grants an option to the holder of the instrument to convert it into an equity instrument of the entity. For example, a bond or similar instrument convertible by the holder into a fixed number of ordinary shares of the entity is a compound financial instrument. From the perspective of the entity, such an instrument comprises two components: a financial liability (a contractual arrangement to deliver cash or another financial asset) and an equity instrument (a call option granting the holder the right, for a specified period of time, to convert it into a fixed number of ordinary shares of the entity). The economic effect of issuing such an instrument is substantially the same as issuing simultaneously a debt instrument with an early settlement provision and warrants to purchase ordinary shares, or issuing a debt instrument with detachable share purchase warrants. Accordingly, in all cases, the entity presents the liability and equity components separately in its balance sheet.
- 30 Classification of the liability and equity components of a convertible instrument is not revised as a result of a change in the likelihood that a conversion option will be exercised, even when exercise of the option may appear to have become economically advantageous to some holders. Holders may not always act in the way that might be expected because, for example, the tax consequences resulting from conversion may differ among holders. Furthermore, the likelihood of conversion will change from time to time. The entity's contractual obligation to make future payments remains outstanding until it is extinguished through conversion, maturity of the instrument or some other transaction.
- 31 Ind AS 109 deals with the measurement of financial assets and financial liabilities. Equity instruments are instruments that evidence a residual interest in the assets of an entity after deducting all of its liabilities. Therefore, when the initial carrying amount of a compound financial instrument is allocated to its equity and liability components, the equity component is assigned the residual amount after deducting from the fair value of the instrument as a whole the amount separately determined for the liability component. The value of any derivative features (such as a call option) embedded in the compound financial instrument other than the equity component (such as an equity conversion option) is included in the liability component. 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.
- 32 Under the approach described in paragraph 31, the issuer of a bond convertible into ordinary shares first determines the carrying amount of the liability component by measuring the fair value of a similar liability (including any embedded non-equity derivative features) that does not have an associated equity component. The carrying amount of the equity instrument represented by the option to convert the instrument into ordinary shares is then determined by deducting the fair value of the financial liability from the fair value of the compound financial instrument as a whole.

Treasury shares (see also paragraph AG36)

- 33 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.**

- 34 The amount of treasury shares held is disclosed separately either in the balance sheet or in the notes, in accordance with Ind AS 1, *Presentation of Financial Statements*. An entity provides disclosure in accordance with Ind AS 24, *Related*

Party Disclosures, if the entity reacquires its own equity instruments from related parties.

Interest, dividends, losses and gains

(see also paragraph AG37)

- 35 **Interest, dividends, losses and gains relating to a financial instrument or a component that is a financial liability shall be recognised as income or expense in profit or loss. Distributions to holders of an equity instrument shall be recognised by the entity directly in equity. Transaction costs of an equity transaction shall be accounted for as a deduction from equity.**

- 35A 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*.

- 36 The classification of a financial instrument as a financial liability or an equity instrument determines whether interest, dividends, losses and gains relating to that instrument are recognised as income or expense in profit or loss. Thus, dividend payments on shares wholly recognised as liabilities are recognised as expenses in the same way as interest on a bond. Similarly, gains and losses associated with redemptions or refinancings of financial liabilities are recognised in profit or loss, whereas redemptions or refinancings of equity instruments are recognised as changes in equity. Changes in the fair value of an equity instrument are not recognised in the financial statements.

- 37 An entity typically incurs various costs in issuing or acquiring its own equity instruments. Those costs might include registration and other regulatory fees, amounts paid to legal, accounting and other professional advisers, printing costs and stamp duties. The transaction costs of an equity transaction are accounted for as a deduction from equity to the extent they are incremental costs directly attributable to the equity transaction that otherwise would have been avoided. The costs of an equity transaction that is abandoned are recognised as an expense.

- 38 Transaction costs that relate to the issue of a compound financial instrument are allocated to the liability and equity components of the instrument in proportion to the allocation of proceeds. Transaction costs that relate jointly to more than one transaction (for example, costs of a concurrent offering of some shares and a stock exchange listing of other shares) are allocated to those transactions using a basis of allocation that is rational and consistent with similar transactions.

- 39 The amount of transaction costs accounted for as a deduction from equity in the period is disclosed separately in accordance with Ind AS 1.

- 40 Dividends classified as an expense may be presented in the statement of profit and loss either with interest on other liabilities or as a separate item. In addition to the requirements of this Standard, disclosure of interest and dividends is subject to the requirements of Ind AS 1 and Ind AS 107. In some circumstances, because of the differences between interest and dividends with respect to matters such as tax deductibility, it is desirable to disclose them separately in the statement of profit and loss. Disclosures of the tax effects are made in accordance with Ind AS 12.

- 41 Gains and losses related to changes in the carrying amount of a financial liability are recognised as income or expense in profit or loss even when they relate to an instrument that includes a right to the residual interest in the assets of the entity in exchange for cash or another financial asset (see paragraph 18(b)). Under Ind AS 1 the entity presents any gain or loss arising from remeasurement of such an instrument separately in the statement of profit and loss when it is relevant in explaining the entity's performance.

Offsetting a financial asset and a financial liability

(see also paragraphs AG38A-AG 38F and AG39)

- 42 **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:**

(a) **currently 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.**

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 (see Ind AS 109, paragraph 3.2.22).

- 43 This Standard requires the presentation of financial assets and financial liabilities on a net basis when doing so reflects an entity's expected future cash flows from settling two or more separate financial instruments. When an entity has the right to receive or pay a single net amount and intends to do so, it has, in effect, only a single financial asset or financial liability. In other circumstances, financial assets and financial liabilities are presented separately from each other consistently with their characteristics as resources or obligations of the entity. An entity shall disclose the information required in paragraphs 13B–13E of Ind AS 107 for recognised financial instruments that are within the scope of paragraph 13A of Ind AS 107.

- 44 Offsetting a recognised financial asset and a recognised financial liability and presenting the net amount differs from the derecognition of a financial asset or a financial liability. Although offsetting does not give rise to recognition of a gain or loss, the derecognition of a financial instrument not only results in the removal of the previously recognised item from the balance sheet but also may result in recognition of a gain or loss.
- 45 A right of set-off is a debtor's legal right, by contract or otherwise, to settle or otherwise eliminate all or a portion of an amount due to a creditor by applying against that amount an amount due from the creditor. In unusual circumstances, a debtor may have a legal right to apply an amount due from a third party against the amount due to a creditor provided that there is an agreement between the three parties that clearly establishes the debtor's right of set-off. Because the right of set-off is a legal right, the conditions supporting the right may vary from one legal jurisdiction to another and the laws applicable to the relationships between the parties need to be considered.
- 46 The existence of an enforceable right to set off a financial asset and a financial liability affects the rights and obligations associated with a financial asset and a financial liability and may affect an entity's exposure to credit and liquidity risk. However, the existence of the right, by itself, is not a sufficient basis for offsetting. In the absence of an intention to exercise the right or to settle simultaneously, the amount and timing of an entity's future cash flows are not affected. When an entity intends to exercise the right or to settle simultaneously, presentation of the asset and liability on a net basis reflects more appropriately the amounts and timing of the expected future cash flows, as well as the risks to which those cash flows are exposed. An intention by one or both parties to settle on a net basis without the legal right to do so is not sufficient to justify offsetting because the rights and obligations associated with the individual financial asset and financial liability remain unaltered.
- 47 An entity's intentions with respect to settlement of particular assets and liabilities may be influenced by its normal business practices, the requirements of the financial markets and other circumstances that may limit the ability to settle net or to settle simultaneously. When an entity has a right of set-off, but does not intend to settle net or to realise the asset and settle the liability simultaneously, the effect of the right on the entity's credit risk exposure is disclosed in accordance with paragraph 36 of Ind AS 107.
- 48 Simultaneous settlement of two financial instruments may occur through, for example, the operation of a clearing house in an organised financial market or a face-to-face exchange. In these circumstances the cash flows are, in effect, equivalent to a single net amount and there is no exposure to credit or liquidity risk. In other circumstances, an entity may settle two instruments by receiving and paying separate amounts, becoming exposed to credit risk for the full amount of the asset or liquidity risk for the full amount of the liability. Such risk exposures may be significant even though relatively brief. Accordingly, realisation of a financial asset and settlement of a financial liability are treated as simultaneous only when the transactions occur at the same moment.
- 49 The conditions set out in paragraph 42 are generally not satisfied and offsetting is usually inappropriate when:
- (a) several different financial instruments are used to emulate the features of a single financial instrument (a 'synthetic instrument');
 - (b) financial assets and financial liabilities arise from financial instruments having the same primary risk exposure (for example, assets and liabilities within a portfolio of forward contracts or other derivative instruments) but involve different counterparties;
 - (c) financial or other assets are pledged as collateral for non-recourse financial liabilities;
 - (d) financial assets are set aside in trust by a debtor for the purpose of discharging an obligation without those assets having been accepted by the creditor in settlement of the obligation (for example, a sinking fund arrangement); or
 - (e) obligations incurred as a result of events giving rise to losses are expected to be recovered from a third party by virtue of a claim made under an insurance contract.
- 50 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. These arrangements are commonly used by financial institutions to provide protection against loss in the event of bankruptcy or other circumstances that result in a counterparty being unable to meet its obligations. A master netting arrangement commonly creates a right of set-off that becomes enforceable and affects the realisation or settlement of individual financial assets and financial liabilities only following a specified event of default or in other circumstances not expected to arise in the normal course of business. A master netting arrangement does not provide a basis for offsetting unless both of the criteria in paragraph 42 are satisfied. When financial assets and financial liabilities subject to a master netting arrangement are not offset, the effect of the arrangement on an entity's exposure to credit risk is disclosed in accordance with paragraph 36 of Ind AS 107.

Effective date and transition

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- 96B *
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- 97P *
- 97Q As a consequence of issuance of Ind AS 115, *Revenue from Contracts with Customers*, paragraph AG21 is amended. An entity shall apply those amendments when it applies Ind AS 115.
- 97R *Omitted**
- 97S Ind AS 116 amended paragraphs AG9 and AG10. An entity shall apply those amendments when it applies Ind AS 116.

Appendix A**Application Guidance****Ind AS 32 *Financial Instruments: Presentation***

This appendix is an integral part of the Ind AS.

AG1 This Application Guidance explains the application of particular aspects of the Standard.

AG2 The Standard does not deal with the recognition or measurement of financial instruments. Requirements about the recognition and measurement of financial assets and financial liabilities are set out in Ind AS 109.

Definitions (paragraphs 11– 14)

Financial assets and financial liabilities

- AG3 Currency (cash) is a financial asset because it represents the medium of exchange and is therefore the basis on which all transactions are measured and recognised in financial statements. A deposit of cash with a bank or similar financial institution is a financial asset because it represents the contractual right of the depositor to obtain cash from the institution or to draw a cheque or similar instrument against the balance in favour of a creditor in payment of a financial liability.
- AG4 Common examples of financial assets representing a contractual right to receive cash in the future and corresponding financial liabilities representing a contractual obligation to deliver cash in the future are:
- (a) trade accounts receivable and payable;

* Refer Appendix 1

* Refer Appendix 1

- (b) notes receivable and payable;
- (c) loans receivable and payable; and
- (d) bonds receivable and payable.

In each case, one party's contractual right to receive (or obligation to pay) cash is matched by the other party's corresponding obligation to pay (or right to receive).

- AG5 Another type of financial instrument is one for which the economic benefit to be received or given up is a financial asset other than cash. For example, a note payable in government bonds gives the holder the contractual right to receive and the issuer the contractual obligation to deliver government bonds, not cash. The bonds are financial assets because they represent obligations of the issuing government to pay cash. The note is, therefore, a financial asset of the note holder and a financial liability of the note issuer.
- AG6 'Perpetual' debt instruments (such as 'perpetual' bonds, debentures and capital notes) normally provide the holder with the contractual right to receive payments on account of interest at fixed dates extending into the indefinite future, either with no right to receive a return of principal or a right to a return of principal under terms that make it very unlikely or very far in the future. For example, an entity may issue a financial instrument requiring it to make annual payments in perpetuity equal to a stated interest rate of 8 per cent applied to a stated par or principal amount of Rs. 1,000. Assuming 8 per cent to be the market rate of interest for the instrument when issued, the issuer assumes a contractual obligation to make a stream of future interest payments having a fair value (present value) of Rs. 1,000 on initial recognition. The holder and issuer of the instrument have a financial asset and a financial liability, respectively.
- AG7 A contractual right or contractual obligation to receive, deliver or exchange financial instruments is itself a financial instrument. A chain of contractual rights or contractual obligations meets the definition of a financial instrument if it will ultimately lead to the receipt or payment of cash or to the acquisition or issue of an equity instrument.
- AG8 The ability to exercise a contractual right or the requirement to satisfy a contractual obligation may be absolute, or it may be contingent on the occurrence of a future event. For example, a financial guarantee is a contractual right of the lender to receive cash from the guarantor, and a corresponding contractual obligation of the guarantor to pay the lender, if the borrower defaults. The contractual right and obligation exist because of a past transaction or event (assumption of the guarantee), even though the lender's ability to exercise its right and the requirement for the guarantor to perform under its obligation are both contingent on a future act of default by the borrower. A contingent right and obligation meet the definition of a financial asset and a financial liability, even though such assets and liabilities are not always recognised in the financial statements. Some of these contingent rights and obligations may be insurance contracts within the scope of Ind AS 104.
- AG9 A lease typically creates an entitlement of the lessor to receive, and an obligation of the lessee to pay, a stream of payments that are substantially the same as blended payments of principal and interest under a loan agreement. The lessor accounts for its investment in the amount receivable under a finance lease rather than the underlying asset itself that is subject to the finance lease. Accordingly, a lessor regards a finance lease as a financial instrument. Under Ind AS 116, a lessor does not recognise its entitlement to receive lease payments under an operating lease. The lessor continues to account for the underlying asset itself rather than any amount receivable in the future under the contract. Accordingly, a lessor does not regard an operating lease as a financial instrument, except as regards individual payments currently due and payable by lessee.
- AG10 Physical assets (such as inventories, property, plant and equipment), right-of-use assets and intangible assets (such as patents and trademarks) are not financial assets. Control of such physical assets, right-of-use assets and intangible assets creates an opportunity to generate an inflow of cash or another financial asset, but it does not give rise to a present right to receive cash or another financial asset.
- AG11 Assets (such as prepaid expenses) for which the future economic benefit is the receipt of goods or services, rather than the right to receive cash or another financial asset, are not financial assets. Similarly, items such as deferred revenue and most warranty obligations are not financial liabilities because the outflow of economic benefits associated with them is the delivery of goods and services rather than a contractual obligation to pay cash or another financial asset.
- AG12 Liabilities or assets that are not contractual (such as income taxes that are created as a result of statutory requirements imposed by governments) are not financial liabilities or financial assets. Accounting for income taxes is dealt with in Ind AS 12. Similarly, constructive obligations, as defined in Ind AS 37, *Provisions, Contingent Liabilities and Contingent Assets*, do not arise from contracts and are not financial liabilities.

Equity instruments

AG13 Examples of equity instruments include non-puttable ordinary shares, some puttable instruments (see paragraphs 16A and 16B), some instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation (see paragraphs 16C and 16D), some types of preference shares (see paragraphs AG25 and AG26), and warrants or written call options that allow the holder to subscribe for or purchase a fixed number of non-puttable ordinary shares in the issuing entity in exchange for a fixed amount of cash or another financial asset. An entity's obligation to issue or purchase a fixed number of its own equity instruments in exchange for a fixed amount of cash or another financial asset is an equity instrument of the entity (except as stated in paragraph 22A). However, if such a contract contains an obligation for the entity to pay cash or another financial asset (other than a contract classified as equity in accordance with paragraphs 16A and 16B or paragraphs 16C and 16D), it also gives rise to a liability for the present value of the redemption amount (see paragraph AG27(a)). An issuer of non-puttable ordinary shares assumes a liability when it formally acts to make a distribution and becomes legally obliged to the shareholders to do so. This may be the case following the declaration of a dividend or when the entity is being wound up and any assets remaining after the satisfaction of liabilities become distributable to shareholders.

AG14 A purchased call option or other similar contract acquired by an entity that gives it the right to reacquire a fixed number of its own equity instruments in exchange for delivering a fixed amount of cash or another financial asset is not a financial asset of the entity (except as stated in paragraph 22A). Instead, any consideration paid for such a contract is deducted from equity.

The class of instruments that is subordinate to all other classes (paragraphs 16A(b) and 16C(b))

AG14A One of the features of paragraphs 16A and 16C is that the financial instrument is in the class of instruments that is subordinate to all other classes.

AG14B When determining whether an instrument is in the subordinate class, an entity evaluates the instrument's claim on liquidation as if it were to liquidate on the date when it classifies the instrument. An entity shall reassess the classification if there is a change in relevant circumstances. For example, if the entity issues or redeems another financial instrument, this may affect whether the instrument in question is in the class of instruments that is subordinate to all other classes.

AG14C An instrument that has a preferential right on liquidation of the entity is not an instrument with an entitlement to a pro rata share of the net assets of the entity. For example, an instrument has a preferential right on liquidation if it entitles the holder to a fixed dividend on liquidation, in addition to a share of the entity's net assets, when other instruments in the subordinate class with a right to a pro rata share of the net assets of the entity do not have the same right on liquidation.

AG14D If an entity has only one class of financial instruments, that class shall be treated as if it were subordinate to all other classes.

Total expected cash flows attributable to the instrument over the life of the instrument (paragraph 16A(e))

AG14E The total expected cash flows of the instrument over the life of the instrument must be substantially based on the profit or loss, change in the recognised net assets or fair value of the recognised and unrecognised net assets of the entity over the life of the instrument. Profit or loss and the change in the recognised net assets shall be measured in accordance with relevant Ind ASs.

Transactions entered into by an instrument holder other than as owner of the entity (paragraphs 16A and 16C)

AG14F The holder of a puttable financial instrument or an instrument that imposes on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation may enter into transactions with the entity in a role other than that of an owner. For example, an instrument holder may also be an employee of the entity. Only the cash flows and the contractual terms and conditions of the instrument that relate to the instrument holder as an owner of the entity shall be considered when assessing whether the instrument should be classified as equity under paragraph 16A or paragraph 16C.

AG14G An example is a limited partnership that has limited and general partners. Some general partners may provide a guarantee to the entity and may be remunerated for providing that guarantee. In such situations, the guarantee and the associated cash flows relate to the instrument holders in their role as guarantors and not in their roles as owners of the entity. Therefore, such a guarantee and the associated cash flows would not result in the general partners being considered subordinate to the limited partners, and would be disregarded when assessing whether the contractual terms of the limited partnership instruments and the general partnership instruments are identical.

AG14H Another example is a profit or loss sharing arrangement that allocates profit or loss to the instrument holders on the basis of services rendered or business generated during the current and previous years. Such arrangements are transactions with instrument holders in their role as non-owners and should not be considered when assessing the features listed in paragraph 16A or paragraph 16C. However, profit or loss sharing arrangements that allocate profit or loss to instrument holders based on the nominal amount of their instruments relative to others in the class represent transactions with the instrument holders in their roles as owners and should be considered when assessing the features listed in paragraph 16A or paragraph 16C.

AG14I The cash flows and contractual terms and conditions of a transaction between the instrument holder (in the role as a non-owner) and the issuing entity must be similar to an equivalent transaction that might occur between a non-instrument holder and the issuing entity.

No other financial instrument or contract with total cash flows that substantially fixes or restricts the residual return to the instrument holder (paragraphs 16B and 16D)

AG14J A condition for classifying as equity a financial instrument that otherwise meets the criteria in paragraph 16A or paragraph 16C is that the entity has no other financial instrument or contract that has (a) total cash flows based substantially on the profit or loss, the change in the recognised net assets or the change in the fair value of the recognised and unrecognised net assets of the entity and (b) the effect of substantially restricting or fixing the residual return. The following instruments, when entered into on normal commercial terms with unrelated parties, are unlikely to prevent instruments that otherwise meet the criteria in paragraph 16A or paragraph 16C from being classified as equity:

- (a) instruments with total cash flows substantially based on specific assets of the entity.
- (b) instruments with total cash flows based on a percentage of revenue.
- (c) contracts designed to reward individual employees for services rendered to the entity.
- (d) contracts requiring the payment of an insignificant percentage of profit for services rendered or goods provided.

Derivative financial instruments

AG15 Financial instruments include primary instruments (such as receivables, payables and equity instruments) and derivative financial instruments (such as financial options, futures and forwards, interest rate swaps and currency swaps). Derivative financial instruments meet the definition of a financial instrument and, accordingly, are within the scope of this Standard.

AG16 Derivative financial instruments create rights and obligations that have the effect of transferring between the parties to the instrument one or more of the financial risks inherent in an underlying primary financial instrument. On inception, derivative financial instruments give one party a contractual right to exchange financial assets or financial liabilities with another party under conditions that are potentially favourable, or a contractual obligation to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable. However, they generally¹ do not result in a transfer of the underlying primary financial instrument on inception of the contract, nor does such a transfer necessarily take place on maturity of the contract. Some instruments embody both a right and an obligation to make an exchange. Because the terms of the exchange are determined on inception of the derivative instrument, as prices in financial markets change those terms may become either favourable or unfavourable.

AG17 A put or call option to exchange financial assets or financial liabilities (ie financial instruments other than an entity's own equity instruments) gives the holder a right to obtain potential future economic benefits associated with changes in the fair value of the financial instrument underlying the contract. Conversely, the writer of an option assumes an obligation to forgo potential future economic benefits or bear potential losses of economic benefits associated with changes in the fair value of the underlying financial instrument. The contractual right of the holder and obligation of the writer meet the definition of a financial asset and a financial liability, respectively. The financial instrument underlying an option contract may be any financial asset, including shares in other entities and interest-bearing instruments. An option may require the writer to issue a debt instrument, rather than transfer a financial asset, but the instrument underlying the option would constitute a financial asset of the holder if the option were exercised. The option-holder's right to exchange the financial asset under potentially favourable conditions and the writer's obligation to exchange the financial asset under potentially unfavourable conditions are distinct from the underlying financial asset to be exchanged upon exercise of the option. The nature of the holder's right and of the writer's obligation are not affected by the likelihood that the option will be exercised.

¹ This is true of most, but not all derivatives, eg in some cross-currency interest rate swaps principal is exchanged on inception (and re-exchanged on maturity).

AG18 Another example of a derivative financial instrument is a forward contract to be settled in six months' time in which one party (the purchaser) promises to deliver Rs.1,000,000 cash in exchange for Rs.1,000,000 face amount of fixed rate government bonds, and the other party (the seller) promises to deliver Rs.1,000,000 face amount of fixed rate government bonds in exchange for Rs.1,000,000 cash. During the six months, both parties have a contractual right and a contractual obligation to exchange financial instruments. If the market price of the government bonds rises above Rs.1,000,000, the conditions will be favourable to the purchaser and unfavourable to the seller; if the market price falls below Rs.1,000,000, the effect will be the opposite. The purchaser has a contractual right (a financial asset) similar to the right under a call option held and a contractual obligation (a financial liability) similar to the obligation under a put option written; the seller has a contractual right (a financial asset) similar to the right under a put option held and a contractual obligation (a financial liability) similar to the obligation under a call option written. As with options, these contractual rights and obligations constitute financial assets and financial liabilities separate and distinct from the underlying financial instruments (the bonds and cash to be exchanged). Both parties to a forward contract have an obligation to perform at the agreed time, whereas performance under an option contract occurs only if and when the holder of the option chooses to exercise it.

AG19 Many other types of derivative instruments embody a right or obligation to make a future exchange, including interest rate and currency swaps, interest rate caps, collars and floors, loan commitments, note issuance facilities and letters of credit. An interest rate swap contract may be viewed as a variation of a forward contract in which the parties agree to make a series of future exchanges of cash amounts, one amount calculated with reference to a floating interest rate and the other with reference to a fixed interest rate. Futures contracts are another variation of forward contracts, differing primarily in that the contracts are standardised and traded on an exchange.

Contracts to buy or sell non-financial items (paragraphs 8–10)

AG20 Contracts to buy or sell non-financial items do not meet the definition of a financial instrument because the contractual right of one party to receive a non-financial asset or service and the corresponding obligation of the other party do not establish a present right or obligation of either party to receive, deliver or exchange a financial asset. For example, contracts that provide for settlement only by the receipt or delivery of a non-financial item (eg an option, futures or forward contract on silver) are not financial instruments. Many commodity contracts are of this type. Some are standardised in form and traded on organised markets in much the same fashion as some derivative financial instruments. For example, a commodity futures contract may be bought and sold readily for cash because it is listed for trading on an exchange and may change hands many times. However, the parties buying and selling the contract are, in effect, trading the underlying commodity. The ability to buy or sell a commodity contract for cash, the ease with which it may be bought or sold and the possibility of negotiating a cash settlement of the obligation to receive or deliver the commodity do not alter the fundamental character of the contract in a way that creates a financial instrument. Nevertheless, some contracts to buy or sell non-financial items that can be settled net or by exchanging financial instruments, or in which the non-financial item is readily convertible to cash, are within the scope of the Standard as if they were financial instruments (see paragraph 8).

AG21 Except as required by Ind AS 115, *Revenue from Contracts with Customers*, a contract that involves the receipt or delivery of physical assets does not give rise to a financial asset of one party and a financial liability of the other party unless any corresponding payment is deferred past the date on which the physical assets are transferred. Such is the case with the purchase or sale of goods on trade credit.

AG22 Some contracts are commodity-linked, but do not involve settlement through the physical receipt or delivery of a commodity. They specify settlement through cash payments that are determined according to a formula in the contract, rather than through payment of fixed amounts. For example, the principal amount of a bond may be calculated by applying the market price of oil prevailing at the maturity of the bond to a fixed quantity of oil. The principal is indexed by reference to a commodity price, but is settled only in cash. Such a contract constitutes a financial instrument.

AG23 The definition of a financial instrument also encompasses a contract that gives rise to a non-financial asset or non-financial liability in addition to a financial asset or financial liability. Such financial instruments often give one party an option to exchange a financial asset for a non-financial asset. For example, an oil-linked bond may give the holder the right to receive a stream of fixed periodic interest payments and a fixed amount of cash on maturity, with the option to exchange the principal amount for a fixed quantity of oil. The desirability of exercising this option will vary from time to time depending on the fair value of oil relative to the exchange ratio of cash for oil (the exchange price) inherent in the bond. The intentions of the bondholder concerning the exercise of the option do not affect the substance of the component assets. The financial asset of the holder and the financial liability of the issuer make the bond a financial instrument, regardless of the other types of assets and liabilities also created.

AG24 [Refer Appendix 1]

Presentation

Liabilities and equity (paragraphs 15–27)

No contractual obligation to deliver cash or another financial asset (paragraphs 17–20)

AG25 Preference shares may be issued with various rights. In determining whether a preference share is a financial liability or an equity instrument, an issuer assesses the particular rights attaching to the share to determine whether it exhibits the fundamental characteristic of a financial liability. For example, a preference share that provides for redemption on a specific date or at the option of the holder contains a financial liability because the issuer has an obligation to transfer financial assets to the holder of the share. The potential inability of an issuer to satisfy an obligation to redeem a preference share when contractually required to do so, whether because of a lack of funds, a statutory restriction or insufficient profits or reserves, does not negate the obligation. An option of the issuer to redeem the shares for cash does not satisfy the definition of a financial liability because the issuer does not have a present obligation to transfer financial assets to the shareholders. In this case, redemption of the shares is solely at the discretion of the issuer. An obligation may arise, however, when the issuer of the shares exercises its option, usually by formally notifying the shareholders of an intention to redeem the shares.

AG26 When preference shares are non-redeemable, the appropriate classification is determined by the other rights that attach to them. Classification is based on an assessment of the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. When distributions to holders of the preference shares, whether cumulative or non-cumulative, are at the discretion of the issuer, the shares are equity instruments. The classification of a preference share as an equity instrument or a financial liability is not affected by, for example:

- (a) a history of making distributions;
- (b) an intention to make distributions in the future;
- (c) a possible negative impact on the price of ordinary shares of the issuer if distributions are not made (because of restrictions on paying dividends on the ordinary shares if dividends are not paid on the preference shares);
- (d) the amount of the issuer's reserves;
- (e) an issuer's expectation of a profit or loss for a period; or
- (f) an ability or inability of the issuer to influence the amount of its profit or loss for the period.

Settlement in the entity's own equity instruments (paragraphs 21–24)

AG27 The following examples illustrate how to classify different types of contracts on an entity's own equity instruments:

- (a) A contract that will be settled by the entity receiving or delivering a fixed number of its own shares for no future consideration, or exchanging a fixed number of its own shares for a fixed amount of cash or another financial asset, is an equity instrument (except as stated in paragraph 22A). Accordingly, any consideration received or paid for such a contract is added directly to or deducted directly from equity. One example is an issued share option that gives the counterparty a right to buy a fixed number of the entity's shares for a fixed amount of cash. However, if the contract requires the entity to purchase (redeem) its own shares for cash or another financial asset at a fixed or determinable date or on demand, the entity also recognises a financial liability for the present value of the redemption amount (with the exception of instruments that have all the features and meet the conditions in paragraphs 16A and 16B or paragraphs 16C and 16D). One example is an entity's obligation under a forward contract to repurchase a fixed number of its own shares for a fixed amount of cash.
- (b) An entity's obligation to purchase its own shares for cash gives rise to a financial liability for the present value of the redemption amount even if the number of shares that the entity is obliged to repurchase is not fixed or if the obligation is conditional on the counterparty exercising a right to redeem (except as stated in paragraphs 16A and 16B or paragraphs 16C and 16D). One example of a conditional obligation is an issued option that requires the entity to repurchase its own shares for cash if the counterparty exercises the option.
- (c) A contract that will be settled in cash or another financial asset is a financial asset or financial liability even if the amount of cash or another financial asset that will be received or delivered is based on changes in the market price of the entity's own equity (except as stated in paragraphs 16A and 16B or paragraphs 16C and 16D). One example is a net cash-settled share option.
- (d) A contract that will be settled in a variable number of the entity's own shares whose value equals a fixed amount or an amount based on changes in an underlying variable (eg a commodity price) is a financial asset or a financial liability. An example is a written option to buy gold that, if exercised, is settled net in

the entity's own instruments by the entity delivering as many of those instruments as are equal to the value of the option contract. Such a contract is a financial asset or financial liability even if the underlying variable is the entity's own share price rather than gold. Similarly, a contract that will be settled in a fixed number of the entity's own shares, but the rights attaching to those shares will be varied so that the settlement value equals a fixed amount or an amount based on changes in an underlying variable, is a financial asset or a financial liability.

Contingent settlement provisions (paragraph 25)

AG28 Paragraph 25 requires that if a part of a contingent settlement provision that could require settlement in cash or another financial asset (or in another way that would result in the instrument being a financial liability) is not genuine, the settlement provision does not affect the classification of a financial instrument. Thus, a contract that requires settlement in cash or a variable number of the entity's own shares only on the occurrence of an event that is extremely rare, highly abnormal and very unlikely to occur is an equity instrument. Similarly, settlement in a fixed number of an entity's own shares may be contractually precluded in circumstances that are outside the control of the entity, but if these circumstances have no genuine possibility of occurring, classification as an equity instrument is appropriate.

Treatment in consolidated financial statements

AG29 In consolidated financial statements, an entity presents non-controlling interests— ie the interests of other parties in the equity and income of its subsidiaries—in accordance with Ind AS 1 and Ind AS 110. When classifying a financial instrument (or a component of it) in consolidated financial statements, an entity considers 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. When a subsidiary in a group issues a financial instrument and a parent or other group entity agrees additional terms directly with the holders of the instrument (eg a guarantee), the group may not have discretion over distributions or redemption. Although the subsidiary may appropriately classify the instrument without regard to these additional terms in its individual financial statements, the effect of other agreements between members of the group and the holders of the instrument is considered in order to ensure that consolidated financial statements reflect the contracts and transactions entered into by the group as a whole. To the extent that there is such an obligation or settlement provision, the instrument (or the component of it that is subject to the obligation) is classified as a financial liability in consolidated financial statements.

AG29A Some types of instruments that impose a contractual obligation on the entity are classified as equity instruments in accordance with paragraphs 16A and 16B or paragraphs 16C and 16D. Classification in accordance with those paragraphs is an exception to the principles otherwise applied in this Standard to the classification of an instrument. This exception is not extended to the classification of non- controlling interests in the consolidated financial statements. Therefore, instruments classified as equity instruments in accordance with either paragraphs 16A and 16B or paragraphs 16C and 16D in the separate or individual financial statements that are non-controlling interests are classified as liabilities in the consolidated financial statements of the group.

Compound financial instruments (paragraphs 28–32)

AG30 Paragraph 28 applies only to issuers of non-derivative compound financial instruments. Paragraph 28 does not deal with compound financial instruments from the perspective of holders. Ind AS 109 deals with the classification and measurement of financial assets that are compound financial instruments from the holder's perspective.

AG31 A common form of compound financial instrument is a debt instrument with an embedded conversion option, such as a bond convertible into ordinary shares of the issuer, and without any other embedded derivative features. Paragraph 28 requires the issuer of such a financial instrument to present the liability component and the equity component separately in the balance sheet, as follows:

- (a) The issuer's obligation to make scheduled payments of interest and principal is a financial liability that exists as long as the instrument is not converted. On initial recognition, the fair value of the liability component is the present value of the contractually determined stream of future cash flows discounted at the rate of interest applied at that time by the market to instruments of comparable credit status and providing substantially the same cash flows, on the same terms, but without the conversion option.
- (b) The equity instrument is an embedded option to convert the liability into equity of the issuer. This option has value on initial recognition even when it is out of the money.

AG32 On conversion of a convertible instrument at maturity, the entity derecognises the liability component and recognises it as equity. The original equity component remains as equity (although it may be transferred from one line item within equity to another). There is no gain or loss on conversion at maturity.

AG33 When an entity extinguishes a convertible instrument before maturity through an early redemption or repurchase in which the original conversion privileges are unchanged, the entity allocates the consideration paid and any transaction costs for the repurchase or redemption to the liability and equity components of the instrument at the date of the transaction. The method used in allocating the consideration paid and transaction costs to the separate components is consistent with that used in the original allocation to the separate components of the proceeds received by the entity when the convertible instrument was issued, in accordance with paragraphs 28–32.

AG34 Once the allocation of the consideration is made, any resulting gain or loss is treated in accordance with accounting principles applicable to the related component, as follows:

- (a) the amount of gain or loss relating to the liability component is recognised in profit or loss; and
- (b) the amount of consideration relating to the equity component is recognised in equity.

AG35 An entity may amend the terms of a convertible instrument to induce early conversion, for example by offering a more favourable conversion ratio or paying other additional consideration in the event of conversion before a specified date. The difference, at the date the terms are amended, between the fair value of the consideration the holder receives on conversion of the instrument under the revised terms and the fair value of the consideration the holder would have received under the original terms is recognised as a loss in profit or loss.

Treasury shares (paragraphs 33 and 34)

AG36 An entity's own equity instruments are not recognised as a financial asset regardless of the reason for which they are reacquired. Paragraph 33 requires an entity that reacquires its own equity instruments to deduct those equity instruments from equity. However, when an entity holds its own equity on behalf of others, eg a financial institution holding its own equity on behalf of a client, there is an agency relationship and as a result those holdings are not included in the entity's balance sheet.

Interest, dividends, losses and gains (paragraphs 35–41)

AG37 The following example illustrates the application of paragraph 35 to a compound financial instrument. Assume that a non-cumulative preference share is mandatorily redeemable for cash in five years, but that dividends are payable at the discretion of the entity before the redemption date. Such an instrument is a compound financial instrument, with the liability component being the present value of the redemption amount. The unwinding of the discount on this component is recognised in profit or loss and classified as interest expense. Any dividends paid relate to the equity component and, accordingly, are recognised as a distribution of profit or loss. A similar treatment would apply if the redemption was not mandatory but at the option of the holder, or if the share was mandatorily convertible into a variable number of ordinary shares calculated to equal a fixed amount or an amount based on changes in an underlying variable (eg commodity). However, if any unpaid dividends are added to the redemption amount, the entire instrument is a liability. In such a case, any dividends are classified as interest expense.

Offsetting a financial asset and a financial liability

(paragraphs 42–50)

AG38 [Refer Appendix 1]

Criterion that an entity 'currently has a legally enforceable right to set-off the recognised amounts' (paragraph 42(a))

AG38A A right of set-off may be currently available or it may be contingent on a future event (for example, the right may be triggered or exercisable only on the occurrence of some future event, such as the default, insolvency or bankruptcy of one of the counterparties). Even if the right of set-off is not contingent on a future event, it may only be legally enforceable in the normal course of business, or in the event of default, or in the event of insolvency or bankruptcy, of one or all of the counterparties.

AG38B To meet the criterion in paragraph 42(a), an entity must currently have a legally enforceable right of set-off. This means that the right of set-off:

- (a) must not be contingent on a future event; and
- (b) must be legally enforceable in all of the following circumstances:
 - (i) the normal course of business;
 - (ii) the event of default; and
 - (iii) the event of insolvency or bankruptcy of the entity and all of the counterparties.

AG38C The nature and extent of the right of set-off, including any conditions attached to its exercise and whether it would remain in the event of default or insolvency or bankruptcy, may vary from one legal jurisdiction to another. Consequently, it cannot be assumed that the right of set-off is automatically available outside of the normal course of business. For example, the bankruptcy or insolvency laws of a jurisdiction may prohibit, or restrict, the right of set-off in the event of bankruptcy or insolvency in some circumstances.

AG38D The laws applicable to the relationships between the parties (for example, contractual provisions, the laws governing the contract, or the default, insolvency or bankruptcy laws applicable to the parties) need to be considered to ascertain whether the right of set-off is enforceable in the normal course of business, in an event of default, and in the event of insolvency or bankruptcy, of the entity and all of the counterparties (as specified in paragraph AG38B (b)).

Criterion that an entity ‘intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously’ (paragraph 42(b))

AG38E To meet the criterion in paragraph 42(b) an entity must intend either to settle on a net basis or to realise the asset and settle the liability simultaneously. Although the entity may have a right to settle net, it may still realise the asset and settle the liability separately.

AG38F If an entity can settle amounts in a manner such that the outcome is, in effect, equivalent to net settlement, the entity will meet the net settlement criterion in paragraph 42(b). This will occur if, and only if, the gross settlement mechanism has features that eliminate or result in insignificant credit and liquidity risk, and that will process receivables and payables in a single settlement process or cycle. For example, a gross settlement system that has all of the following characteristics would meet the net settlement criterion in paragraph 42(b):

- (a) financial assets and financial liabilities eligible for set-off are submitted at the same point in time for processing;
- (b) once the financial assets and financial liabilities are submitted for processing, the parties are committed to fulfill the settlement obligation;
- (c) there is no potential for the cash flows arising from the assets and liabilities to change once they have been submitted for processing (unless the processing fails—see (d) below);
- (d) assets and liabilities that are collateralised with securities will be settled on a securities transfer or similar system (for example, delivery versus payment), so that if the transfer of securities fails, the processing of the related receivable or payable for which the securities are collateral will also fail (and vice versa);
- (e) any transactions that fail, as outlined in (d), will be re-entered for processing until they are settled;
- (f) settlement is carried out through the same settlement institution (for example, a settlement bank, a central bank or a central securities depository); and
- (g) an intraday credit facility is in place that will provide sufficient overdraft amounts to enable the processing of payments at the settlement date for each of the parties, and it is virtually certain that the intraday credit facility will be honoured if called upon.

AG39 The Standard does not provide special treatment for so-called ‘synthetic instruments’, which are groups of separate financial instruments acquired and held to emulate the characteristics of another instrument. For example, a floating rate long-term debt combined with an interest rate swap that involves receiving floating payments and making fixed payments synthesises a fixed rate long-term debt. Each of the individual financial instruments that together constitute a ‘synthetic instrument’ represents a contractual right or obligation with its own terms and conditions and each may be transferred or settled separately. Each financial instrument is exposed to risks that may differ from the risks to which other financial instruments are exposed. Accordingly, when one financial instrument in a ‘synthetic instrument’ is an asset and another is a liability, they are not offset and presented in an entity’s balance sheet on a net basis unless they meet the criteria for offsetting in paragraph 42.

Appendix B

References to matters contained in other Indian Accounting Standards

This Appendix is an integral part of the Ind AS.

This appendix lists the appendices which are part of other Indian Accounting Standards and makes reference to Ind AS 32, *Financial Instruments: Presentation*.

1. Appendix D, *Service Concession Arrangements* contained in Ind AS 115, *Revenue from Contracts with Customers*.
2. Appendix D, *Extinguishing Financial Liabilities with Equity Instruments*, contained in Ind AS 109, *Financial Instruments*

Appendix 1

Note: This Appendix is not a part of the Indian Accounting Standard. The purpose of this Appendix is only to bring out the major differences, if any, between Indian Accounting Standard (Ind AS) 32 and the corresponding International Accounting Standard (IAS) 32, Financial Instruments; Presentation, issued by the International Accounting Standards Board.

Comparison with IAS 32, *Financial Instruments: Presentation*

1. As an exception to the definition of 'financial liability' in paragraph 11(b)(ii), Ind AS 32 considers the equity conversion option embedded in a convertible bond denominated in foreign currency to acquire a fixed number of entity's own equity instruments is considered an equity instrument if the exercise price is fixed in any currency. This exception is not provided in IAS 32.
2. Paragraphs 96-97P and 97R related to Transitional Provisions and Effective date given in IAS 32 have not been given in Ind AS 32, since all transitional provisions related to Ind ASs, wherever considered appropriate have been included in Ind AS 101, *First-time Adoption of Indian Accounting Standards* corresponding to IFRS 1, *First-time Adoption of International Financial Reporting Standards* and paragraphs related to Effective date are not relevant in Indian context. However, in order to maintain consistency with paragraph numbers of IAS 32, these paragraph numbers are retained in Ind AS 32.
3. Different terminology is used, as used in existing laws e.g., the term 'balance sheet' is used instead of 'Statement of financial position' and 'Statement of profit and loss' is used instead of 'Statement of comprehensive income'.
4. Requirements regarding presentation of dividends classified as an expense in the separate income statement, where separate income statement is presented, have been deleted. This change is 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.
5. The following paragraph numbers appear as 'Deleted' in IAS 32. In order to maintain consistency with paragraph numbers of IAS 32, the paragraph numbers are retained in Ind AS 32:
 - (i) paragraph 1
 - (ii) paragraph 4(c)
 - (iii) paragraphs 5-7
 - (iv) AG24 of Appendix A
 - (v) AG38 of Appendix A
6. Following references to Illustrative Examples which are not integral part of IAS 32 have not been included in Ind AS 32:
 - (i) Reference to Example 7 of Illustrative Examples in paragraph 18(b)
 - (ii) Reference to Example 8 of Illustrative Example in paragraph 18(b)
 - (iii) Reference to Example 9-12 of Illustrative Example given in heading above paragraph 28

Indian Accounting Standard (Ind AS) 33

Earnings per Share

(This Indian Accounting Standard includes paragraphs set in **bold** type and plain type, which have equal authority. Paragraphs in bold type indicate the main principles.)

Objective

- 1 The objective of this Standard is to prescribe principles for the determination and presentation of earnings per share, so as to improve performance comparisons between different entities in the same reporting period and between different reporting periods for the same entity. Even though earnings per share data have limitations because of the different accounting policies that may be used for determining 'earnings', a consistently determined denominator enhances financial reporting. The focus of this Standard is on the denominator of the earnings per share calculation.

Scope

- 2 This Indian Accounting Standard shall apply to companies that have issued ordinary shares¹ to which Indian Accounting Standards (Ind ASs) notified under the Companies Act apply.

[Refer Appendix 1]

- 3 **An entity that discloses earnings per share shall calculate and disclose earnings per share in accordance with this Standard.**
- 4 **When an entity presents both consolidated financial statements and separate financial statements prepared in accordance with Ind AS 110, *Consolidated Financial Statements*, and Ind AS 27, *Separate Financial Statements*, respectively, the disclosures required by this Standard shall be presented both in the consolidated financial statements and separate financial statements. In consolidated financial statements such disclosures shall be based on consolidated information and in separate financial statements such disclosures shall be based on information given in separate financial statements. An entity shall not present in consolidated financial statements, earnings per share based on the information given in separate financial statements and shall not present in separate financial statements, earnings per share based on the information given in consolidated financial statements.**

4A [Refer Appendix 1]

Definitions

- 5 The following terms are used in this Standard with the meanings specified: *Antidilution* is an increase in earnings per share or a reduction in loss per share resulting from the assumption that convertible instruments are converted, that options or warrants are exercised, or that ordinary shares are issued upon the satisfaction of specified conditions.

A contingent share agreement is an agreement to issue shares that is dependent on the satisfaction of specified conditions.

Contingently issuable ordinary shares are ordinary shares issuable for little or no cash or other consideration upon the satisfaction of specified conditions in a contingent share agreement.

Dilution is a reduction in earnings per share or an increase in loss per share resulting from the assumption that convertible instruments are converted, that options or warrants are exercised, or that ordinary shares are issued upon the satisfaction of specified conditions.

Options, warrants and their equivalents are financial instruments that give the holder the right to purchase ordinary shares.

An ordinary share is an equity instrument that is subordinate to all other classes of equity instruments.

A potential ordinary share is a financial instrument or other contract that may entitle its holder to ordinary shares.

Put options on ordinary shares are contracts that give the holder the right to sell ordinary shares at a specified price for a given period.

- 6 Ordinary shares participate in profit for the period only after other types of shares such as preference shares have participated. An entity may have more than one class of ordinary shares. Ordinary shares of the same class have the same rights to receive dividends.

¹ In Indian context, the term 'ordinary shares' is equivalent to 'equity shares'.

- 7 Examples of potential ordinary shares are:
- financial liabilities or equity instruments, including preference shares, that are convertible into ordinary shares;
 - options and warrants;
 - shares that would be issued upon the satisfaction of conditions resulting from contractual arrangements, such as the purchase of a business or other assets.
- 8 Terms defined in Ind AS 32, *Financial Instruments: Presentation*, are used in this Standard with the meanings specified in paragraph 11 of Ind AS 32, unless otherwise noted. Ind AS 32 defines financial instrument, financial asset, financial liability and equity instrument, and provides guidance on applying those definitions. Ind AS 113, *Fair Value Measurement*, defines fair value and sets out requirements for applying that definition.

Measurement

Basic earnings per share

- 9 **An entity shall calculate basic earnings per share amounts for profit or loss attributable to ordinary equity holders of the parent entity and, if presented, profit or loss from continuing operations attributable to those equity holders.**
- 10 **Basic earnings per share shall be calculated by dividing profit or loss attributable to ordinary equity holders of the parent entity (the numerator) by the weighted average number of ordinary shares outstanding (the denominator) during the period.**
- 11 The objective of basic earnings per share information is to provide a measure of the interests of each ordinary share of a parent entity in the performance of the entity over the reporting period.

Earnings

- 12 **For the purpose of calculating basic earnings per share, the amounts attributable to ordinary equity holders of the parent entity in respect of:**
- profit or loss from continuing operations attributable to the parent entity; and**
 - profit or loss attributable to the parent entity shall be the amounts in (a) and (b) adjusted for the after-tax amounts of preference dividends, differences arising on the settlement of preference shares, and other similar effects of preference shares classified as equity.**

Where any item of income or expense which is otherwise required to be recognised in profit or loss in accordance with Indian Accounting Standards is debited or credited to securities premium account/other reserves, the amount in respect thereof shall be deducted from profit or loss from continuing operations for the purpose of calculating basic earnings per share.

- 13 All items of income and expense attributable to ordinary equity holders of the parent entity that are recognised in a period, including tax expense and dividends on preference shares classified as liabilities are included in the determination of profit or loss for the period attributable to ordinary equity holders of the parent entity (see Ind AS 1).
- 14 The after-tax amount of preference dividends that is deducted from profit or loss is:
- the after-tax amount of any preference dividends on non-cumulative preference shares declared in respect of the period; and
 - the after-tax amount of the preference dividends for cumulative preference shares required for the period, whether or not the dividends have been declared. The amount of preference dividends for the period does not include the amount of any preference dividends for cumulative preference shares paid or declared during the current period in respect of previous periods.
- 15 Preference shares that provide for a low initial dividend to compensate an entity for selling the preference shares at a discount, or an above-market dividend in later periods to compensate investors for purchasing preference shares at a premium, are sometimes referred to as increasing rate preference shares. Any original issue discount or premium on increasing rate preference shares is amortised to retained earnings using the effective interest method and treated as a preference dividend for the purposes of calculating earnings per share (irrespective of whether such discount or premium is debited or credited to securities premium account in view of requirements of any law).
- 16 Preference shares may be repurchased under an entity's tender offer to the holders. The excess of the fair value of the consideration paid to the preference shareholders over the carrying amount of the preference shares represents a return to the holders of the preference shares and a charge to retained earnings for the entity. This amount is deducted in calculating profit or loss attributable to ordinary equity holders of the parent entity.
- 17 Early conversion of convertible preference shares may be induced by an entity through favourable changes to the original conversion terms or the payment of additional consideration. The excess of the fair value of the ordinary

shares or other consideration paid over the fair value of the ordinary shares issuable under the original conversion terms is a return to the preference shareholders, and is deducted in calculating profit or loss attributable to ordinary equity holders of the parent entity.

- 18 Any excess of the carrying amount of preference shares over the fair value of the consideration paid to settle them is added in calculating profit or loss attributable to ordinary equity holders of the parent entity.

Shares

- 19 For the purpose of calculating basic earnings per share, the number of ordinary shares shall be the weighted average number of ordinary shares outstanding during the period.**

- 20 Using the weighted average number of ordinary shares outstanding during the period reflects the possibility that the amount of shareholders' capital varied during the period as a result of a larger or smaller number of shares being outstanding at any time. The weighted average number of ordinary shares outstanding during the period is the number of ordinary shares outstanding at the beginning of the period, adjusted by the number of ordinary shares bought back or issued during the period multiplied by a time-weighting factor. The time-weighting factor is the number of days that the shares are outstanding as a proportion of the total number of days in the period; a reasonable approximation of the weighted average is adequate in many circumstances.

- 21 Shares are usually included in the weighted average number of shares from the date consideration is receivable (which is generally the date of their issue), for example:

- (a) ordinary shares issued in exchange for cash are included when cash is receivable; (b) ordinary shares issued on the voluntary reinvestment of dividends on ordinary or preference shares are included when dividends are reinvested;
- (c) ordinary shares issued as a result of the conversion of a debt instrument to ordinary shares are included from the date that interest ceases to accrue;
- (d) ordinary shares issued in place of interest or principal on other financial instruments are included from the date that interest ceases to accrue;
- (e) ordinary shares issued in exchange for the settlement of a liability of the entity are included from the settlement date;
- (f) ordinary shares issued as consideration for the acquisition of an asset other than cash are included as of the date on which the acquisition is recognised; and
- (g) ordinary shares issued for the rendering of services to the entity are included as the services are rendered.

The timing of the inclusion of ordinary shares is determined by the terms and conditions attaching to their issue. Due consideration is given to the substance of any contract associated with the issue.

- 22 Ordinary shares issued as part of the consideration transferred in a business combination are included in the weighted average number of shares from the acquisition date. This is because the acquirer incorporates into its statement of profit and loss the acquiree's profits and losses from that date.

- 23 Ordinary shares that will be issued upon the conversion of a mandatorily convertible instrument are included in the calculation of basic earnings per share from the date the contract is entered into.

- 24 Contingently issuable shares are treated as outstanding and are included in the calculation of basic earnings per share only from the date when all necessary conditions are satisfied (ie the events have occurred). Shares that are issuable solely after the passage of time are not contingently issuable shares, because the passage of time is a certainty. Outstanding ordinary shares that are contingently returnable (ie subject to recall) are not treated as outstanding and are excluded from the calculation of basic earnings per share until the date the shares are no longer subject to recall.

- 25 [Refer Appendix 1]

- 26 The weighted average number of ordinary shares outstanding during the period and for all periods presented shall be adjusted for events, other than the conversion of potential ordinary shares, that have changed the number of ordinary shares outstanding without a corresponding change in resources.**

- 27 Ordinary shares may be issued, or the number of ordinary shares outstanding may be reduced, without a corresponding change in resources. Examples include:

- (a) a capitalisation or bonus issue (sometimes referred to as a stock dividend);
- (b) a bonus element in any other issue, for example a bonus element in a rights issue to existing shareholders;
- (c) a share split; and
- (d) a reverse share split (consolidation of shares).

- 28 In a capitalisation or bonus issue or a share split, ordinary shares are issued to existing shareholders for no additional consideration. Therefore, the number of ordinary shares outstanding is increased without an increase in resources. The number of ordinary shares outstanding before the event is adjusted for the proportionate change in the number of ordinary shares outstanding as if the event had occurred at the beginning of the earliest period presented. For example, on a two-for-one bonus issue, the number of ordinary shares outstanding before the issue is multiplied by three to obtain the new total number of ordinary shares, or by two to obtain the number of additional ordinary shares.
- 29 A consolidation of ordinary shares generally reduces the number of ordinary shares outstanding without a corresponding reduction in resources. However, when the overall effect is a share repurchase at fair value, the reduction in the number of ordinary shares outstanding is the result of a corresponding reduction in resources. An example is a share consolidation combined with a special dividend. The weighted average number of ordinary shares outstanding for the period in which the combined transaction takes place is adjusted for the reduction in the number of ordinary shares from the date the special dividend is recognised.

Diluted earnings per share

- 30 **An entity shall calculate diluted earnings per share amounts for profit or loss attributable to ordinary equity holders of the parent entity and, if presented, profit or loss from continuing operations attributable to those equity holders.**
- 31 **For the purpose of calculating diluted earnings per share, an entity shall adjust profit or loss attributable to ordinary equity holders of the parent entity, and the weighted average number of shares outstanding, for the effects of all dilutive potential ordinary shares.**
- 32 The objective of diluted earnings per share is consistent with that of basic earnings per share—to provide a measure of the interest of each ordinary share in the performance of an entity—while giving effect to all dilutive potential ordinary shares outstanding during the period. As a result:
- profit or loss attributable to ordinary equity holders of the parent entity is increased by the after-tax amount of dividends and interest recognised in the period in respect of the dilutive potential ordinary shares and is adjusted for any other changes in income or expense that would result from the conversion of the dilutive potential ordinary shares; and
 - the weighted average number of ordinary shares outstanding is increased by the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

Earnings

- 33 **For the purpose of calculating diluted earnings per share, an entity shall adjust profit or loss attributable to ordinary equity holders of the parent entity, as calculated in accordance with paragraph 12, by the after-tax effect of:**
- any dividends or other items related to dilutive potential ordinary shares deducted in arriving at profit or loss attributable to ordinary equity holders of the parent entity as calculated in accordance with paragraph 12;**
 - any interest recognised in the period related to dilutive potential ordinary shares; and**
 - any other changes in income or expense that would result from the conversion of the dilutive potential ordinary shares.**
- 34 After the potential ordinary shares are converted into ordinary shares, the items identified in paragraph 33(a)–(c) no longer arise. Instead, the new ordinary shares are entitled to participate in profit or loss attributable to ordinary equity holders of the parent entity. Therefore, profit or loss attributable to ordinary equity holders of the parent entity calculated in accordance with paragraph 12 is adjusted for the items identified in paragraph 33(a)–(c) and any related taxes. The expenses associated with potential ordinary shares include transaction costs and discounts accounted for in accordance with the effective interest method (see Ind AS 109).
- 35 The conversion of potential ordinary shares may lead to consequential changes in income or expenses. For example, the reduction of interest expense related to potential ordinary shares and the resulting increase in profit or reduction in loss may lead to an increase in the expense related to a non-discretionary employee profit-sharing plan. For the purpose of calculating diluted earnings per share, profit or loss attributable to ordinary equity holders of the parent entity is adjusted for any such consequential changes in income or expense.

Shares

- 36 **For the purpose of calculating diluted earnings per share, the number of ordinary shares shall be the weighted average number of ordinary shares calculated in accordance with paragraphs 19 and 26, plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive**

potential ordinary shares into ordinary shares. Dilutive potential ordinary shares shall be deemed to have been converted into ordinary shares at the beginning of the period or, if later, the date of the issue of the potential ordinary shares.

- 37 Dilutive potential ordinary shares shall be determined independently for each period presented. The number of dilutive potential ordinary shares included in the year-to-date period is not a weighted average of the dilutive potential ordinary shares included in each interim computation.
- 38 Potential ordinary shares are weighted for the period they are outstanding. Potential ordinary shares that are cancelled or allowed to lapse during the period are included in the calculation of diluted earnings per share only for the portion of the period during which they are outstanding. Potential ordinary shares that are converted into ordinary shares during the period are included in the calculation of diluted earnings per share from the beginning of the period to the date of conversion; from the date of conversion, the resulting ordinary shares are included in both basic and diluted earnings per share.
- 39 The number of ordinary shares that would be issued on conversion of dilutive potential ordinary shares is determined from the terms of the potential ordinary shares. When more than one basis of conversion exists, the calculation assumes the most advantageous conversion rate or exercise price from the standpoint of the holder of the potential ordinary shares.
- 40 A subsidiary, joint venture or associate may issue to parties other than the parent or investors with joint control of, or significant influence over, the investee potential ordinary shares that are convertible into either ordinary shares of the subsidiary, joint venture or associate, or ordinary shares of the parent or investors with joint control of, or significant influence (the reporting entity) over, the investee. If these potential ordinary shares of the subsidiary, joint venture or associate have a dilutive effect on the basic earnings per share of the reporting entity, they are included in the calculation of diluted earnings per share.

Dilutive potential ordinary shares

- 41 **Potential ordinary shares shall be treated as dilutive when, and only when, their conversion to ordinary shares would decrease earnings per share or increase loss per share from continuing operations.**
- 42 An entity uses profit or loss from continuing operations attributable to the parent entity as the control number to establish whether potential ordinary shares are dilutive or antidilutive. Profit or loss from continuing operations attributable to the parent entity is adjusted in accordance with paragraph 12 and excludes items relating to discontinued operations.
- 43 Potential ordinary shares are antidilutive when their conversion to ordinary shares would increase earnings per share or decrease loss per share from continuing operations. The calculation of diluted earnings per share does not assume conversion, exercise, or other issue of potential ordinary shares that would have an antidilutive effect on earnings per share.
- 44 In determining whether potential ordinary shares are dilutive or antidilutive, each issue or series of potential ordinary shares is considered separately rather than in aggregate. The sequence in which potential ordinary shares are considered may affect whether they are dilutive. Therefore, to maximise the dilution of basic earnings per share, each issue or series of potential ordinary shares is considered in sequence from the most dilutive to the least dilutive, ie dilutive potential ordinary shares with the lowest 'earnings per incremental share' are included in the diluted earnings per share calculation before those with a higher earnings per incremental share. Options and warrants are generally included first because they do not affect the numerator of the calculation.

Options, warrants and their equivalents

- 45 **For the purpose of calculating diluted earnings per share, an entity shall assume the exercise of dilutive options and warrants of the entity. The assumed proceeds from these instruments shall be regarded as having been received from the issue of ordinary shares at the average market price of ordinary shares during the period. The difference between the number of ordinary shares issued and the number of ordinary shares that would have been issued at the average market price of ordinary shares during the period shall be treated as an issue of ordinary shares for no consideration.**
- 46 Options and warrants are dilutive when they would result in the issue of ordinary shares for less than the average market price of ordinary shares during the period. The amount of the dilution is the average market price of ordinary shares during the period minus the issue price. Therefore, to calculate diluted earnings per share, potential ordinary shares are treated as consisting of both the following:
 - (a) a contract to issue a certain number of the ordinary shares at their average market price during the period. Such ordinary shares are assumed to be fairly priced and to be neither dilutive nor antidilutive. They are ignored in the calculation of diluted earnings per share.

- (b) a contract to issue the remaining ordinary shares for no consideration. Such ordinary shares generate no proceeds and have no effect on profit or loss attributable to ordinary shares outstanding. Therefore, such shares are dilutive and are added to the number of ordinary shares outstanding in the calculation of diluted earnings per share.
- 47 Options and warrants have a dilutive effect only when the average market price of ordinary shares during the period exceeds the exercise price of the options or warrants (ie they are 'in the money'). Previously reported earnings per share are not retroactively adjusted to reflect changes in prices of ordinary shares.
- 47A For share options and other share-based payment arrangements to which Ind AS 102, *Share-based Payment*, applies, the issue price referred to in paragraph 46 and the exercise price referred to in paragraph 47 shall include the fair value (measured in accordance with Ind AS 102) of any goods or services to be supplied to the entity in the future under the share option or other share-based payment arrangement.
- 48 Employee share options with fixed or determinable terms and non-vested ordinary shares are treated as options in the calculation of diluted earnings per share, even though they may be contingent on vesting. They are treated as outstanding on the grant date. Performance-based employee share options are treated as contingently issuable shares because their issue is contingent upon satisfying specified conditions in addition to the passage of time.

Convertible instruments

- 49 The dilutive effect of convertible instruments shall be reflected in diluted earnings per share in accordance with paragraphs 33 and 36.
- 50 Convertible preference shares are antidilutive whenever the amount of the dividend on such shares declared in or accumulated for the current period per ordinary share obtainable on conversion exceeds basic earnings per share. Similarly, convertible debt is antidilutive whenever its interest (net of tax and other changes in income or expense) per ordinary share obtainable on conversion exceeds basic earnings per share.
- 51 The redemption or induced conversion of convertible preference shares may affect only a portion of the previously outstanding convertible preference shares. In such cases, any excess consideration referred to in paragraph 17 is attributed to those shares that are redeemed or converted for the purpose of determining whether the remaining outstanding preference shares are dilutive. The shares redeemed or converted are considered separately from those shares that are not redeemed or converted.

Contingently issuable shares

- 52 As in the calculation of basic earnings per share, contingently issuable ordinary shares are treated as outstanding and included in the calculation of diluted earnings per share if the conditions are satisfied (ie the events have occurred). Contingently issuable shares are included from the beginning of the period (or from the date of the contingent share agreement, if later). If the conditions are not satisfied, the number of contingently issuable shares included in the diluted earnings per share calculation is based on the number of shares that would be issuable if the end of the period were the end of the contingency period. Restatement is not permitted if the conditions are not met when the contingency period expires.
- 53 If attainment or maintenance of a specified amount of earnings for a period is the condition for contingent issue and if that amount has been attained at the end of the reporting period but must be maintained beyond the end of the reporting period for an additional period, then the additional ordinary shares are treated as outstanding, if the effect is dilutive, when calculating diluted earnings per share. In that case, the calculation of diluted earnings per share is based on the number of ordinary shares that would be issued if the amount of earnings at the end of the reporting period were the amount of earnings at the end of the contingency period. Because earnings may change in a future period, the calculation of basic earnings per share does not include such contingently issuable ordinary shares until the end of the contingency period because not all necessary conditions have been satisfied.
- 54 The number of ordinary shares contingently issuable may depend on the future market price of the ordinary shares. In that case, if the effect is dilutive, the calculation of diluted earnings per share is based on the number of ordinary shares that would be issued if the market price at the end of the reporting period were the market price at the end of the contingency period. If the condition is based on an average of market prices over a period of time that extends beyond the end of the reporting period, the average for the period of time that has lapsed is used. Because the market price may change in a future period, the calculation of basic earnings per share does not include such contingently issuable ordinary shares until the end of the contingency period because not all necessary conditions have been satisfied.
- 55 The number of ordinary shares contingently issuable may depend on future earnings and future prices of the ordinary shares. In such cases, the number of ordinary shares included in the diluted earnings per share calculation is based on both conditions (ie earnings to date and the current market price at the end of the reporting period). Contingently issuable ordinary shares are not included in the diluted earnings per share calculation unless both conditions are met.

- 56 In other cases, the number of ordinary shares contingently issuable depends on a condition other than earnings or market price (for example, the opening of a specific number of retail stores). In such cases, assuming that the present status of the condition remains unchanged until the end of the contingency period, the contingently issuable ordinary shares are included in the calculation of diluted earnings per share according to the status at the end of the reporting period.
- 57 Contingently issuable potential ordinary shares (other than those covered by a contingent share agreement, such as contingently issuable convertible instruments) are included in the diluted earnings per share calculation as follows:
- (a) an entity determines whether the potential ordinary shares may be assumed to be issuable on the basis of the conditions specified for their issue in accordance with the contingent ordinary share provisions in paragraphs 52–56; and
 - (b) if those potential ordinary shares should be reflected in diluted earnings per share, an entity determines their impact on the calculation of diluted earnings per share by following the provisions for options and warrants in paragraphs 45–48, the provisions for convertible instruments in paragraphs 49–51, the provisions for contracts that may be settled in ordinary shares or cash in paragraphs 58–61, or other provisions, as appropriate.

However, exercise or conversion is not assumed for the purpose of calculating diluted earnings per share unless exercise or conversion of similar outstanding potential ordinary shares that are not contingently issuable is assumed.

Contracts that may be settled in ordinary shares or cash

- 58 **When an entity has issued a contract that may be settled in ordinary shares or cash at the entity's option, the entity shall presume that the contract will be settled in ordinary shares, and the resulting potential ordinary shares shall be included in diluted earnings per share if the effect is dilutive.**
- 59 When such a contract is presented for accounting purposes as an asset or a liability, or has an equity component and a liability component, the entity shall adjust the numerator for any changes in profit or loss that would have resulted during the period if the contract had been classified wholly as an equity instrument. That adjustment is similar to the adjustments required in paragraph 33.
- 60 **For contracts that may be settled in ordinary shares or cash at the holder's option, the more dilutive of cash settlement and share settlement shall be used in calculating diluted earnings per share.**
- 61 An example of a contract that may be settled in ordinary shares or cash is a debt instrument that, on maturity, gives the entity the unrestricted right to settle the principal amount in cash or in its own ordinary shares. Another example is a written put option that gives the holder a choice of settling in ordinary shares or cash.

Purchased options

- 62 Contracts such as purchased put options and purchased call options (ie options held by the entity on its own ordinary shares) are not included in the calculation of diluted earnings per share because including them would be antidilutive. The put option would be exercised only if the exercise price were higher than the market price and the call option would be exercised only if the exercise price were lower than the market price.

Written put options

- 63 **Contracts that require the entity to repurchase its own shares, such as written put options and forward purchase contracts, are reflected in the calculation of diluted earnings per share if the effect is dilutive. If these contracts are 'in the money' during the period (ie the exercise or settlement price is above the average market price for that period), the potential dilutive effect on earnings per share shall be calculated as follows:**
- (a) it shall be assumed that at the beginning of the period sufficient ordinary shares will be issued (at the average market price during the period) to raise proceeds to satisfy the contract;
 - (b) it shall be assumed that the proceeds from the issue are used to satisfy the contract (ie to buy back ordinary shares); and
 - (c) the incremental ordinary shares (the difference between the number of ordinary shares assumed issued and the number of ordinary shares received from satisfying the contract) shall be included in the calculation of diluted earnings per share.

Retrospective adjustments

- 64 **If the number of ordinary or potential ordinary shares outstanding increases as a result of a capitalisation, bonus issue or share split, or decreases as a result of a reverse share split, the calculation of basic and diluted earnings per share for all periods presented shall be adjusted retrospectively. If these changes occur after the reporting period but before the financial statements are approved for issue, the per share calculations for those and any prior period financial statements presented shall be based on the new number of shares. The fact that per share calculations reflect such changes in the number of shares shall be disclosed. In addition, basic and diluted earnings per share of all periods presented shall be adjusted for the effects of errors and adjustments resulting from changes in accounting policies accounted for retrospectively.**

65 An entity does not restate diluted earnings per share of any prior period presented for changes in the assumptions used in earnings per share calculations or for the conversion of potential ordinary shares into ordinary shares.

Presentation

66 An entity shall present in the statement of profit and loss basic and diluted earnings per share for profit or loss from continuing operations attributable to the ordinary equity holders of the parent entity and for profit or loss attributable to the ordinary equity holders of the parent entity for the period for each class of ordinary shares that has a different right to share in profit for the period. An entity shall present basic and diluted earnings per share with equal prominence for all periods presented.

67 Earnings per share is presented for every period for which a statement of profit and loss is presented. If diluted earnings per share is reported for at least one period, it shall be reported for all periods presented, even if it equals basic earnings per share. If basic and diluted earnings per share are equal, dual presentation can be accomplished in one line in the statement of profit and loss.

67A [Refer Appendix 1]

68 An entity that reports a discontinued operation shall disclose the basic and diluted amounts per share for the discontinued operation either in the statement of profit and loss or in the notes.

68A [Refer Appendix 1]

69 An entity shall present basic and diluted earnings per share, even if the amounts are negative (ie a loss per share).

Disclosure

70 An entity shall disclose the following:

- (a) the amounts used as the numerators in calculating basic and diluted earnings per share, and a reconciliation of those amounts to profit or loss attributable to the parent entity for the period. The reconciliation shall include the individual effect of each class of instruments that affects earnings per share.
- (b) the weighted average number of ordinary shares used as the denominator in calculating basic and diluted earnings per share, and a reconciliation of these denominators to each other. The reconciliation shall include the individual effect of each class of instruments that affects earnings per share.
- (c) instruments (including contingently issuable shares) that could potentially dilute basic earnings per share in the future, but were not included in the calculation of diluted earnings per share because they are antidilutive for the period(s) presented.
- (d) a description of ordinary share transactions or potential ordinary share transactions, other than those accounted for in accordance with paragraph 64, that occur after the reporting period and that would have changed significantly the number of ordinary shares or potential ordinary shares outstanding at the end of the period if those transactions had occurred before the end of the reporting period.

71 Examples of transactions in paragraph 70(d) include:

- (a) an issue of shares for cash;
- (b) an issue of shares when the proceeds are used to repay debt or preference shares outstanding at the end of the reporting period;
- (c) the redemption of ordinary shares outstanding;
- (d) the conversion or exercise of potential ordinary shares outstanding at the end of the reporting period into ordinary shares;
- (e) an issue of options, warrants, or convertible instruments; and
- (f) the achievement of conditions that would result in the issue of contingently issuable shares. Earnings per share amounts are not adjusted for such transactions occurring after the reporting period because such transactions do not affect the amount of capital used to produce profit or loss for the period.

72 Financial instruments and other contracts generating potential ordinary shares may incorporate terms and conditions that affect the measurement of basic and diluted earnings per share. These terms and conditions may determine whether any potential ordinary shares are dilutive and, if so, the effect on the weighted average number of shares outstanding and any consequent adjustments to profit or loss attributable to ordinary equity holders. The disclosure of the terms and conditions of such financial instruments and other contracts is encouraged, if not otherwise required (see Ind AS 107, *Financial Instruments: Disclosures*).

73 If an entity discloses, in addition to basic and diluted earnings per share, amounts per share using a reported component of the statement of profit and loss other than one required by this Standard, such amounts shall be calculated using the weighted average number of ordinary shares determined in accordance with this Standard. Basic and diluted amounts per share relating to such a component shall be disclosed with equal prominence and presented in the notes. An entity shall indicate the basis on which the numerator(s) is (are) determined, including whether amounts per share are before tax or after tax. If a component of the statement of profit and loss is used that is not reported as a line item in the statement of profit and loss, a reconciliation shall be provided between the component used and a line item that is reported in the statement of profit and loss.

73A [Refer Appendix 1]

Appendix A

Application guidance

This appendix is an integral part of the Ind AS.

Profit or loss attributable to the parent entity

A1 For the purpose of calculating earnings per share based on the consolidated financial statements, profit or loss attributable to the parent entity refers to profit or loss of the consolidated entity after adjusting for non-controlling interests.

Rights issues

A2 The issue of ordinary shares at the time of exercise or conversion of potential ordinary shares does not usually give rise to a bonus element. This is because the potential ordinary shares are usually issued for fair value, resulting in a proportionate change in the resources available to the entity. In a rights issue, however, the exercise price is often less than the fair value of the shares. Therefore, as noted in paragraph 27(b), such a rights issue includes a bonus element. If a rights issue is offered to all existing shareholders, the number of ordinary shares to be used in calculating basic and diluted earnings per share for all periods before the rights issue is the number of ordinary shares outstanding before the issue, multiplied by the following factor:

Fair value per share immediately before the exercise of rights

Theoretical ex-rights fair value per share

The theoretical ex-rights fair value per share is calculated by adding the aggregate fair value of the shares immediately before the exercise of the rights to the proceeds from the exercise of the rights, and dividing by the number of shares outstanding after the exercise of the rights. Where the rights are to be publicly traded separately from the shares before the exercise date, fair value is measured at the close of the last day on which the shares are traded together with the rights.

Control number

A3 To illustrate the application of the control number notion described in paragraphs 42 and 43, assume that an entity has profit from continuing operations attributable to the parent entity of Rs. 4,800, a loss from discontinued operations attributable to the parent entity of (Rs. 7,200), a loss attributable to the parent entity of (Rs. 2,400), and 2,000 ordinary shares and 400 potential ordinary shares outstanding. The entity's basic earnings per share is Rs. 2.40 for continuing operations, (Rs. 3.60) for discontinued operations and (Rs. 1.20) for the loss. The 400 potential ordinary shares are included in the diluted earnings per share calculation because the resulting Rs. 2.00 earnings per share for continuing operations is dilutive, assuming no profit or loss impact of those 400 potential ordinary shares. Because profit from continuing operations attributable to the parent entity is the control number, the entity also includes those 400 potential ordinary shares in the calculation of the other earnings per share amounts, even though the resulting earnings per share amounts are antidilutive to their comparable basic earnings per share amounts, ie the loss per share is less [(Rs. 3.00) per share for the loss from discontinued operations and (Rs.1.00) per share for the loss].

Average market price of ordinary shares

A4 For the purpose of calculating diluted earnings per share, the average market price of ordinary shares assumed to be issued is calculated on the basis of the average market price of the ordinary shares during the period. Theoretically, every market transaction for an entity's ordinary shares could be included in the determination of the average market price. As a practical matter, however, a simple average of weekly or monthly prices is usually adequate.

A5 Generally, closing market prices are adequate for calculating the average market price. When prices fluctuate widely, however, an average of the high and low prices usually produces a more representative price. The method used to calculate the average market price is used consistently unless it is no longer representative because of changed conditions. For example, an entity that uses closing market prices to calculate the average market price for several years of relatively stable prices might change to an average of high and low prices if prices start fluctuating greatly and the closing market prices no longer produce a representative average price.

Options, warrants and their equivalents

A6 Options or warrants to purchase convertible instruments are assumed to be exercised to purchase the convertible instrument whenever the average prices of both the convertible instrument and the ordinary shares obtainable upon conversion are above the exercise price of the options or warrants. However, exercise is not assumed unless conversion of similar outstanding convertible instruments, if any, is also assumed.

A7 Options or warrants may permit or require the tendering of debt or other instruments of the entity (or its parent or a subsidiary) in payment of all or a portion of the exercise price. In the calculation of diluted earnings per share, those options or warrants have a dilutive effect if (a) the average market price of the related ordinary shares for the period exceeds the exercise price or (b) the selling price of the instrument to be tendered is below that at which the instrument may be tendered under the option or warrant agreement and the resulting discount establishes an effective exercise price below the market price of the ordinary shares obtainable upon exercise. In the calculation of diluted earnings per share, those options or warrants are assumed to be exercised and the debt or other instruments are assumed to be tendered. If tendering cash is more advantageous to the option or warrant holder and the contract permits tendering cash, tendering of cash is assumed. Interest (net of tax) on any debt assumed to be tendered is added back as an adjustment to the numerator.

A8 Similar treatment is given to preference shares that have similar provisions or to other instruments that have conversion options that permit the investor to pay cash for a more favourable conversion rate.

A9 The underlying terms of certain options or warrants may require the proceeds received from the exercise of those instruments to be applied to redeem debt or other instruments of the entity (or its parent or a subsidiary). In the calculation of diluted earnings per share, those options or warrants are assumed to be exercised and the proceeds applied to purchase the debt at its average market price rather than to purchase ordinary shares. However, the excess proceeds received from the assumed exercise over the amount used for the assumed purchase of debt are considered (ie assumed to be used to buy back ordinary shares) in the diluted earnings per share calculation. Interest (net of tax) on any debt assumed to be purchased is added back as an adjustment to the numerator.

Written put options

A10 To illustrate the application of paragraph 63, assume that an entity has outstanding 120 written put options on its ordinary shares with an exercise price of Rs. 35. The average market price of its ordinary shares for the period is Rs. 28. In calculating diluted earnings per share, the entity assumes that it issued 150 shares at Rs. 28 per share at the beginning of the period to satisfy its put obligation of Rs. 4,200. The difference between the 150 ordinary shares issued and the 120 ordinary shares received from satisfying the put option (30 incremental ordinary shares) is added to the denominator in calculating diluted earnings per share.

Instruments of subsidiaries, joint ventures or associates

A11 Potential ordinary shares of a subsidiary, joint venture or associate convertible into either ordinary shares of the subsidiary, joint venture or associate, or ordinary shares of the parent or investors with joint control of, or significant influence (the reporting entity) over, the investee are included in the calculation of diluted earnings per share as follows:

- (a) instruments issued by a subsidiary, joint venture or associate that enable their holders to obtain ordinary shares of the subsidiary, joint venture or associate are included in calculating the diluted earnings per share data of the subsidiary, joint venture or associate. Those earnings per share are then included in the reporting entity's earnings per share calculations based on the reporting entity's holding of the instruments of the subsidiary, joint venture or associate.
- (b) instruments of a subsidiary, joint venture or associate that are convertible into the reporting entity's ordinary shares are considered among the potential ordinary shares of the reporting entity for the purpose of calculating diluted earnings per share. Likewise, options or warrants issued by a subsidiary, joint venture or associate to purchase ordinary shares of the reporting entity are considered among the potential ordinary shares of the reporting entity in the calculation of consolidated diluted earnings per share.

A12 For the purpose of determining the earnings per share effect of instruments issued by a reporting entity that are convertible into ordinary shares of a subsidiary, joint venture or associate, the instruments are assumed to be converted and the numerator (profit or loss attributable to ordinary equity holders of the parent entity) adjusted as necessary in accordance with paragraph 33.

In addition to those adjustments, the numerator is adjusted for any change in the profit or loss recorded by the reporting entity (such as dividend income or equity method income) that is attributable to the increase in the number of ordinary shares of the subsidiary, joint venture or associate outstanding as a result of the assumed conversion. The denominator of the diluted earnings per share calculation is not affected because the number of ordinary shares of the reporting entity outstanding would not change upon assumed conversion.

Participating equity instruments and two-class ordinary shares

A13 The equity of some entities includes:

- (a) instruments that participate in dividends with ordinary shares according to a predetermined formula (for example, two for one) with, at times, an upper limit on the extent of participation (for example, up to, but not beyond, a specified amount per share).
- (b) a class of ordinary shares with a different dividend rate from that of another class of ordinary shares but without prior or senior rights.

A14 For the purpose of calculating diluted earnings per share, conversion is assumed for those instruments described in paragraph A13 that are convertible into ordinary shares if the effect is dilutive. For those instruments that are not convertible into a class of ordinary shares, profit or loss for the period is allocated to the different classes of shares and participating equity instruments in accordance with their dividend rights or other rights to participate in undistributed earnings. To calculate basic and diluted earnings per share:

- (a) profit or loss attributable to ordinary equity holders of the parent entity is adjusted (a profit reduced and a loss increased) by the amount of dividends declared in the period for each class of shares and by the contractual amount of dividends (or interest on participating bonds) that must be paid for the period (for example, unpaid cumulative dividends).
- (b) the remaining profit or loss is allocated to ordinary shares and participating equity instruments to the extent that each instrument shares in earnings as if all of the profit or loss for the period had been distributed. The total profit or loss allocated to each class of equity instrument is determined by adding together the amount allocated for dividends and the amount allocated for a participation feature.
- (c) the total amount of profit or loss allocated to each class of equity instrument is divided by the number of outstanding instruments to which the earnings are allocated to determine the earnings per share for the instrument.

For the calculation of diluted earnings per share, all potential ordinary shares assumed to have been issued are included in outstanding ordinary shares.

Partly paid shares

A15 Where ordinary shares are issued but not fully paid, they are treated in the calculation of basic earnings per share as a fraction of an ordinary share to the extent that they were entitled to participate in dividends during the period relative to a fully paid ordinary share.

A16 To the extent that partly paid shares are not entitled to participate in dividends during the period they are treated as the equivalent of warrants or options in the calculation of diluted earnings per share. The unpaid balance is assumed to represent proceeds used to purchase ordinary shares. The number of shares included in diluted earnings per share is the difference between the number of shares subscribed and the number of shares assumed to be purchased.

Appendix 1

Note: This Appendix is not a part of the Indian Accounting Standard. The purpose of this Appendix is only to bring out the major differences, if any, between Indian Accounting Standard (Ind AS) 33 and the corresponding International Accounting Standard (IAS) 33, Earnings per Share, issued by the International Accounting Standards Board.

Comparison with IAS 33, *Earnings per Share*

- 1 IAS 33 provides that when an entity presents both consolidated financial statements and separate financial statements, it may give EPS related information in consolidated financial statements only, whereas, the Ind AS 33 requires EPS related information to be disclosed both in consolidated financial statements and separate financial statements.
- 2 Different terminology is used, as used in existing laws eg, the term ‘Statement of profit and loss’ is used instead of ‘Statement of comprehensive income’. The words ‘approval of the financial statements for issue’ have been used instead of ‘authorisation of the financial statements for issue’ in the context of financial statements considered for the purpose of events after the reporting period.
- 3 Paragraph 2 of IAS 33 requires that the entire standard applies to:
 - (a) the separate or individual financial statements of an entity:
 - (i) whose ordinary shares or potential ordinary shares 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 Regulator or other regulatory organisation for the purpose of issuing ordinary shares in a public market; and
 - (b) the consolidated financial statements of a group with a parent:
 - (i) whose ordinary shares or potential ordinary shares 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 Regulator or other regulatory organisation for the purpose of issuing ordinary shares in a public market.

It also requires that an entity that discloses earnings per share shall calculate and disclose earnings per share in accordance with this Standard.

The above have been deleted in the Ind AS as the applicability or exemptions to the IndASs is governed by the Companies Act and the Rules made thereunder. However, the paragraph number has been retained in Ind AS 33 to maintain consistency with paragraph numbers of IAS 33.

- 4 Paragraph 4 has been modified in Ind AS 33 to clarify that an entity shall not present in separate financial statements, earnings per share based on the information given in consolidated financial statements, besides requiring as in IAS 33, that earnings per share based on the information given in separate financial statements shall not be presented in the consolidated financial statements.
- 5 In Ind AS 33, a paragraph has been added after paragraph 12 on the following lines: “Where any item of income or expense which is otherwise required to be recognized in profit or loss in accordance with accounting standards is debited or credited to securities premium account/other reserves, the amount in respect thereof shall be deducted from profit or loss from continuing operations for the purpose of calculating basic earnings per share.”
- 6 In Ind AS 33, paragraph 15 has been amended by adding the phrase, ‘irrespective of whether such discount or premium is debited or credited to securities premium account in view of requirements of any law’ to further clarify that such discount or premium shall also be amortised to retained earnings.
- 7 Requirements regarding disclosure of amounts per share using a reported component, basic and diluted earnings per share and basic and diluted earnings per share for discontinued operations in the separate income statement, where separate income statement is presented under following paragraphs of IAS 33 have been deleted:
 - (i) paragraph 4A
 - (ii) paragraph 67A
 - (iii) paragraph 68A
 - (iv) paragraph 73A

This change is consequential to the removal of option regarding the two statement approach in Ind AS 1. Ind AS 1 only 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. However, paragraph numbers have been retained in Ind AS 33 to maintain consistency with paragraph numbers of IAS 33.

- 8 Paragraph number 25 appears as 'Deleted' in IAS 33. In order to maintain consistency with paragraph numbers of IAS 33, the paragraph number is retained in Ind AS 33.

Indian Accounting Standard (Ind AS) 34

Interim Financial Reporting

(This Indian Accounting Standard includes paragraphs set in **bold** type and plain type, which have equal authority. Paragraphs in bold type indicate the main principles.)

Objective

The objective of this Standard is to prescribe the minimum content of an interim financial report and to prescribe the principles for recognition and measurement in complete or condensed financial statements for an interim period. 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.

Scope

- 1 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 reports¹. This Standard applies if an entity is required or elects to publish an interim financial report in accordance with Indian Accounting Standards (Ind ASs). [Refer Appendix 1]
- 2 Each financial report, annual or interim, is evaluated on its own for conformity to Ind ASs. 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 this Standard does not prevent the entity's annual financial statements from conforming to Ind ASs if they otherwise do so.
- 3 If an entity's interim financial report is described as complying with Ind ASs, it must comply with all of the requirements of this Standard. Paragraph 19 requires certain disclosures in that regard.

Definitions

- 4 **The following terms are used in this Standard with the meanings specified:**

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

***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.**

Content of an interim financial report

- 5 Ind AS 1 defines a complete set of financial statements as including the following components:
 - (a) a balance sheet as at the end of the period ;
 - (b) a statement of profit and loss for the period;
 - (c) a statement of changes in equity for the period;
 - (d) a statement of cash flows for the period;
 - (e) notes, comprising significant accounting policies and other explanatory information;
 - (ea) comparative information in respect of the preceding period as specified in paragraphs 38 and 38A of Ind AS 1; and
 - (f) a balance sheet as at the beginning of the preceding period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements in accordance with paragraphs 40A–40D of Ind AS 1.
- 6 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

¹ 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

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.

- 7 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. Nor does this Standard prohibit or discourage an entity from including in condensed interim financial statements more than the minimum line items or selected explanatory notes as set out in this Standard. The recognition and measurement guidance in this Standard applies also to complete financial statements for an interim period, and such statements would include all of the disclosures required by this Standard (particularly the selected note disclosures in paragraph 16A) as well as those required by other Ind ASs.

Minimum components of an interim financial report

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

- (a) a condensed balance sheet ;
- (b) a condensed statement of profit and loss;
- (c) a condensed statement of changes in equity;
- (d) a condensed statement of cash flows; and
- (e) selected explanatory notes.

- 8A [Refer Appendix 1]**

Form and content of interim financial statements

- 9 **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.**
- 10 **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 and 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.**
- 11 **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*.**

- 11A [Refer Appendix 1]**

- 12 [Refer Appendix 1]

- 13 [Refer Appendix 1]

- 14 An interim financial report is prepared on a consolidated basis if the entity's most recent annual financial statements were consolidated statements. The parent's separate financial statements are not consistent or comparable with the consolidated statements in the most recent annual financial report. If an entity's annual financial report included the parent's separate financial statements in addition to consolidated financial statements, this Standard neither requires nor prohibits the inclusion of the parent's separate statements in the entity's interim financial report.

Significant events and transactions

- 15 An entity shall include in its interim financial report an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the entity since the end of the last annual reporting period. Information disclosed in relation to those events and transactions shall update the relevant information presented in the most recent annual financial report.
- 15A A user of an entity's interim financial report will have access to the most recent annual financial report of that entity. Therefore, it is unnecessary for the notes to an interim financial report to provide relatively insignificant updates to the information that was reported in the notes in the most recent annual financial report.
- 15B 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, assets arising from contracts with customers, or other assets, and the reversal of such an impairment loss;
- (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) the disaggregation of revenue from contracts with customers required by paragraphs 114-115 of Ind AS 115, *Revenue from Contracts with Customers*.
- (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.

15C Individual Ind ASs provide guidance regarding disclosure requirements for many of the items listed in paragraph 15B. When an event or transaction is significant to an understanding of the changes in an entity's financial position or performance since the last annual reporting period, its interim financial report should provide an explanation of and an update to the relevant information included in the financial statements of the last annual reporting period.

16-18 [Refer Appendix 1]

Other Disclosures

16A 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.

- (a) a statement that the same accounting policies and methods of computation are followed in the interim financial statements as compared with the most recent annual financial statements or, if those policies or methods have been changed, a description of the nature and effect of the change.
- (b) explanatory comments about the seasonality or cyclicity of interim operations.
- (c) the nature and amount of items affecting assets, liabilities, equity, net income or cash flows that are unusual because of their nature, size or incidence.
- (d) the nature and amount of changes in estimates of amounts reported in prior interim periods of the current financial year or changes in estimates of amounts reported in prior financial years.
- (e) issues, repurchases and repayments of debt and equity securities.
- (f) dividends paid (aggregate or per share) separately for ordinary shares and other shares¹.
- (g) the following segment information (disclosure of segment information is required in an entity's interim financial report only if Ind AS 108, *Operating Segments*, requires that entity to disclose segment information in its annual financial statements):
 - (i) revenues from external customers, if included in the measure of segment profit or loss reviewed by the chief operating decision maker or otherwise regularly provided to the chief operating decision maker.
 - (ii) intersegment revenues, if included in the measure of segment profit or loss reviewed by the chief operating decision maker or otherwise regularly provided to the chief operating decision maker.

¹ Here 'ordinary' shares refer to 'equity' shares

- (iii) a measure of segment profit or loss.
 - (iv) a measure of total assets and liabilities for a particular reportable segment if such amounts are regularly provided to the chief operating decision maker and if there has been a material change from the amount disclosed in the last annual financial statements for that reportable segment.
 - (v) a description of differences from the last annual financial statements in the basis of segmentation or in the basis of measurement of segment profit or loss.
 - (vi) a reconciliation of the total of the reportable segments' measures of profit or loss to the entity's profit or loss before tax expense (tax income) and discontinued operations. However, if an entity allocates to reportable segments items such as tax expense (tax income), the entity may reconcile the total of the segments' measures of profit or loss to profit or loss after those items. Material reconciling items shall be separately identified and described in that reconciliation.
- (h) events after the interim period that have not been reflected in the financial statements for the interim period.
 - (i) the effect of changes in the composition of the entity during the interim period, including business combinations, obtaining or losing control of subsidiaries and long-term investments, restructurings, and discontinued operations. In the case of business combinations, the entity shall disclose the information required by Ind AS 103, *Business Combinations*.
 - (j) for financial instruments, the disclosures about fair value required by paragraphs 91–93(h), 94–96, 98 and 99 of Ind AS 113, *Fair Value Measurement*, and paragraphs 25, 26 and 28–30 of Ind AS 107, *Financial Instruments: Disclosures*.
 - (k) for entities becoming, or ceasing to be, investment entities, as defined in Ind AS 110, *Consolidated Financial Statements*, the disclosures in Ind AS 112, *Disclosure of Interests in Other Entities* paragraph 9B.
 - (l) omitted

Disclosure of compliance with Ind ASs

- 19 If an entity's interim financial report is in compliance with this Standard, that fact shall be disclosed. An interim financial report shall not be described as complying with Ind ASs unless it complies with all of the requirements of Ind ASs.

Periods for which interim financial statements are required to be presented

- 20 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.
- 21 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. Accordingly, entities whose business is highly seasonal are encouraged to consider reporting such information in addition to the information called for in the preceding paragraph.

- 22 [Refer Appendix 1]

Materiality

- 23 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.

- 24 Ind AS 1 defines material information and requires separate disclosure of material items, including (for example) discontinued operations, and Ind AS 8, *Accounting Policies, Changes in Accounting Estimates and Errors* requires disclosure of changes in accounting estimates, errors, and changes in accounting policies. The two Standards do not contain quantified guidance as to materiality.
- 25 While judgement is always required in assessing materiality, this Standard bases the recognition and disclosure decision on data for the interim period by itself for reasons of understandability of the interim figures. Thus, for example, unusual items, changes in accounting policies or estimates, and errors are recognised and disclosed on the basis of materiality in relation to interim period data to avoid misleading inferences that might result from non-disclosure. The overriding goal is to ensure that an interim financial report includes all information that is relevant to understanding an entity's financial position and performance during the interim period.

Disclosure in annual financial statements

- 26 **If an estimate of an amount reported in an interim period is changed significantly during the final interim period of the financial year but a separate financial report is not published for that final interim period, the nature and amount of that change in estimate shall be disclosed in a note to the annual financial statements for that financial year.**
- 27 Ind AS 8 requires disclosure of the nature and (if practicable) the amount of a change in estimate that either has a material effect in the current period or is expected to have a material effect in subsequent periods. Paragraph 16A(d) of this Standard requires similar disclosure in an interim financial report. Examples include changes in estimate in the final interim period relating to inventory write-downs, restructurings, or impairment losses that were reported in an earlier interim period of the financial year. The disclosure required by the preceding paragraph is consistent with the Ind AS 8 requirement and is intended to be narrow in scope—relating only to the change in estimate. An entity is not required to include additional interim period financial information in its annual financial statements.

Recognition and measurement

Same accounting policies as annual

- 28 **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.**
- 29 Requiring that an entity apply the same accounting policies in its interim financial statements as in its annual statements may seem to suggest that interim period measurements are made as if each interim period stands alone as an independent reporting period. However, by providing that the frequency of an entity's reporting shall not affect the measurement of its annual results, paragraph 28 acknowledges that an interim period is a part of a larger financial year. Year-to-date measurements may involve changes in estimates of amounts reported in prior interim periods of the current financial year. But the principles for recognising assets, liabilities, income, and expenses for interim periods are the same as in annual financial statements.
- 30 To illustrate:
- the principles for recognising and measuring losses from inventory write-downs, restructurings, or impairments in an interim period are the same as those that an entity would follow if it prepared only annual financial statements. However, if such items are recognised and measured in one interim period and the estimate changes in a subsequent interim period of that financial year, the original estimate is changed in the subsequent interim period either by accrual of an additional amount of loss or by reversal of the previously recognised amount;
 - a cost that does not meet the definition of an asset at the end of an interim period is not deferred in the balance sheet either to await future information as to whether it has met the definition of an asset or to smooth earnings over interim periods within a financial year; and
 - income tax expense is recognised in each interim period based on the best estimate of the weighted average annual income tax rate expected for the full financial year. Amounts accrued for income tax expense in one interim period may have to be adjusted in a subsequent interim period of that financial year if the estimate of the annual income tax rate changes.
- 31 Under the *Conceptual Framework for Financial Reporting under Indian Accounting Standards (Conceptual Framework)* issued by the Institute of Chartered Accountants of India, recognition is the process of capturing, for inclusion in the Balance Sheet or Statement of Profit and Loss, an item that meets the definition of one of the elements of the financial statements. The definitions of assets, liabilities, income, and expenses are fundamental to recognition, at the end of both annual and interim financial reporting periods.

- 32 For assets, the same tests of future economic benefits apply at interim dates and at the end of an entity's financial year. Costs that, by their nature, would not qualify as assets at financial year-end would not qualify at interim dates either. Similarly, a liability at the end of an interim reporting period must represent an existing obligation at that date, just as it must at the end of an annual reporting period.
- 33 An essential characteristic of income (revenue) and expenses is that the related inflows and outflows of assets and liabilities have already taken place. If those inflows or outflows have taken place, the related revenue and expense are recognised; otherwise they are not recognised. The *Conceptual Framework* does not allow the recognition of items in the balance sheet which do not meet the definition of assets or liabilities.
- 34 In measuring the assets, liabilities, income, expenses, and cash flows reported in its financial statements, an entity that reports only annually is able to take into account information that becomes available throughout the financial year. Its measurements are, in effect, on a year-to-date basis.
- 35 An entity that reports half-yearly uses information available by mid-year or shortly thereafter in making the measurements in its financial statements for the first six-month period and information available by year-end or shortly thereafter for the twelve-month period. The twelve-month measurements will reflect possible changes in estimates of amounts reported for the first six-month period. The amounts reported in the interim financial report for the first six-month period are not retrospectively adjusted. Paragraphs 16A(d) and 26 require, however, that the nature and amount of any significant changes in estimates be disclosed.
- 36 An entity that reports more frequently than half-yearly measures income and expenses on a year-to-date basis for each interim period using information available when each set of financial statements is being prepared. Amounts of income and expenses reported in the current interim period will reflect any changes in estimates of amounts reported in prior interim periods of the financial year. The amounts reported in prior interim periods are not retrospectively adjusted. Paragraphs 16A(d) and 26 require, however, that the nature and amount of any significant changes in estimates be disclosed.

Revenues received seasonally, cyclically, or occasionally

- 37 **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.**
- 38 Examples include dividend revenue, royalties, and government grants. Additionally, some entities consistently earn more revenues in certain interim periods of a financial year than in other interim periods, for example, seasonal revenues of retailers. Such revenues are recognised when they occur.

Costs incurred unevenly during the financial year

- 39 **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.**
- 40 [Refer Appendix 1]

Use of estimates

- 41 **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.**
- 42 [Refer Appendix 1]

Restatement of previously reported interim periods

- 43 **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.

44 One objective of the preceding principle is to ensure that a single accounting policy is applied to a particular class of transactions throughout an entire financial year. Under Ind AS 8, a change in accounting policy is reflected by retrospective application, with restatement of prior period financial data as far back as is practicable. However, if the cumulative amount of the adjustment relating to prior financial years is impracticable to determine, then under Ind AS 8 the new policy is applied prospectively from the earliest date practicable. The effect of the principle in paragraph 43 is to require that within the current financial year any change in accounting policy is applied either retrospectively or, if that is not practicable, prospectively, from no later than the beginning of the financial year.

45 To allow accounting changes to be reflected as of an interim date within the financial year would allow two differing accounting policies to be applied to a particular class of transactions within a single financial year. The result would be interim allocation difficulties, obscured operating results, and complicated analysis and understandability of interim period information.

Effective date and transition

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55 As a consequence of issuance of Ind AS 115, *Revenue from Contracts with Customers*, paragraph 15B and 16A are amended. An entity shall apply those amendments when it applies Ind AS 115.

56-57 [Refer Appendix 1]

58 *Amendments to References to the Conceptual Framework in Ind AS* issued in 2021 amended paragraphs 31 and 33. An entity shall apply those amendments for annual periods beginning on or after 1 April 2021. An entity shall apply the amendments to Ind AS 34 retrospectively in accordance with Ind AS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*. However, if an entity determines that retrospective application would be impracticable or would involve undue cost or effort, it shall apply the amendments to Ind AS 34 by reference to paragraphs 43–45 of this Standard and paragraphs 23–28, 50–53 and 54F of Ind AS 8.

59 *Definition of Material* (Amendments to Ind AS 1 and Ind AS 8) amended paragraph 24. An entity shall apply those amendments when it applies the amendments to the definition of material in paragraph 7 of Ind AS 1 and paragraphs 5 and 6 of Ind AS 8.

Appendix A

Interim Financial Reporting and Impairment

This appendix is an integral part of the Ind AS.

Background

1 An entity is required to assess goodwill for impairment at the end of each reporting period, and, if required, to recognise an impairment loss at that date in accordance with Ind AS 36. However, at the end of a subsequent reporting period, conditions may have so changed that the impairment loss would have been reduced or avoided had the impairment assessment been made only at that date. This appendix provides guidance on whether such impairment losses should ever be reversed.

2 The appendix addresses the interaction between the requirements of Ind AS 34 and the recognition of impairment losses on goodwill in Ind AS 36, and the effect of that interaction on subsequent interim and annual financial statements.

* Refer Appendix 1

Issue

- 3 Ind AS 34 paragraph 28 requires an entity to apply the same accounting policies in its interim financial statements as are applied in its annual financial statements. It also states that ‘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.’
- 4 Ind AS 36 paragraph 124 states that ‘An impairment loss recognised for goodwill shall not be reversed in a subsequent period.’
- 5-6 [Refer Appendix 1]
- 7 The appendix addresses the following issue:
Should 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?

Accounting Principle

- 8 An entity shall not reverse an impairment loss recognised in a previous interim period in respect of goodwill.
- 9 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.

Appendix B**References to matters contained in other Indian Accounting Standards**

This Appendix is an integral part of the Ind AS.

- 1 Appendix C, *Levies*, contained in Ind AS 37, *Provisions, Contingent Liabilities and Contingent Assets*.

Appendix 1

Note: This Appendix is not a part of the Indian Accounting Standard. The purpose of this Appendix is only to bring out the major differences, if any, between Indian Accounting Standard (Ind AS) 34 and the corresponding International Accounting Standard (IAS) 34, Interim Financial Reporting, and IFRIC 10, Interim Financial Reporting and Impairment, issued by the International Accounting Standards Board.

Comparison with IAS 34, *Interim Financial Reporting*, and *IFRIC 10*

- 1 With regard to preparation of statement of profit and loss, International Accounting Standard (IAS) 34, *Interim Financial Reporting*, provides option either to follow single statement approach or to follow two statement approaches. But, 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. Paragraphs 8A and 11A of IAS 34 which provides the option are deleted. In order to maintain consistency with paragraph numbers of IAS 34, the paragraph numbers are retained in Ind AS 34.
- 2 Different terminology is used in Ind AS 34 eg, the term ‘balance sheet’ is used instead of ‘Statement of financial position’ and ‘Statement of Profit and Loss’ is used instead of ‘Statement of comprehensive income’ or ‘Statement of profit or loss and other comprehensive income’.
- 3 Last sentence of paragraph 1 of IAS 34 is deleted in Ind AS 34 since it is felt that the requirement to present interim financial report should be governed by the relevant law or regulation and not by way of an encouragement through an Accounting Standard.
- 4 The following paragraph numbers appear as ‘Deleted’ in IAS 34. In order to maintain consistency with paragraph numbers of IAS 34, the paragraph numbers are retained in Ind AS 34:
 - (i) paragraph 13
 - (ii) paragraph 16
 - (iii) paragraphs 17-18
 - (iv) paragraphs 5-6 of Appendix A
- 5 Paragraph 12 of IAS 34 making reference to Implementation Guidance included in IAS 1 has been deleted in Ind AS 34, as Implementation Guidance is not an integral part of IAS 1. In order to maintain consistency with paragraph numbers of IAS 34, the paragraph number is retained in Ind AS 34.
- 6 Following paragraphs making references to Illustrative examples which are not integral part of IAS 34 have been deleted in Ind AS 34. The paragraph numbers have been retained in Ind AS 34 in order to maintain consistency with paragraph numbers of IAS 34:
 - (i) Paragraph 22 making reference to Illustration A of ‘Illustrative Examples’ illustrating the periods required to be presented by an entity that reports half yearly and an entity that reports quarterly.
 - (ii) Paragraph 40 making reference to Illustration B of ‘Illustrative Examples’ illustrating the general recognition and measurement principles set out in paragraphs 28-39.
 - (iii) Paragraph 42 making reference to Illustration C of ‘Illustrative Examples’ illustrating the use of estimates in interim periods.
- 7 Paragraphs 46-54 and 56-57 related to effective date have not been included in Ind AS 34 as these are not relevant in Indian context. However, in order to maintain consistency with paragraph numbers of IAS 34, these paragraph numbers are retained in Ind AS 34.

Indian Accounting Standard (Ind AS) 36

Impairment of Assets

(This Indian Accounting Standard includes paragraphs set in **bold** type and plain type, which have equal authority. Paragraphs in bold type indicate the main principles.)

Objective

- 1 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.

Scope

- 2 **This Standard shall be applied in accounting for the impairment of all assets, other than:**
 - (a) inventories (see Ind AS 2, *Inventories*);
 - (b) **contract assets and assets arising from costs to obtain or fulfil a contract that are recognised in accordance with Ind AS 115, *Revenue from Contracts with Customers*;**
 - (c) deferred tax assets (see Ind AS 12, *Income Taxes*);
 - (d) assets arising from employee benefits (see Ind AS 19, *Employee Benefits*);
 - (e) financial assets that are within the scope of Ind AS 109, *Financial Instruments*;
 - (f) [Refer Appendix 1];
 - (g) **biological assets related to agricultural activity within the scope of Ind AS 41 *Agriculture* that are measured at fair value less costs to sell ;**
 - (h) **deferred acquisition costs, and intangible assets, arising from an insurer's contractual rights under insurance contracts within the scope of Ind AS 104, *Insurance Contracts*; and**
 - (i) **non-current assets (or disposal groups) classified as held for sale in accordance with Ind AS 105, *Non-current Assets Held for Sale and Discontinued Operations*.**
- 3 This Standard does not apply to inventories, assets arising from construction contracts, deferred tax assets, assets arising from employee benefits, or assets classified as held for sale (or included in a disposal group that is classified as held for sale) because Indian Accounting Standards applicable to these assets contain requirements for recognising and measuring these assets.
- 4 This Standard applies to financial assets classified as:
 - (a) subsidiaries, as defined in Ind AS 110, *Consolidated Financial Statements*;
 - (b) associates, as defined in Ind AS 28, *Investments in Associates and Joint Ventures*; and
 - (c) joint ventures, as defined in Ind AS 111, *Joint Arrangements*.For impairment of other financial assets, refer to Ind AS 109.
- 5 This Standard does not apply to financial assets within the scope of Ind AS 109, or biological assets related to agricultural activity measured at fair value less costs to sell within the scope of Ind AS 41. However, this Standard applies to assets that are carried at revalued amount (ie fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses) in accordance with other Ind ASs, such as the revaluation model in Ind AS 16, *Property, Plant and Equipment* and Ind AS 38, *Intangible Assets*. The only difference between an asset's fair value and its fair value less costs of disposal is the direct incremental costs attributable to the disposal of the asset.
 - (a) If the disposal costs are negligible, the recoverable amount of the revalued asset is necessarily close to, or greater than, its revalued amount. In this case, after the revaluation requirements have been applied, it is unlikely that the revalued asset is impaired and recoverable amount need not be estimated.
 - (b) [Refer Appendix 1]

- (c) If the disposal costs are not negligible, the fair value less costs of disposal of the revalued asset is necessarily less than its fair value. Therefore, the revalued asset will be impaired if its value in use is less than its revalued amount. In this case, after the revaluation requirements have been applied, an entity applies this Standard to determine whether the asset may be impaired.

Definitions

6 The following terms are used in this Standard with the meanings specified:

Carrying amount is the amount at which an asset is recognised after deducting any accumulated depreciation (amortisation) and accumulated impairment losses thereon.

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 are assets other than goodwill that contribute to the future cash flows of both the cash-generating unit under review and other cash-generating units.

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.

Depreciable amount is the cost of an asset, or other amount substituted for cost in the financial statements, less its residual value.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.¹

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. (See Ind AS 113, *Fair Value Measurement*.)

An impairment loss is the amount by which the carrying amount of an asset or a cash-generating unit exceeds its recoverable amount.

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.

Useful life is either:

- (a) the period of time over which an asset is expected to be used by the entity; or
- (b) the number of production or similar units expected to be obtained from the asset by the entity.

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

Identifying an asset that may be impaired

- 7 Paragraphs 8–17 specify when recoverable amount shall be determined. These requirements use the term ‘an asset’ but apply equally to an individual asset or a cash-generating unit. The remainder of this Standard is structured as follows:
- (a) paragraphs 18–57 set out the requirements for measuring recoverable amount. These requirements also use the term ‘an asset’ but apply equally to an individual asset and a cash-generating unit.
 - (b) paragraphs 58–108 set out the requirements for recognising and measuring impairment losses. Recognition and measurement of impairment losses for individual assets other than goodwill are dealt with in paragraphs 58–64. Paragraphs 65–108 deal with the recognition and measurement of impairment losses for cash-generating units and goodwill.
 - (c) paragraphs 109–116 set out the requirements for reversing an impairment loss recognised in prior periods for an asset or a cash-generating unit. Again, these requirements use the term ‘an asset’ but apply equally to an individual asset or a cash-generating unit. Additional requirements for an individual asset are set out in paragraphs 117–121, for a cash-generating unit in paragraphs 122 and 123, and for goodwill in paragraphs 124 and 125.

¹ In the case of an intangible asset, the term ‘amortisation’ is generally used instead of ‘depreciation’. The two terms have the same meaning.

(d) paragraphs 126–133 specify the information to be disclosed about impairment losses and reversals of impairment losses for assets and cash-generating units. Paragraphs 134–137 specify additional disclosure requirements for cash-generating units to which goodwill or intangible assets with indefinite useful lives have been allocated for impairment testing purposes.

8 An asset is impaired when its carrying amount exceeds its recoverable amount.

Paragraphs 12–14 describe some indications that an impairment loss may have occurred. If any of those indications is present, an entity is required to make a formal estimate of recoverable amount. Except as described in paragraph 10, this Standard does not require an entity to make a formal estimate of recoverable amount if no indication of an impairment loss is present.

9 **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.**

10 **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 accordance with paragraphs 80–99.**

11 The ability of an intangible asset to generate sufficient future economic benefits to recover its carrying amount is usually subject to greater uncertainty before the asset is available for use than after it is available for use. Therefore, this Standard requires an entity to test for impairment, at least annually, the carrying amount of an intangible asset that is not yet available for use.

12 **In assessing whether there is any indication that an asset may be impaired, 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 declined during the period significantly more than would be expected as a result of the passage of time or normal use.**

(b) **significant changes with an adverse 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 an asset is dedicated.**

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

(d) **the carrying amount of the net assets of the entity is more than its market capitalisation.**

Internal sources of information

(e) **evidence is available of obsolescence or physical damage of an asset.**

(f) **significant changes with an adverse 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, an asset is used or is expected to be used. These changes include the asset becoming idle, plans to discontinue or restructure the operation to which an asset belongs, plans to dispose of an asset before the previously expected date, and reassessing the useful life of an asset as finite rather than indefinite.¹**

(g) **evidence is available from internal reporting that indicates that the economic performance of an asset is, or will be, worse than expected.**

1 Once an asset meets the criteria to be classified as held for sale (or is included in a disposal group that is classified as held for sale), it is excluded from the scope of this Standard and is accounted for in accordance with Ind AS 105, *Non-current Assets Held for Sale and Discontinued Operations*.

Dividend from a subsidiary, joint venture or associate

- (h) for an investment in a subsidiary, joint venture or associate, the investor recognises a dividend from the investment and evidence is available that:
- (i) the carrying amount of the investment in the separate financial statements exceeds the carrying amounts in the consolidated financial statements of the investee's net assets, including associated goodwill; or
 - (ii) the dividend exceeds the total comprehensive income of the subsidiary, joint venture or associate in the period the dividend is declared.
- 13 The list in paragraph 12 is not exhaustive. An entity may identify other indications that an asset may be impaired and these would also require the entity to determine the asset's recoverable amount or, in the case of goodwill, perform an impairment test in accordance with paragraphs 80–99.
- 14 Evidence from internal reporting that indicates that an asset may be impaired includes the existence of:
- (a) cash flows for acquiring the asset, or subsequent cash needs for operating or maintaining it, that are significantly higher than those originally budgeted;
 - (b) actual net cash flows or operating profit or loss flowing from the asset that are significantly worse than those budgeted;
 - (c) a significant decline in budgeted net cash flows or operating profit, or a significant increase in budgeted loss, flowing from the asset; or
 - (d) operating losses or net cash outflows for the asset, when current period amounts are aggregated with budgeted amounts for the future.
- 15 As indicated in paragraph 10, this Standard requires an intangible asset with an indefinite useful life or not yet available for use and goodwill to be tested for impairment, at least annually. Apart from when the requirements in paragraph 10 apply, the concept of materiality applies in identifying whether the recoverable amount of an asset needs to be estimated. For example, if previous calculations show that an asset's recoverable amount is significantly greater than its carrying amount, the entity need not re-estimate the asset's recoverable amount if no events have occurred that would eliminate that difference. Similarly, previous analysis may show that an asset's recoverable amount is not sensitive to one (or more) of the indications listed in paragraph 12.
- 16 As an illustration of paragraph 15, if market interest rates or other market rates of return on investments have increased during the period, an entity is not required to make a formal estimate of an asset's recoverable amount in the following cases:
- (a) if the discount rate used in calculating the asset's value in use is unlikely to be affected by the increase in these market rates. For example, increases in short-term interest rates may not have a material effect on the discount rate used for an asset that has a long remaining useful life.
 - (b) if the discount rate used in calculating the asset's value in use is likely to be affected by the increase in these market rates but previous sensitivity analysis of recoverable amount shows that:
 - (i) it is unlikely that there will be a material decrease in recoverable amount because future cash flows are also likely to increase (eg in some cases, an entity may be able to demonstrate that it adjusts its revenues to compensate for any increase in market rates); or
 - (ii) the decrease in recoverable amount is unlikely to result in a material impairment loss.
- 17 If there is an indication that an asset may be impaired, this may indicate that the remaining useful life, the depreciation (amortisation) method or the residual value for the asset needs to be reviewed and adjusted in accordance with the Standard applicable to the asset, even if no impairment loss is recognised for the asset.

Measuring recoverable amount

- 18 This Standard defines recoverable amount as the higher of an asset's or cash-generating unit's fair value less costs of disposal and its value in use. Paragraphs 19–57 set out the requirements for measuring recoverable amount. These requirements use the term 'an asset' but apply equally to an individual asset or a cash-generating unit.
- 19 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.

- 20 It may be possible to measure fair value less costs of disposal, even if there is not a quoted price in an active market for an identical asset. However, sometimes it will not be possible to measure fair value less costs of disposal because there is no basis for making a reliable estimate of the price at which an orderly transaction to sell the asset would take place between market participants at the measurement date under current market conditions. In this case, the entity may use the asset's value in use as its recoverable amount.
- 21 If there is no reason to believe that an asset's value in use materially exceeds its fair value less costs of disposal, the asset's fair value less costs of disposal may be used as its recoverable amount. This will often be the case for an asset that is held for disposal. This is because the value in use of an asset held for disposal will consist mainly of the net disposal proceeds, as the future cash flows from continuing use of the asset until its disposal are likely to be negligible.
- 22 Recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. If this is the case, recoverable amount is determined for the cash-generating unit to which the asset belongs (see paragraphs 65–103), unless either:
- (a) the asset's fair value less costs of disposal is higher than its carrying amount; or
 - (b) the asset's value in use can be estimated to be close to its fair value less costs of disposal and fair value less costs of disposal can be measured.
- 23 In some cases, estimates, averages and computational short cuts may provide reasonable approximations of the detailed computations illustrated in this Standard for determining fair value less costs of disposal or value in use.

Measuring the recoverable amount of an intangible asset with an indefinite useful life

- 24 Paragraph 10 requires an intangible asset with an indefinite useful life to be tested for impairment annually by comparing its carrying amount with its recoverable amount, irrespective of whether there is any indication that it may be impaired. However, the most recent detailed calculation of such an asset's recoverable amount made in a preceding period may be used in the impairment test for that asset in the current period, provided all of the following criteria are met:
- (a) if the intangible asset does not generate cash inflows from continuing use that are largely independent of those from other assets or groups of assets and is therefore tested for impairment as part of the cash-generating unit to which it belongs, the assets and liabilities making up that unit have not changed significantly since the most recent recoverable amount calculation;
 - (b) the most recent recoverable amount calculation resulted in an amount that exceeded the asset's carrying amount by a substantial margin; and
 - (c) based on an analysis of events that have occurred and circumstances that have changed since the most recent recoverable amount calculation, the likelihood that a current recoverable amount determination would be less than the asset's carrying amount is remote.

Fair value less costs of disposal**25- [Refer Appendix 1]****27**

- 28 Costs of disposal, other than those that have been recognised as liabilities, are deducted in measuring fair value less costs of disposal. Examples of such costs are legal costs, stamp duty and similar transaction taxes, costs of removing the asset, and direct incremental costs to bring an asset into condition for its sale. However, termination benefits (as defined in Ind AS 19) and costs associated with reducing or reorganising a business following the disposal of an asset are not direct incremental costs to dispose of the asset.
- 29 Sometimes, the disposal of an asset would require the buyer to assume a liability and only a single fair value less costs of disposal is available for both the asset and the liability. Paragraph 78 explains how to deal with such cases.

Value in use**30 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.**

- 31 Estimating the value in use of an asset involves the following steps:
- (a) estimating the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal; and
 - (b) applying the appropriate discount rate to those future cash flows.
- 32 The elements identified in paragraph 30(b), (d) and (e) can be reflected either as adjustments to the future cash flows or as adjustments to the discount rate. Whichever approach an entity adopts to reflect expectations about possible variations in the amount or timing of future cash flows, the result shall be to reflect the expected present value of the future cash flows, ie the weighted average of all possible outcomes. Appendix A provides additional guidance on the use of present value techniques in measuring an asset's value in use.

Basis for estimates of future cash flows

33 In measuring value in use an entity shall:

- (a) **base cash flow projections on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset. Greater weight shall be given to external evidence.**
 - (b) **base cash flow projections on the most recent financial budgets/forecasts approved by management, but shall exclude any estimated future cash inflows or outflows expected to arise from future restructurings or from improving or enhancing the asset's performance. Projections based on these budgets/forecasts shall cover a maximum period of five years, unless a longer period can be justified.**
 - (c) **estimate cash flow projections beyond the period covered by the most recent budgets/forecasts by extrapolating the projections based on the budgets/forecasts using a steady or declining growth rate for subsequent years, unless an increasing rate can be justified. This growth rate shall not exceed the long-term average growth rate for the products, industries, or country or countries in which the entity operates, or for the market in which the asset is used, unless a higher rate can be justified.**
- 34 Management assesses the reasonableness of the assumptions on which its current cash flow projections are based by examining the causes of differences between past cash flow projections and actual cash flows. Management shall ensure that the assumptions on which its current cash flow projections are based are consistent with past actual outcomes, provided the effects of subsequent events or circumstances that did not exist when those actual cash flows were generated make this appropriate.
- 35 Detailed, explicit and reliable financial budgets/forecasts of future cash flows for periods longer than five years are generally not available. For this reason, management's estimates of future cash flows are based on the most recent budgets/forecasts for a maximum of five years. Management may use cash flow projections based on financial budgets/forecasts over a period longer than five years if it is confident that these projections are reliable and it can demonstrate its ability, based on past experience, to forecast cash flows accurately over that longer period.
- 36 Cash flow projections until the end of an asset's useful life are estimated by extrapolating the cash flow projections based on the financial budgets/forecasts using a growth rate for subsequent years. This rate is steady or declining, unless an increase in the rate matches objective information about patterns over a product or industry lifecycle. If appropriate, the growth rate is zero or negative.
- 37 When conditions are favourable, competitors are likely to enter the market and restrict growth. Therefore, entities will have difficulty in exceeding the average historical growth rate over the long term (say, twenty years) for the products, industries, or country or countries in which the entity operates, or for the market in which the asset is used.
- 38 In using information from financial budgets/forecasts, an entity considers whether the information reflects reasonable and supportable assumptions and represents management's best estimate of the set of economic conditions that will exist over the remaining useful life of the asset.

Composition of estimates of future cash flows

39 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.**
- 40 Estimates of future cash flows and the discount rate reflect consistent assumptions about price increases attributable to general inflation. Therefore, if the discount rate includes the effect of price increases attributable to general

inflation, future cash flows are estimated in nominal terms. If the discount rate excludes the effect of price increases attributable to general inflation, future cash flows are estimated in real terms (but include future specific price increases or decreases).

- 41 Projections of cash outflows include those for the day-to-day servicing of the asset as well as future overheads that can be attributed directly, or allocated on a reasonable and consistent basis, to the use of the asset.
- 42 When the carrying amount of an asset does not yet include all the cash outflows to be incurred before it is ready for use or sale, the estimate of future cash outflows includes an estimate of any further cash outflow that is expected to be incurred before the asset is ready for use or sale. For example, this is the case for a building under construction or for a development project that is not yet completed.
- 43 To avoid double-counting, estimates of future cash flows do not include:
 - (a) cash inflows from assets that generate cash inflows that are largely independent of the cash inflows from the asset under review (for example, financial assets such as receivables); and
 - (b) cash outflows that relate to obligations that have been recognised as liabilities (for example, payables, pensions or provisions).

44 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.**

- 45 Because future cash flows are estimated for the asset in its current condition, value in use does not reflect:
 - (a) future cash outflows or related cost savings (for example reductions in staff costs) or benefits that are expected to arise from a future restructuring to which an entity is not yet committed; or
 - (b) future cash outflows that will improve or enhance the asset's performance or the related cash inflows that are expected to arise from such outflows.
- 46 A restructuring is a programme that is planned and controlled by management and materially changes either the scope of the business undertaken by an entity or the manner in which the business is conducted. Ind AS 37, *Provisions, Contingent Liabilities and Contingent Assets*, contains guidance clarifying when an entity is committed to a restructuring.
- 47 When an entity becomes committed to a restructuring, some assets are likely to be affected by this restructuring. Once the entity is committed to the restructuring:
 - (a) its estimates of future cash inflows and cash outflows for the purpose of determining value in use reflect the cost savings and other benefits from the restructuring (based on the most recent financial budgets/forecasts approved by management); and
 - (b) its estimates of future cash outflows for the restructuring are included in a restructuring provision in accordance with Ind AS 37.
- 48 Until an entity incurs cash outflows that improve or enhance the asset's performance, estimates of future cash flows do not include the estimated future cash inflows that are expected to arise from the increase in economic benefits associated with the cash outflow.
- 49 Estimates of future cash flows include future cash outflows necessary to maintain the level of economic benefits expected to arise from the asset in its current condition. When a cash-generating unit consists of assets with different estimated useful lives, all of which are essential to the ongoing operation of the unit, the replacement of assets with shorter lives is considered to be part of the day-to-day servicing of the unit when estimating the future cash flows associated with the unit. Similarly, when a single asset consists of components with different estimated useful lives, the replacement of components with shorter lives is considered to be part of the day-to-day servicing of the asset when estimating the future cash flows generated by the asset.

50 Estimates of future cash flows shall not include:

- (a) cash inflows or outflows from financing activities; or**
- (b) income tax receipts or payments.**

- 51 Estimated future cash flows reflect assumptions that are consistent with the way the discount rate is determined. Otherwise, the effect of some assumptions will be counted twice or ignored. Because the time value of money is

considered by discounting the estimated future cash flows, these cash flows exclude cash inflows or outflows from financing activities. Similarly, because the discount rate is determined on a pre-tax basis, future cash flows are also estimated on a pre-tax basis.

- 52 The estimate of net cash flows to be received (or paid) for the disposal of an asset at the end of its useful life shall be the amount that an entity expects to obtain from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the estimated costs of disposal.**
- 53 The estimate of net cash flows to be received (or paid) for the disposal of an asset at the end of its useful life is determined in a similar way to an asset's fair value less costs of disposal, except that, in estimating those net cash flows:
- (a) an entity uses prices prevailing at the date of the estimate for similar assets that have reached the end of their useful life and have operated under conditions similar to those in which the asset will be used.
 - (c) the entity adjusts those prices for the effect of both future price increases due to general inflation and specific future price increases or decreases. However, if estimates of future cash flows from the asset's continuing use and the discount rate exclude the effect of general inflation, the entity also excludes this effect from the estimate of net cash flows on disposal.
- 53A Fair value differs from value in use. Fair value reflects the assumptions market participants would use when pricing the asset. In contrast, value in use reflects the effects of factors that may be specific to the entity and not applicable to entities in general. For example, fair value does not reflect any of the following factors to the extent that they would not be generally available to market participants:
- (a) additional value derived from the grouping of assets (such as the creation of a portfolio of investment properties in different locations);
 - (b) synergies between the asset being measured and other assets;
 - (c) legal rights or legal restrictions that are specific only to the current owner of the asset; and
 - (d) tax benefits or tax burdens that are specific to the current owner of the asset.

Foreign currency future cash flows

- 54 Future cash flows are estimated in the currency in which they will be generated and then discounted using a discount rate appropriate for that currency. An entity translates the present value using the spot exchange rate at the date of the value in use calculation.

Discount rate

- 55 The discount rate (rates) shall be a pre-tax rate (rates) that reflect(s) current market assessments of:**
- (a) the time value of money; and**
 - (b) the risks specific to the asset for which the future cash flow estimates have not been adjusted.**
- 56 A rate that reflects current market assessments of the time value of money and the risks specific to the asset is the return that investors would require if they were to choose an investment that would generate cash flows of amounts, timing and risk profile equivalent to those that the entity expects to derive from the asset. This rate is estimated from the rate implicit in current market transactions for similar assets or from the weighted average cost of capital of a listed entity that has a single asset (or a portfolio of assets) similar in terms of service potential and risks to the asset under review. However, the discount rate(s) used to measure an asset's value in use shall not reflect risks for which the future cash flow estimates have been adjusted. Otherwise, the effect of some assumptions will be double-counted.
- 57 When an asset-specific rate is not directly available from the market, an entity uses surrogates to estimate the discount rate. Appendix A provides additional guidance on estimating the discount rate in such circumstances.

Recognising and measuring an impairment loss

- 58 Paragraphs 59–64 set out the requirements for recognising and measuring impairment losses for an individual asset other than goodwill. Recognising and measuring impairment losses for cash-generating units and goodwill are dealt with in paragraphs 65–108.
- 59 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.**
- 60 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.**

- 61 An impairment loss on a non-revalued asset is recognised in profit or loss. However, an impairment loss on a revalued asset is recognised in other comprehensive income to the extent that the impairment loss does not exceed the amount in the revaluation surplus for that same asset. Such an impairment loss on a revalued asset reduces the revaluation surplus for that asset.
- 62 **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.**
- 63 **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.**
- 64 If an impairment loss is recognised, any related deferred tax assets or liabilities are determined in accordance with Ind AS 12 by comparing the revised carrying amount of the asset with its tax base.

Cash-generating units and goodwill

- 65 Paragraphs 66–108 and Appendix C set out the requirements for identifying the cash-generating unit to which an asset belongs and determining the carrying amount of, and recognising impairment losses for, cash-generating units and goodwill.

Identifying the cash-generating unit to which an asset belongs

- 66 **If there is any indication that an asset may be impaired, recoverable amount shall be estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, an entity shall determine the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).**
- 67 The recoverable amount of an individual asset cannot be determined if:
- the asset's value in use cannot be estimated to be close to its fair value less costs of disposal (for example, when the future cash flows from continuing use of the asset cannot be estimated to be negligible); and
 - the asset does not generate cash inflows that are largely independent of those from other assets.

In such cases, value in use and, therefore, recoverable amount, can be determined only for the asset's cash-generating unit.

Example

A mining entity owns a private railway to support its mining activities. The private railway could be sold only for scrap value and it does not generate cash inflows that are largely independent of the cash inflows from the other assets of the mine.

It is not possible to estimate the recoverable amount of the private railway because its value in use cannot be determined and is probably different from scrap value. Therefore, the entity estimates the recoverable amount of the cash-generating unit to which the private railway belongs, ie the mine as a whole.

- 68 As defined in paragraph 6, an asset's cash-generating unit is the smallest group of assets that includes the asset and generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Identification of an asset's cash-generating unit involves judgement. If recoverable amount cannot be determined for an individual asset, an entity identifies the lowest aggregation of assets that generate largely independent cash inflows.

Example

A bus company provides services under contract with a municipality that requires minimum service on each of five separate routes. Assets devoted to each route and the cash flows from each route can be identified separately. One of the routes operates at a significant loss.

Because the entity does not have the option to curtail any one bus route, the lowest level of identifiable cash inflows that are largely independent of the cash inflows from other assets or groups of assets is the cash inflows generated by the five routes together. The cash-generating unit for each route is the bus company as a whole.

- 69 Cash inflows are inflows of cash and cash equivalents received from parties external to the entity. In identifying whether cash inflows from an asset (or group of assets) are largely independent of the cash inflows from other assets (or groups of assets), an entity considers various factors including how management monitors the entity's operations (such as by product lines, businesses, individual locations, districts or regional areas) or how management makes decisions about continuing or disposing of the entity's assets and operations..
- 70 **If an active market exists for the output produced by an asset or group of assets, that asset or group of assets shall be identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, an entity**

shall use management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:

- (a) the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- (b) the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

71 Even if part or all of the output produced by an asset or a group of assets is used by other units of the entity (for example, products at an intermediate stage of a production process), this asset or group of assets forms a separate cash-generating unit if the entity could sell the output on an active market. This is because the asset or group of assets could generate cash inflows that would be largely independent of the cash inflows from other assets or groups of assets. In using information based on financial budgets/forecasts that relates to such a cash-generating unit, or to any other asset or cash-generating unit affected by internal transfer pricing, an entity adjusts this information if internal transfer prices do not reflect management's best estimate of future prices that could be achieved in arm's length transactions.

72 Cash-generating units shall be identified consistently from period to period for the same asset or types of assets, unless a change is justified.

73 If an entity determines that an asset belongs to a cash-generating unit different from that in previous periods, or that the types of assets aggregated for the asset's cash-generating unit have changed, paragraph 130 requires disclosures about the cash-generating unit, if an impairment loss is recognised or reversed for the cash-generating unit.

Recoverable amount and carrying amount of a cash-generating unit

74 The recoverable amount of a cash-generating unit is the higher of the cash-generating unit's fair value less costs of disposal and its value in use. For the purpose of determining the recoverable amount of a cash-generating unit, any reference in paragraphs 19–57 to 'an asset' is read as a reference to 'a cash-generating unit'.

75 The carrying amount of a cash-generating unit shall be determined on a basis consistent with the way the recoverable amount of the cash-generating unit is determined.

76 The carrying amount of a cash-generating unit:

- (a) includes the carrying amount of only those assets that can be attributed directly, or allocated on a reasonable and consistent basis, to the cash-generating unit and will generate the future cash inflows used in determining the cash-generating unit's value in use; and
- (b) does not include the carrying amount of any recognised liability, unless the recoverable amount of the cash-generating unit cannot be determined without consideration of this liability.

This is because fair value less costs of disposal and value in use of a cash-generating unit are determined excluding cash flows that relate to assets that are not part of the cash-generating unit and liabilities that have been recognised (see paragraphs 28 and 43).

77 When assets are grouped for recoverability assessments, it is important to include in the cash-generating unit all assets that generate or are used to generate the relevant stream of cash inflows. Otherwise, the cash-generating unit may appear to be fully recoverable when in fact an impairment loss has occurred. In some cases, although some assets contribute to the estimated future cash flows of a cash-generating unit, they cannot be allocated to the cash-generating unit on a reasonable and consistent basis. This might be the case for goodwill or corporate assets such as head office assets. Paragraphs 80–103 explain how to deal with these assets in testing a cash-generating unit for impairment.

78 It may be necessary to consider some recognised liabilities to determine the recoverable amount of a cash-generating unit. This may occur if the disposal of a cash-generating unit would require the buyer to assume the liability. In this case, the fair value less costs of disposal (or the estimated cash flow from ultimate disposal) of the cash-generating unit is the price to sell the assets of the cash-generating unit and the liability together, less the costs of disposal. To perform a meaningful comparison between the carrying amount of the cash-generating unit and its recoverable amount, the carrying amount of the liability is deducted in determining both the cash-generating unit's value in use and its carrying amount.

Example

A company operates a mine in a country where legislation requires that the owner must restore the site on completion of its mining operations. The cost of restoration includes the replacement of the overburden, which must be removed before mining operations commence. A provision for the costs to replace the overburden was recognised as soon as the overburden was removed. The amount provided was recognised as part of the cost of the mine and is being depreciated over the mine's useful life. The carrying amount of the provision for restoration costs is Rs. 500, which is equal to the present value of the restoration costs.

The entity is testing the mine for impairment. The cash-generating unit for the mine is the mine as a whole. The entity has received various offers to buy the mine at a price of around Rs. 800. This price reflects the fact that the buyer will assume the obligation to restore the overburden. Disposal costs for the mine are negligible. The value in use of the mine is approximately Rs. 1,200, excluding restoration costs. The carrying amount of the mine is Rs. 1,000.

The cash-generating unit's fair value less costs of disposal is Rs. 800. This amount considers restoration costs that have already been provided for. As a consequence, the value in use for the cash-generating unit is determined after consideration of the restoration costs and is estimated to be Rs. 700 (Rs. 1,200 less Rs. 500). The carrying amount of the cash-generating unit is Rs. 500, which is the carrying amount of the mine (Rs. 1,000) less the carrying amount of the provision for restoration costs (Rs. 500). Therefore, the recoverable amount of the cash-generating unit exceeds its carrying amount.

- 79 For practical reasons, the recoverable amount of a cash-generating unit is sometimes determined after consideration of assets that are not part of the cash-generating unit (for example, receivables or other financial assets) or liabilities that have been recognised (for example, payables, pensions and other provisions). In such cases, the carrying amount of the cash-generating unit is increased by the carrying amount of those assets and decreased by the carrying amount of those liabilities.

Goodwill

Allocating goodwill to cash-generating units

- 80 **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 unit or group of units to which the goodwill is so allocated 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 paragraph 5 of Ind AS 108, *Operating Segments*, before aggregation.**
- 81 Goodwill recognised in a business combination is an asset representing the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognised. Goodwill does not generate cash flows independently of other assets or groups of assets, and often contributes to the cash flows of multiple cash-generating units. Goodwill sometimes cannot be allocated on a non-arbitrary basis to individual cash-generating units, but only to groups of cash-generating units. As a result, the lowest level within the entity at which the goodwill is monitored for internal management purposes sometimes comprises a number of cash-generating units to which the goodwill relates, but to which it cannot be allocated. References in paragraphs 83–99 and Appendix C to a cash-generating unit to which goodwill is allocated should be read as references also to a group of cash-generating units to which goodwill is allocated.
- 82 Applying the requirements in paragraph 80 results in goodwill being tested for impairment at a level that reflects the way an entity manages its operations and with which the goodwill would naturally be associated. Therefore, the development of additional reporting systems is typically not necessary.
- 83 A cash-generating unit to which goodwill is allocated for the purpose of impairment testing may not coincide with the level at which goodwill is allocated in accordance with Ind AS 21, *The Effects of Changes in Foreign Exchange Rates*, for the purpose of measuring foreign currency gains and losses. For example, if an entity is required by Ind AS 21 to allocate goodwill to relatively low levels for the purpose of measuring foreign currency gains and losses, it is not required to test the goodwill for impairment at that same level unless it also monitors the goodwill at that level for internal management purposes.
- 84 **If the initial allocation of goodwill acquired in a business combination cannot be completed before the end of the annual period in which the business combination is effected, that initial allocation shall be completed before the end of the first annual period beginning after the acquisition date.**
- 85 In accordance with Ind AS 103, *Business Combinations*, if the initial accounting for a business combination can be determined only provisionally by the end of the period in which the combination is effected, the acquirer:
- (a) accounts for the combination using those provisional values; and
 - (b) recognises any adjustments to those provisional values as a result of completing the initial accounting within the measurement period, which will not exceed twelve months from the acquisition date.

In such circumstances, it might also not be possible to complete the initial allocation of the goodwill recognised in the combination before the end of the annual period in which the combination is effected. When this is the case, the entity discloses the information required by paragraph 133.

- 86 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.**

Example

An entity sells for Rs. 100 an operation that was part of a cash-generating unit to which goodwill has been allocated. The goodwill allocated to the unit cannot be identified or associated with an asset group at a level lower than that unit, except arbitrarily. The recoverable amount of the portion of the cash-generating unit retained is Rs. 300.

Because the goodwill allocated to the cash-generating unit cannot be non-arbitrarily identified or associated with an asset group at a level lower than that unit, the goodwill associated with the operation disposed of is measured on the basis of the relative values of the operation disposed of and the portion of the unit retained. Therefore, 25 per cent of the goodwill allocated to the cash-generating unit is included in the carrying amount of the operation that is sold.

- 87 If an entity reorganises its reporting structure in a way that changes the composition of one or more cash-generating units to which goodwill has been allocated, the goodwill shall be reallocated to the units affected. This reallocation shall be performed using a relative value approach similar to that used when an entity disposes of an operation within a cash-generating unit, unless the entity can demonstrate that some other method better reflects the goodwill associated with the reorganised units.**

Example

Goodwill had previously been allocated to cash-generating unit A. The goodwill allocated to A cannot be identified or associated with an asset group at a level lower than A, except arbitrarily. A is to be divided and integrated into three other cash-generating units, B, C and D.

Because the goodwill allocated to A cannot be non-arbitrarily identified or associated with an asset group at a level lower than A, it is reallocated to units B, C and D on the basis of the relative values of the three portions of A before those portions are integrated with B, C and D.

Testing cash-generating units with goodwill for impairment

- 88 When, as described in paragraph 81, goodwill relates to a cash-generating unit but has not been allocated to that unit, 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. Any impairment loss shall be recognised in accordance with paragraph 104.**
- 89 If a cash-generating unit described in paragraph 88 includes in its carrying amount an intangible asset that has an indefinite useful life or is not yet available for use and that asset can be tested for impairment only as part of the cash-generating unit, paragraph 10 requires the unit also to be tested for impairment annually.
- 90 A cash-generating unit to which goodwill has been allocated shall be tested for impairment annually, and whenever there is an indication that the unit may be impaired, by comparing the carrying amount of the unit, including the goodwill, with the recoverable amount of the unit. If the recoverable amount of the unit exceeds the carrying amount of the unit, the unit and the goodwill allocated to that unit shall be regarded as not impaired. If the carrying amount of the unit exceeds the recoverable amount of the unit, the entity shall recognise the impairment loss in accordance with paragraph 104.**

91- [Refer Appendix 1]

95

Timing of impairment tests

- 96 The annual impairment test for a cash-generating unit to which goodwill has been allocated may be performed at any time during an annual period, provided the test is performed at the same time every year. Different cash-generating units may be tested for impairment at different times. However, if some or all of the goodwill allocated to a cash-generating unit was acquired in a business combination during the current annual period, that unit shall be tested for impairment before the end of the current annual period.**

- 97 If the assets constituting the cash-generating unit to which goodwill has been allocated are tested for impairment at the same time as the unit containing the goodwill, they shall be tested for impairment before the unit containing the goodwill. Similarly, if the cash-generating units constituting a group of cash-generating units to which goodwill has been allocated are tested for impairment at the same time as the group of units containing the goodwill, the individual units shall be tested for impairment before the group of units containing the goodwill.**
- 98 At the time of impairment testing a cash-generating unit to which goodwill has been allocated, there may be an indication of an impairment of an asset within the unit containing the goodwill. In such circumstances, the entity tests the asset for impairment first, and recognises any impairment loss for that asset before testing for impairment the cash-generating unit containing the goodwill. Similarly, there may be an indication of an impairment of a cash-generating unit within a group of units containing the goodwill. In such circumstances, the entity tests the cash-generating unit for impairment first, and recognises any impairment loss for that unit, before testing for impairment the group of units to which the goodwill is allocated.
- 99 The most recent detailed calculation made in a preceding period of the recoverable amount of a cash-generating unit to which goodwill has been allocated may be used in the impairment test of that unit in the current period provided all of the following criteria are met:**
- (a) the assets and liabilities making up the unit have not changed significantly since the most recent recoverable amount calculation;
 - (b) the most recent recoverable amount calculation resulted in an amount that exceeded the carrying amount of the unit by a substantial margin; and
 - (c) based on an analysis of events that have occurred and circumstances that have changed since the most recent recoverable amount calculation, the likelihood that a current recoverable amount determination would be less than the current carrying amount of the unit is remote.

Corporate assets

- 100 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. The structure of an entity determines whether an asset meets this Standard's definition of corporate assets for a particular cash-generating unit. The distinctive characteristics of corporate assets are that they do not generate cash inflows independently of other assets or groups of assets and their carrying amount cannot be fully attributed to the cash-generating unit under review.
- 101 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. Any impairment loss is recognised in accordance with paragraph 104.
- 102 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 in accordance with paragraph 104.
 - (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 in accordance with paragraph 104;
 - (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 in accordance with paragraph 104.

103 [Refer Appendix 1]

Impairment loss for a cash-generating unit

- 104 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 and recognised in accordance with paragraph 60.

105 In allocating an impairment loss in accordance with paragraph 104, 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).

106 If it is not practicable to estimate the recoverable amount of each individual asset of a cash-generating unit, this Standard requires an arbitrary allocation of an impairment loss between the assets of that unit, other than goodwill, because all assets of a cash-generating unit work together.

107 If the recoverable amount of an individual asset cannot be determined (see paragraph 67):

- (a) an impairment loss is recognised for the asset if its carrying amount is greater than the higher of its fair value less costs of disposal and the results of the allocation procedures described in paragraphs 104 and 105; and
- (b) no impairment loss is recognised for the asset if the related cash-generating unit is not impaired. This applies even if the asset's fair value less costs of disposal is less than its carrying amount.

Example

A machine has suffered physical damage but is still working, although not as well as before it was damaged. The machine's fair value less costs of disposal is less than its carrying amount. The machine does not generate independent cash inflows. The smallest identifiable group of assets that includes the machine and generates cash inflows that are largely independent of the cash inflows from other assets is the production line to which the machine belongs. The recoverable amount of the production line shows that the production line taken as a whole is not impaired.

Assumption 1: budgets/forecasts approved by management reflect no commitment of management to replace the machine.

The recoverable amount of the machine alone cannot be estimated because the machine's value in use:

- (a) *may differ from its fair value less costs of disposal; and*
- (b) *can be determined only for the cash-generating unit to which the machine belongs (the production line).*

The production line is not impaired. Therefore, no impairment loss is recognised for the machine. Nevertheless, the entity may need to reassess the depreciation period or the depreciation method for the machine. Perhaps a shorter depreciation period or a faster depreciation method is required to reflect the expected remaining useful life of the machine or the pattern in which economic benefits are expected to be consumed by the entity.

Assumption 2: budgets/forecasts approved by management reflect a commitment of management to replace the machine and sell it in the near future. Cash flows from continuing use of the machine until its disposal are estimated to be negligible.

The machine's value in use can be estimated to be close to its fair value less costs of disposal. Therefore, the recoverable amount of the machine can be determined and no consideration is given to the cash-generating unit to which the machine belongs (ie the production line). Because the machine's fair value less costs of disposal is less than its carrying amount, an impairment loss is recognised for the machine.

108 After the requirements in paragraphs 104 and 105 have been applied, a liability shall be recognised for any remaining amount of an impairment loss for a cash-generating unit if, and only if, that is required by another Indian Accounting Standard.

Reversing an impairment loss

109 Paragraphs 110–116 set out the requirements for reversing an impairment loss recognised for an asset or a cash-generating unit in prior periods. These requirements use the term ‘an asset’ but apply equally to an individual asset or a cash-generating unit. Additional requirements for an individual asset are set out in paragraphs 117–121, for a cash-generating unit in paragraphs 122 and 123 and for goodwill in paragraphs 124 and 125.

110 **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.**

111 **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

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

112 Indications of a potential decrease in an impairment loss in paragraph 111 mainly mirror the indications of a potential impairment loss in paragraph 12.

113 If there is an indication that an impairment loss recognised for an asset other than goodwill may no longer exist or may have decreased, this may indicate that the remaining useful life, the depreciation (amortisation) method or the residual value may need to be reviewed and adjusted in accordance with the Indian Accounting Standard applicable to the asset, even if no impairment loss is reversed for the asset.

114 **An impairment loss recognised in prior periods for an asset other than goodwill shall be reversed if, and only if, there has been a change in the estimates used to determine the asset’s recoverable amount since the last impairment loss was recognised. If this is the case, the carrying amount of the asset shall, except as described in paragraph 117, be increased to its recoverable amount. That increase is a reversal of an impairment loss.**

115 A reversal of an impairment loss reflects an increase in the estimated service potential of an asset, either from use or from sale, since the date when an entity last recognised an impairment loss for that asset. Paragraph 130 requires an entity to identify the change in estimates that causes the increase in estimated service potential. Examples of changes in estimates include:

- (a) a change in the basis for recoverable amount (ie whether recoverable amount is based on fair value less costs of disposal or value in use);
- (b) if recoverable amount was based on value in use, a change in the amount or timing of estimated future cash flows or in the discount rate; or
- (c) if recoverable amount was based on fair value less costs of disposal, a change in estimate of the components of fair value less costs of disposal.

116 An asset’s value in use may become greater than the asset’s carrying amount simply because the present value of future cash inflows increases as they become closer. However, the service potential of the asset has not increased. Therefore, an impairment loss is not reversed just because of the passage of time (sometimes called the ‘unwinding’ of the discount), even if the recoverable amount of the asset becomes higher than its carrying amount.

Reversing an impairment loss for an individual asset

- 117 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.**
- 118 Any increase in the carrying amount of an asset other than goodwill above 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 is a revaluation. In accounting for such a revaluation, an entity applies the Indian Accounting Standard applicable to the asset.
- 119 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.**
- 120 A reversal of an impairment loss on a revalued asset is recognised in other comprehensive income and increases the revaluation surplus for that asset. However, to the extent that an impairment loss on the same revalued asset was previously recognised in profit or loss, a reversal of that impairment loss is also recognised in profit or loss.
- 121 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.**

Reversing an impairment loss for a cash-generating unit

- 122 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 and recognised in accordance with paragraph 119.**
- 123 In allocating a reversal of an impairment loss for a cash-generating unit in accordance with paragraph 122, 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.

Reversing an impairment loss for goodwill

- 124 An impairment loss recognised for goodwill shall not be reversed in a subsequent period.**
- 125 Ind AS 38, *Intangible Assets*, prohibits the recognition of internally generated goodwill. Any increase in the recoverable amount of goodwill in the periods following the recognition of an impairment loss for that goodwill is likely to be an increase in internally generated goodwill, rather than a reversal of the impairment loss recognised for the acquired goodwill.

Disclosure

-
- 126 An entity shall disclose the following for each class of assets:**
- (a) the amount of impairment losses recognised in profit or loss during the period and the line item(s) of the statement of profit and loss in which those impairment losses are included.
 - (b) the amount of reversals of impairment losses recognised in profit or loss during the period and the line item(s) of the statement of profit and loss in which those impairment losses are reversed.
 - (c) the amount of impairment losses on revalued assets recognised in other comprehensive income during the period.
 - (d) the amount of reversals of impairment losses on revalued assets recognised in other comprehensive income during the period.
- 127 A class of assets is a grouping of assets of similar nature and use in an entity's operations.
- 128 The information required in paragraph 126 may be presented with other information disclosed for the class of assets. For example, this information may be included in a reconciliation of the carrying amount of property, plant and equipment, at the beginning and end of the period, as required by Ind AS 16.

- 129** An entity that reports segment information in accordance with Ind AS 108, shall disclose the following for each reportable segment:
- (a) the amount of impairment losses recognised in profit or loss and in other comprehensive income during the period.
 - (b) the amount of reversals of impairment losses recognised in profit or loss and in other comprehensive income during the period.
- 130** An entity shall disclose the following for an individual asset (including goodwill) or a cash-generating unit, for which an impairment loss has been recognised or reversed during the period:
- (a) the events and circumstances that led to the recognition or reversal of the impairment loss.
 - (b) the amount of the impairment loss recognised or reversed.
 - (c) for an individual asset:
 - (i) the nature of the asset; and
 - (ii) if the entity reports segment information in accordance with Ind AS 108, the reportable segment to which the asset belongs.
 - (d) for a cash-generating unit:
 - (i) a description of the cash-generating unit (such as whether it is a product line, a plant, a business operation, a geographical area, or a reportable segment as defined in Ind AS 108);
 - (ii) the amount of the impairment loss recognised or reversed by class of assets and, if the entity reports segment information in accordance with Ind AS 108, by reportable segment; and
 - (iii) if the aggregation of assets for identifying the cash-generating unit has changed since the previous estimate of the cash-generating unit's recoverable amount (if any), a description of the current and former way of aggregating assets and the reasons for changing the way the cash-generating unit is identified.
 - (e) the recoverable amount of the asset (cash-generating unit) and whether the recoverable amount of the asset (cash-generating unit) is its fair value less costs of disposal or its value in use.
 - (f) if the recoverable amount is fair value less costs of disposal, the entity shall disclose the following information:
 - (i) the level of the fair value hierarchy (see Ind AS 113) within which the fair value measurement of the asset (cash-generating unit) is categorised in its entirety (without taking into account whether the 'costs of disposal' are observable);
 - (ii) for fair value measurements categorised within Level 2 and Level 3 of the fair value hierarchy, a description of the valuation technique(s) used to measure fair value less costs of disposal. If there has been a change in valuation technique, the entity shall disclose that change and the reason(s) for making it; and
 - (iii) for fair value measurements categorised within Level 2 and Level 3 of the fair value hierarchy, each key assumption on which management has based its determination of fair value less costs of disposal. Key assumptions are those to which the asset's (cash-generating unit's) recoverable amount is most sensitive. The entity shall also disclose the discount rate(s) used in the current measurement and previous measurement if fair value less costs of disposal is measured using a present value technique.
 - (g) if recoverable amount is value in use, the discount rate(s) used in the current estimate and previous estimate (if any) of value in use.
- 131** An entity shall disclose the following information for the aggregate impairment losses and the aggregate reversals of impairment losses recognised during the period for which no information is disclosed in accordance with paragraph 130:
- (a) the main classes of assets affected by impairment losses and the main classes of assets affected by reversals of impairment losses.
 - (b) the main events and circumstances that led to the recognition of these impairment losses and reversals of impairment losses.

132 An entity is encouraged to disclose assumptions used to determine the recoverable amount of assets (cash-generating units) during the period. However, paragraph 134 requires an entity to disclose information about the estimates used to measure the recoverable amount of a cash-generating unit when goodwill or an intangible asset with an indefinite useful life is included in the carrying amount of that unit.

133 If, in accordance with paragraph 84, any portion of the goodwill acquired in a business combination during the period has not been allocated to a cash-generating unit (group of units) at the end of the reporting period, the amount of the unallocated goodwill shall be disclosed together with the reasons why that amount remains unallocated.

Estimates used to measure recoverable amounts of cash-generating units containing goodwill or intangible assets with indefinite useful lives

134 An entity shall disclose the information required by (a)–(f) for each cash-generating unit (group of units) for which the carrying amount of goodwill or intangible assets with indefinite useful lives allocated to that unit (group of units) is significant in comparison with the entity's total carrying amount of goodwill or intangible assets with indefinite useful lives:

- (a) the carrying amount of goodwill allocated to the unit (group of units).
- (b) the carrying amount of intangible assets with indefinite useful lives allocated to the unit (group of units).
- (c) the basis on which the unit's (group of units') recoverable amount has been determined (ie value in use or fair value less costs of disposal).
- (d) if the unit's (group of units') recoverable amount is based on value in use:
 - (i) each key assumption on which management has based its cash flow projections for the period covered by the most recent budgets/forecasts. Key assumptions are those to which the unit's (group of units') recoverable amount is most sensitive.
 - (ii) a description of management's approach to determining the value(s) assigned to each key assumption, whether those value(s) reflect past experience or, if appropriate, are consistent with external sources of information, and, if not, how and why they differ from past experience or external sources of information.
 - (iii) the period over which management has projected cash flows based on financial budgets/forecasts approved by management and, when a period greater than five years is used for a cash-generating unit (group of units), an explanation of why that longer period is justified.
 - (iv) the growth rate used to extrapolate cash flow projections beyond the period covered by the most recent budgets/forecasts, and the justification for using any growth rate that exceeds the long-term average growth rate for the products, industries, or country or countries in which the entity operates, or for the market to which the unit (group of units) is dedicated.
 - (v) the discount rate(s) applied to the cash flow projections.
- (e) if the unit's (group of units') recoverable amount is based on fair value less costs of disposal, the valuation technique(s) used to measure fair value less costs of disposal. An entity is not required to provide the disclosures required by Ind AS 113. If fair value less costs of disposal is not measured using a quoted price for an identical unit (group of units), an entity shall disclose the following information:
 - (i) each key assumption on which management has based its determination of fair value less costs of disposal. Key assumptions are those to which the unit's (group of units') recoverable amount is most sensitive.
 - (ii) a description of management's approach to determining the value (or values) assigned to each key assumption, whether those values reflect past experience or, if appropriate, are consistent with external sources of information, and, if not, how and why they differ from past experience or external sources of information.
 - (iiA) the level of the fair value hierarchy (see Ind AS 113 within which the fair value measurement is categorised in its entirety (without giving regard to the observability of 'costs of disposal')).
 - (iiB) if there has been a change in valuation technique, the change and the reason(s) for making it.

If fair value less costs of disposal is measured using discounted cash flow projections, an entity shall disclose the following information:
 - (iii) the period over which management has projected cash flows.

- (iv) the growth rate used to extrapolate cash flow projections.
 - (v) the discount rate(s) applied to the cash flow projections.
- (f) if a reasonably possible change in a key assumption on which management has based its determination of the unit's (group of units') recoverable amount would cause the unit's (group of units') carrying amount to exceed its recoverable amount:
- (i) the amount by which the unit's (group of units') recoverable amount exceeds its carrying amount.
 - (ii) the value assigned to the key assumption.
 - (iii) the amount by which the value assigned to the key assumption must change, after incorporating any consequential effects of that change on the other variables used to measure recoverable amount, in order for the unit's (group of units') recoverable amount to be equal to its carrying amount.

135 If some or all of the carrying amount of goodwill or intangible assets with indefinite useful lives is allocated across multiple cash-generating units (groups of units), and the amount so allocated to each unit (group of units) is not significant in comparison with the entity's total carrying amount of goodwill or intangible assets with indefinite useful lives, that fact shall be disclosed, together with the aggregate carrying amount of goodwill or intangible assets with indefinite useful lives allocated to those units (groups of units). In addition, if the recoverable amounts of any of those units (groups of units) are based on the same key assumption(s) and the aggregate carrying amount of goodwill or intangible assets with indefinite useful lives allocated to them is significant in comparison with the entity's total carrying amount of goodwill or intangible assets with indefinite useful lives, an entity shall disclose that fact, together with:

- (a) the aggregate carrying amount of goodwill allocated to those units (groups of units).
- (b) the aggregate carrying amount of intangible assets with indefinite useful lives allocated to those units (groups of units).
- (c) a description of the key assumption(s).
- (d) a description of management's approach to determining the value(s) assigned to the key assumption(s), whether those value(s) reflect past experience or, if appropriate, are consistent with external sources of information, and, if not, how and why they differ from past experience or external sources of information.
- (e) if a reasonably possible change in the key assumption(s) would cause the aggregate of the units' (groups of units') carrying amounts to exceed the aggregate of their recoverable amounts:
 - (i) the amount by which the aggregate of the units' (groups of units') recoverable amounts exceeds the aggregate of their carrying amounts.
 - (ii) the value(s) assigned to the key assumption(s).
 - (iii) the amount by which the value(s) assigned to the key assumption(s) must change, after incorporating any consequential effects of the change on the other variables used to measure recoverable amount, in order for the aggregate of the units' (groups of units') recoverable amounts to be equal to the aggregate of their carrying amounts.

136 The most recent detailed calculation made in a preceding period of the recoverable amount of a cash-generating unit (group of units) may, in accordance with paragraph 24 or 99, be carried forward and used in the impairment test for that unit (group of units) in the current period provided specified criteria are met. When this is the case, the information for that unit (group of units) that is incorporated into the disclosures required by paragraphs 134 and 135 relate to the carried forward calculation of recoverable amount.

137 [Refer Appendix 1]

Transition provisions and effective date

- 138 *
- 139 *
- 140 *

* Refer Appendix 1

- 140A *
- 140B *
- 140C *
- 140D *
- 140E *
- 140F *
- 140G *
- 140H *
- 140I *
- 140J *
- 140K *

140L As a consequence of issuance of Ind AS 115, *Revenue from Contracts with Customers*, paragraph 2 is amended. An entity shall apply those amendments when it applies Ind AS 115.

Appendix A

Using present value techniques to measure value in use

This appendix is an integral part of the Ind AS. It provides guidance on the use of present value techniques in measuring value in use. Although the guidance uses the term ‘asset’, it equally applies to a group of assets forming a cash-generating unit.

The components of a present value measurement

A1 The following elements together capture the economic differences between assets:

- (a) an estimate of the future cash flow, or in more complex cases, series of future cash flows the entity expects to derive from the asset;
- (b) expectations about possible variations in the amount or timing of those 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, sometimes unidentifiable, factors (such as illiquidity) that market participants would reflect in pricing the future cash flows the entity expects to derive from the asset.

A2 This appendix contrasts two approaches to computing present value, either of which may be used to estimate the value in use of an asset, depending on the circumstances. Under the ‘traditional’ approach, adjustments for factors (b)–(e) described in paragraph A1 are embedded in the discount rate. Under the ‘expected cash flow’ approach, factors (b), (d) and (e) cause adjustments in arriving at risk-adjusted expected cash flows. Whichever approach an entity adopts to reflect expectations about possible variations in the amount or timing of future cash flows, the result should be to reflect the expected present value of the future cash flows, ie the weighted average of all possible outcomes.

General principles

A3 The techniques used to estimate future cash flows and interest rates will vary from one situation to another depending on the circumstances surrounding the asset in question. However, the following general principles govern any application of present value techniques in measuring assets:

- (a) interest rates used to discount cash flows should reflect assumptions that are consistent with those inherent in the estimated cash flows. Otherwise, the effect of some assumptions will be double-counted or ignored. For example, a discount rate of 12 per cent might be applied to contractual cash flows of a loan receivable. That rate reflects expectations about future defaults from loans with particular characteristics. That same 12 per cent rate should not be used to discount expected cash flows because those cash flows already reflect assumptions about future defaults.

* Refer Appendix 1

- (b) estimated cash flows and discount rates should be free from both bias and factors unrelated to the asset in question. For example, deliberately understating estimated net cash flows to enhance the apparent future profitability of an asset introduces a bias into the measurement.
- (c) estimated cash flows or discount rates should reflect the range of possible outcomes rather than a single most likely, minimum or maximum possible amount.

Traditional and expected cash flow approaches to present value

Traditional approach

- A4 Accounting applications of present value have traditionally used a single set of estimated cash flows and a single discount rate, often described as ‘the rate commensurate with the risk’. In effect, the traditional approach assumes that a single discount rate convention can incorporate all the expectations about the future cash flows and the appropriate risk premium. Therefore, the traditional approach places most of the emphasis on selection of the discount rate.
- A5 In some circumstances, such as those in which comparable assets can be observed in the marketplace, a traditional approach is relatively easy to apply. For assets with contractual cash flows, it is consistent with the manner in which marketplace participants describe assets, as in ‘a 12 per cent bond’.
- A6 However, the traditional approach may not appropriately address some complex measurement problems, such as the measurement of non-financial assets for which no market for the item or a comparable item exists. A proper search for ‘the rate commensurate with the risk’ requires analysis of at least two items—an asset that exists in the marketplace and has an observed interest rate and the asset being measured. The appropriate discount rate for the cash flows being measured must be inferred from the observable rate of interest in that other asset. To draw that inference, the characteristics of the other asset’s cash flows must be similar to those of the asset being measured. Therefore, the measurer must do the following:
- (a) identify the set of cash flows that will be discounted;
 - (b) identify another asset in the marketplace that appears to have similar cash flow characteristics;
 - (c) compare the cash flow sets from the two items to ensure that they are similar (for example, are both sets contractual cash flows, or is one contractual and the other an estimated cash flow?);
 - (d) evaluate whether there is an element in one item that is not present in the other (for example, is one less liquid than the other?); and
 - (e) evaluate whether both sets of cash flows are likely to behave (ie vary) in a similar fashion in changing economic conditions.

Expected cash flow approach

- A7 The expected cash flow approach is, in some situations, a more effective measurement tool than the traditional approach. In developing a measurement, the expected cash flow approach uses all expectations about possible cash flows instead of the single most likely cash flow. For example, a cash flow might be Rs. 100, Rs. 200 or Rs. 300 with probabilities of 10 per cent, 60 per cent and 30 per cent, respectively. The expected cash flow is Rs. 220. The expected cash flow approach thus differs from the traditional approach by focusing on direct analysis of the cash flows in question and on more explicit statements of the assumptions used in the measurement.
- A8 The expected cash flow approach also allows use of present value techniques when the timing of cash flows is uncertain. For example, a cash flow of Rs. 1,000 may be received in one year, two years or three years with probabilities of 10 per cent, 60 per cent and 30 per cent, respectively. The example below shows the computation of expected present value in that situation.

Present value of Rs. 1,000 in 1 year at 5%	Rs. 952.38	
Probability	<u>10.00%</u>	Rs. 95.24
Present value of Rs. 1,000 in 2 years at 5.25%	Rs. 902.73	
Probability	<u>60.00%</u>	Rs. 541.64
Present value of Rs. 1,000 in 3 years at 5.50%	Rs. 851.61	
Probability	<u>30.00%</u>	<u>Rs. 255.48</u>
Expected present value		<u>Rs. 892.36</u>

- A9 The expected present value of Rs. 892.36 differs from the traditional notion of a best estimate of Rs. 902.73 (the 60 per cent probability). A traditional present value computation applied to this example requires a decision about which of the possible timings of cash flows to use and, accordingly, would not reflect the probabilities of other timings. This is because the discount rate in a traditional present value computation cannot reflect uncertainties in timing.
- A10 The use of probabilities is an essential element of the expected cash flow approach. Some question whether assigning probabilities to highly subjective estimates suggests greater precision than, in fact, exists. However, the proper application of the traditional approach (as described in paragraph A6) requires the same estimates and subjectivity without providing the computational transparency of the expected cash flow approach.
- A11 Many estimates developed in current practice already incorporate the elements of expected cash flows informally. In addition, accountants often face the need to measure an asset using limited information about the probabilities of possible cash flows. For example, an accountant might be confronted with the following situations:
- the estimated amount falls somewhere between Rs. 50 and Rs. 250, but no amount in the range is more likely than any other amount. Based on that limited information, the estimated expected cash flow is Rs. 150 $[(50 + 250)/2]$.
 - the estimated amount falls somewhere between Rs. 50 and Rs. 250, and the most likely amount is Rs. 100. However, the probabilities attached to each amount are unknown. Based on that limited information, the estimated expected cash flow is Rs. 133.33 $[(50 + 100 + 250)/3]$.
 - the estimated amount will be Rs. 50 (10 per cent probability), Rs. 250 (30 per cent probability), or Rs. 100 (60 per cent probability). Based on that limited information, the estimated expected cash flow is Rs. 140 $[(50 \times 0.10) + (250 \times 0.30) + (100 \times 0.60)]$.

In each case, the estimated expected cash flow is likely to provide a better estimate of value in use than the minimum, most likely or maximum amount taken alone.

- A12 The application of an expected cash flow approach is subject to a cost-benefit constraint. In some cases, an entity may have access to extensive data and may be able to develop many cash flow scenarios. In other cases, an entity may not be able to develop more than general statements about the variability of cash flows without incurring substantial cost. The entity needs to balance the cost of obtaining additional information against the additional reliability that information will bring to the measurement.
- A13 Some maintain that expected cash flow techniques are inappropriate for measuring a single item or an item with a limited number of possible outcomes. They offer an example of an asset with two possible outcomes: a 90 per cent probability that the cash flow will be Rs. 10 and a 10 per cent probability that the cash flow will be Rs. 1,000. They observe that the expected cash flow in that example is Rs. 109 and criticise that result as not representing either of the amounts that may ultimately be paid.
- A14 Assertions like the one just outlined reflect underlying disagreement with the measurement objective. If the objective is accumulation of costs to be incurred, expected cash flows may not produce a representationally faithful estimate of the expected cost. However, this Standard is concerned with measuring the recoverable amount of an asset. The recoverable amount of the asset in this example is not likely to be Rs. 10, even though that is the most likely cash flow. This is because a measurement of Rs. 10 does not incorporate the uncertainty of the cash flow in the measurement of the asset. Instead, the uncertain cash flow is presented as if it were a certain cash flow. No rational entity would sell an asset with these characteristics for Rs. 10.

Discount rate

- A15 Whichever approach an entity adopts for measuring the value in use of an asset, interest rates used to discount cash flows should not reflect risks for which the estimated cash flows have been adjusted. Otherwise, the effect of some assumptions will be double-counted.
- A16 When an asset-specific rate is not directly available from the market, an entity uses surrogates to estimate the discount rate. The purpose is to estimate, as far as possible, a market assessment of:
- the time value of money for the periods until the end of the asset's useful life; and
 - factors (b), (d) and (e) described in paragraph A1, to the extent those factors have not caused adjustments in arriving at estimated cash flows.
- A17 As a starting point in making such an estimate, the entity might take into account the following rates:
- the entity's weighted average cost of capital determined using techniques such as the Capital Asset Pricing Model;

- (b) the entity's incremental borrowing rate; and
- (c) other market borrowing rates. A18 However, these rates must be adjusted:
 - (a) to reflect the way that the market would assess the specific risks associated with the asset's estimated cash flows; and
 - (b) to exclude risks that are not relevant to the asset's estimated cash flows or for which the estimated cash flows have been adjusted.

Consideration should be given to risks such as country risk, currency risk and price risk.

- A19 The discount rate is independent of the entity's capital structure and the way the entity financed the purchase of the asset, because the future cash flows expected to arise from an asset do not depend on the way in which the entity financed the purchase of the asset.
- A20 Paragraph 55 requires the discount rate used to be a pre-tax rate. Therefore, when the basis used to estimate the discount rate is post-tax, that basis is adjusted to reflect a pre-tax rate.
- A21 An entity normally uses a single discount rate for the estimate of an asset's value in use. However, an entity uses separate discount rates for different future periods where value in use is sensitive to a difference in risks for different periods or to the term structure of interest rates.

Appendix B

References to matters contained in other Accounting Standards

This Appendix is an integral part of the Ind AS.

This appendix lists the appendices which are part of other Indian Accounting Standards and makes reference to Ind AS 36, *Impairment of Assets*.

1. Appendix A *Intangible Assets-Web site Costs* contained in Ind AS 38, *Intangible Assets*.
2. Appendix A *Changes in Existing Decommissioning, Restoration and Similar Liabilities* contained in Ind AS 16, *Property, Plant and Equipment*.

Appendix C

Impairment testing cash-generating units with goodwill and non-controlling interests

This appendix is an integral part of the Ind AS.

- C1 In accordance with Ind AS 103, the acquirer measures and recognises goodwill as of the acquisition date as the excess of (a) over (b) below:
- (a) the aggregate of:
 - (i) the consideration transferred measured in accordance with Ind AS 103, which generally requires acquisition-date fair value;
 - (ii) the amount of any non-controlling interest in the acquiree measured in accordance with Ind AS 103; 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 liabilities assumed measured in accordance with Ind AS 103.

Allocation of goodwill

- C2 Paragraph 80 of this Standard requires goodwill acquired in a business combination to be allocated to each of the acquirer's cash-generating units, or groups of cash-generating units, 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. It is possible that some of the synergies resulting from a business combination will be allocated to a cash-generating unit in which the non-controlling interest does not have an interest.

Testing for impairment

- C3 Testing for impairment involves comparing the recoverable amount of a cash-generating unit with the carrying amount of the cash-generating unit.
- C4 If an entity measures non-controlling interests as its proportionate interest in the net identifiable assets of a subsidiary at the acquisition date, rather than at fair value, goodwill attributable to non-controlling interests is included in the recoverable amount of the related cash-generating unit but is not recognised in the parent's consolidated financial statements. As a consequence, an entity shall gross up the carrying amount of goodwill allocated to the unit to include the goodwill attributable to the non-controlling interest. This adjusted carrying amount is then compared with the recoverable amount of the unit to determine whether the cash-generating unit is impaired.

Allocating an impairment loss

- C5 Paragraph 104 requires any identified impairment loss to be allocated first to reduce the carrying amount of goodwill allocated to the unit and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit.
- C6 If a subsidiary, or part of a subsidiary, with a non-controlling interest is itself a cash-generating unit, the impairment loss is allocated between the parent and the non-controlling interest on the same basis as that on which profit or loss is allocated.
- C7 If a subsidiary, or part of a subsidiary, with a non-controlling interest is part of a larger cash-generating unit, goodwill impairment losses are allocated to the parts of the cash-generating unit that have a non-controlling interest and the parts that do not. The impairment losses should be allocated to the parts of the cash-generating unit on the basis of:
- (a) to the extent that the impairment relates to goodwill in the cash-generating unit, the relative carrying values of the goodwill of the parts before the impairment; and
 - (b) to the extent that the impairment relates to identifiable assets in the cash-generating unit, the relative carrying values of the net identifiable assets of the parts before the impairment. Any such impairment is allocated to the assets of the parts of each unit pro rata on the basis of the carrying amount of each asset in the part.

In those parts that have a non-controlling interest, the impairment loss is allocated between the parent and the non-controlling interest on the same basis as that on which profit or loss is allocated.

- C8 If an impairment loss attributable to a non-controlling interest relates to goodwill that is not recognised in the parent's consolidated financial statements (see paragraph C4), that impairment is not recognised as a goodwill impairment loss. In such cases, only the impairment loss relating to the goodwill that is allocated to the parent is recognised as a goodwill impairment loss.
- C9 [Refer Appendix 1]

Appendix 1

Note: This Appendix is not a part of the Indian Accounting Standard. The purpose of this Appendix is only to bring out the major differences, if any, between Indian Accounting Standard (Ind AS) 36 and the corresponding International Accounting Standard (IAS) 36, Impairment of Assets, issued by the International Accounting Standards Board.

Comparison with IAS 36, *Impairment of Assets*

- 1 Paragraph 2(f) is deleted in Ind AS 36 as Ind AS 40 requires cost model. To maintain consistency with IAS 36, this paragraph number has been retained. Further, for this reason, paragraph 5 of Ind AS 36 has been modified by deleting reference to fair value measurement of investment property..
- 2 The transitional provisions given in IAS 36 have not been given in Ind AS 36, since all transitional provisions related to Ind ASs, wherever considered appropriate have been included in Ind AS 101, *First-time Adoption of Indian Accounting Standards*, corresponding to IFRS 1, *First-time Adoption of International Financial Reporting Standards*.
- 3 Different terminology is used, as used in existing laws eg, the term ‘balance sheet’ is used instead of ‘Statement of financial position’ and ‘Statement of profit and loss’ is used instead of ‘Statement of comprehensive income’.
- 4 Following Paragraphs have been deleted as a consequence of Ind AS 113, *Fair Value Measurement*. However, the paragraph numbering has been retained to make it consistent with paragraph numbering of IAS 36:
 - (i) Paragraph 5(b)
 - (ii) Paragraphs 25-27
- 5 Paragraphs 91-95 appear as ‘Deleted’ in IAS 36. In order to maintain consistency with paragraph numbers of IAS 36, the paragraph numbers are retained in Ind AS 36.
- 6 Following references to Illustrative Examples which are not integral part of IAS 36 have not been included in Ind AS 36:
 - (i) Reference to Example 5 of Illustrative Examples in paragraph 47 illustrating effects of a future restructuring on a value in use calculation
 - (ii) Reference to Example 6 of Illustrative Examples in paragraph 48
 - (iii) Reference to Example 3 of Illustrative Examples in paragraph 64
 - (iv) Reference to Example 1 of Illustrative Examples in paragraph 69 giving examples of identification of a cash generating unit
- 7 Following paragraphs making references to Illustrative examples which are not integral part of IAS 36 have been deleted in Ind AS 36. The paragraph numbers have been retained in Ind AS 36 in order to maintain consistency with paragraph numbers of IAS 36:
 - (i) paragraph 103 making reference to Example 8 of Illustrative Examples illustrating the application of requirements given regarding corporate assets
 - (ii) paragraph 137 making reference to Example 9 of Illustrative Examples illustrating the disclosures required by paragraphs 134 and 135
 - (iii) paragraph C9 of Appendix C making reference to Example 7 of Illustrative Examples illustrating the impairment testing of a non-wholly-owned cash-generating unit with goodwill.
- 8 Paragraphs 138 to 140K related to effective date have not been included in Ind AS 36 as these are not relevant in Indian context. However, in order to maintain consistency with paragraph numbers of IAS 36, these paragraph numbers are retained in Ind AS 36.

Indian Accounting Standard (Ind AS) 37

Provisions, Contingent Liabilities and Contingent Assets

(This Indian Accounting Standard includes paragraphs set in **bold** type and plain type, which have equal authority. Paragraphs in bold type indicate the main principles).

Objective

The objective of this Standard is to ensure that appropriate recognition criteria and measurement bases are applied to provisions, contingent liabilities and contingent assets and that sufficient information is disclosed in the notes to enable users to understand their nature, timing and amount.

Scope

- 1 **This Standard shall be applied by all entities in accounting for provisions, contingent liabilities and contingent assets, except:**
 - (a) **those resulting from executory contracts, except where the contract is onerous; and**
 - (b) **[Refer Appendix 1]**
 - (c) **those covered by another Standard.**
- 2 This Standard does not apply to financial instruments (including guarantees) that are within the scope of Ind AS 109, *Financial Instruments*.
- 3 Executory contracts are contracts under which neither party has performed any of its obligations or both parties have partially performed their obligations to an equal extent. This Standard does not apply to executory contracts unless they are onerous.
4. [Refer Appendix 1]
- 5 When another Standard deals with a specific type of provision, contingent liability or contingent asset, an entity applies that Standard instead of this Standard. For example, some types of provisions are addressed in Standards on:
 - (a) Omitted*;
 - (b) income taxes (see Ind AS 12, *Income Taxes*);
 - (c) leases (see Ind AS 116, *Leases*). However, this Standard applies to any lease that becomes onerous before the commencement date of the lease as defined in Ind AS 116. This Standard also applies to short-term leases and leases for which the underlying asset is of low value accounted for in accordance with paragraph 6 of Ind AS 116 and that have become onerous;
 - (d) employee benefits (see Ind AS 19, *Employee Benefits*);
 - (e) insurance contracts (see Ind AS 104, *Insurance Contracts*). However, this Standard applies to provisions, contingent liabilities and contingent assets of an insurer, other than those arising from its contractual obligations and rights under insurance contracts within the scope of Ind AS 104;
 - (f) contingent consideration of an acquirer in a business combination (see Ind AS 103, *Business Combinations*); and
 - (g) revenue from contracts with customers (see Ind AS 115, *Revenue from Contracts with Customers*). However, as Ind AS 115 contains no specific requirement to address contracts with customers that are, or have become, onerous, this Standard applies to such cases.
- 6 ~~[Omitted by the Companies (Indian Accounting Standards) Amendment Rules, 2018, dated 28-3-2018] Some amounts treated as provisions may relate to the recognition of revenue, for example where an entity gives guarantees in exchange for a fee. This Standard does not address the recognition of revenue. Ind AS 18, *Revenue*, identifies the circumstances in which revenue is recognised and provides practical guidance on the application of the recognition criteria. This Standard does not change the requirements of Ind AS 18.~~

- 7 This Standard defines provisions as liabilities of uncertain timing or amount. The term 'provision' is also used in the context of items such as depreciation, impairment of assets and doubtful debts: these are adjustments to the carrying amounts of assets and are not addressed in this Standard.
- 8 Other Standards specify whether expenditures are treated as assets or as expenses. These issues are not addressed in this Standard. Accordingly, this Standard neither prohibits nor requires capitalisation of the costs recognised when a provision is made.
- 9 This Standard applies to provisions for restructurings (including discontinued operations). When a restructuring meets the definition of a discontinued operation, additional disclosures may be required by Ind AS 105, *Non-current Assets Held for Sale and Discontinued Operations*.

Definitions

- 10 The following terms are used in this Standard with the meanings specified: A *provision* is a liability* of uncertain timing or amount.**

A *liability* is a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits.

An *obligating event* is an event that creates a legal or constructive obligation that results in an entity having no realistic alternative to settling that obligation.

A *legal obligation* is an obligation that derives from:

- (a) a contract (through its explicit or implicit terms);
- (b) legislation; or
- (c) other operation of law.

A *constructive obligation* is an obligation that derives from an entity's actions where:

- (a) by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities; and
- (b) as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

A *contingent liability* is:

- (a) a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or
- (b) a present obligation that arises from past events but is not recognised because:
 - (i) it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or
 - (ii) the amount of the obligation cannot be measured with sufficient reliability.

A *contingent asset* is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.

An *onerous contract* is a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

A *restructuring* is a programme that is planned and controlled by management, and materially changes either:

- (a) the scope of a business undertaken by an entity; or
- (b) the manner in which that business is conducted. **Provisions and other liabilities**

- 11 Provisions can be distinguished from other liabilities such as trade payables and accruals because there is uncertainty about the timing or amount of the future expenditure required in settlement. By contrast:**

- (a) trade payables are liabilities to pay for goods or services that have been received or supplied and have been invoiced or formally agreed with the supplier; and
- (b) accruals are liabilities to pay for goods or services that have been received or supplied but have not been paid, invoiced or formally agreed with the supplier, including amounts due to employees (for example, amounts relating to accrued vacation pay). Although it is sometimes necessary to estimate the amount or timing of accruals, the uncertainty is generally much less than for provisions.

Accruals are often reported as part of trade and other payables, whereas provisions are reported separately.

* The definition of a liability in this Standard is not revised following the revision of the definition of a liability in the *Conceptual Framework for Financial Reporting under Indian Accounting Standards* issued in 2021 by the Institute of Chartered Accountants of India.

Relationship between provisions and contingent liabilities

- 12 In a general sense, all provisions are contingent because they are uncertain in timing or amount. However, within this Standard the term ‘contingent’ is used for liabilities and assets that are not recognised because their existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity. In addition, the term ‘contingent liability’ is used for liabilities that do not meet the recognition criteria.
- 13 This Standard distinguishes between:
- (a) provisions – which are recognised as liabilities (assuming that a reliable estimate can be made) because they are present obligations and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligations; and
 - (b) contingent liabilities – which are not recognised as liabilities because they are either:
 - (i) possible obligations, as it has yet to be confirmed whether the entity has a present obligation that could lead to an outflow of resources embodying economic benefits; or
 - (ii) present obligations that do not meet the recognition criteria in this Standard (because either it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation, or a sufficiently reliable estimate of the amount of the obligation cannot be made).

Recognition**Provisions**

- 14 **A provision shall be recognised when:**

- (a) **an entity has a present obligation (legal or constructive) as a result of a past event;**
- (b) **it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and**
- (c) **a reliable estimate can be made of the amount of the obligation. If these conditions are not met, no provision shall be recognised. Present obligation**

- 15 **In rare cases, it is not clear whether there is a present obligation. In these cases, a past event is deemed to give rise to a present obligation if, taking account of all available evidence, it is more likely than not that a present obligation exists at the end of the reporting period.**

- 16 In almost all cases it will be clear whether a past event has given rise to a present obligation. In rare cases, for example in a lawsuit, it may be disputed either whether certain events have occurred or whether those events result in a present obligation. In such a case, an entity determines whether a present obligation exists at the end of the reporting period by taking account of all available evidence, including, for example, the opinion of experts. The evidence considered includes any additional evidence provided by events after the reporting period. On the basis of such evidence:

- (a) where it is more likely than not that a present obligation exists at the end of the reporting period, the entity recognises a provision (if the recognition criteria are met); and
- (b) where it is more likely that no present obligation exists at the end of the reporting period, the entity discloses a contingent liability, unless the possibility of an outflow of resources embodying economic benefits is remote (see paragraph 86).

Past event

- 17 A past event that leads to a present obligation is called an obligating event. For an event to be an obligating event, it is necessary that the entity has no realistic alternative to settling the obligation created by the event. This is the case only:

- (a) where the settlement of the obligation can be enforced by law; or
- (b) in the case of a constructive obligation, where the event (which may be an action of the entity) creates valid expectations in other parties that the entity will discharge the obligation.

- 18 Financial statements deal with the financial position of an entity at the end of its reporting period and not its possible position in the future. Therefore, no provision is recognised for costs that need to be incurred to operate in the future. The only liabilities recognised in an entity’s balance sheet are those that exist at the end of the reporting period.

- 19 It is only those obligations arising from past events existing independently of an entity's future actions (ie the future conduct of its business) that are recognised as provisions. Examples of such obligations are penalties or clean-up costs for unlawful environmental damage, both of which would lead to an outflow of resources embodying economic benefits in settlement regardless of the future actions of the entity. Similarly, an entity recognises a provision for the decommissioning costs of an oil installation or a nuclear power station to the extent that the entity is obliged to rectify damage already caused. In contrast, because of commercial pressures or legal requirements, an entity may intend or need to carry out expenditure to operate in a particular way in the future (for example, by fitting smoke filters in a certain type of factory). Because the entity can avoid the future expenditure by its future actions, for example by changing its method of operation, it has no present obligation for that future expenditure and no provision is recognised.
- 20 An obligation always involves another party to whom the obligation is owed. It is not necessary, however, to know the identity of the party to whom the obligation is owed—indeed the obligation may be to the public at large. Because an obligation always involves a commitment to another party, it follows that a management or board decision does not give rise to a constructive obligation at the end of the reporting period unless the decision has been communicated before the end of the reporting period to those affected by it in a sufficiently specific manner to raise a valid expectation in them that the entity will discharge its responsibilities.
- 21 An event that does not give rise to an obligation immediately may do so at a later date, because of changes in the law or because an act (for example, a sufficiently specific public statement) by the entity gives rise to a constructive obligation. For example, when environmental damage is caused there may be no obligation to remedy the consequences. However, the causing of the damage will become an obligating event when a new law requires the existing damage to be rectified or when the entity publicly accepts responsibility for rectification in a way that creates a constructive obligation.
- 22 Where details of a proposed new law have yet to be finalised, an obligation arises only when the legislation is virtually certain to be enacted as drafted. For the purpose of this Standard, such an obligation is treated as a legal obligation. Differences in circumstances surrounding enactment make it impossible to specify a single event that would make the enactment of a law virtually certain. In many cases it will be impossible to be virtually certain of the enactment of a law until it is enacted.

Probable outflow of resources embodying economic benefits

- 23 For a liability to qualify for recognition there must be not only a present obligation but also the probability of an outflow of resources embodying economic benefits to settle that obligation. For the purpose of this Standard,¹ an outflow of resources or other event is regarded as probable if the event is more likely than not to occur, ie the probability that the event will occur is greater than the probability that it will not. Where it is not probable that a present obligation exists, an entity discloses a contingent liability, unless the possibility of an outflow of resources embodying economic benefits is remote (see paragraph 86).
- 24 Where there are a number of similar obligations (eg product warranties or similar contracts) the probability that an outflow will be required in settlement is determined by considering the class of obligations as a whole. Although the likelihood of outflow for any one item may be small, it may well be probable that some outflow of resources will be needed to settle the class of obligations as a whole. If that is the case, a provision is recognised (if the other recognition criteria are met).

Reliable estimate of the obligation

- 25 The use of estimates is an essential part of the preparation of financial statements and does not undermine their reliability. This is especially true in the case of provisions, which by their nature are more uncertain than most other items in the balance sheet. Except in extremely rare cases, an entity will be able to determine a range of possible outcomes and can therefore make an estimate of the obligation that is sufficiently reliable to use in recognising a provision.
- 26 In the extremely rare case where no reliable estimate can be made, a liability exists that cannot be recognised. That liability is disclosed as a contingent liability (see paragraph 86).

Contingent liabilities**27 An entity shall not recognise a contingent liability.**

- 28 A contingent liability is disclosed, as required by paragraph 86, unless the possibility of an outflow of resources embodying economic benefits is remote.

¹ The interpretation of 'probable' in this Standard as 'more likely than not' does not necessarily apply in other Indian Accounting Standards.

- 29 Where an entity is jointly and severally liable for an obligation, the part of the obligation that is expected to be met by other parties is treated as a contingent liability. The entity recognises a provision for the part of the obligation for which an outflow of resources embodying economic benefits is probable, except in the extremely rare circumstances where no reliable estimate can be made.
- 30 Contingent liabilities may develop in a way not initially expected. Therefore, they are assessed continually to determine whether an outflow of resources embodying economic benefits has become probable. If it becomes probable that an outflow of future economic benefits will be required for an item previously dealt with as a contingent liability, a provision is recognised in the financial statements of the period in which the change in probability occurs (except in the extremely rare circumstances where no reliable estimate can be made).

Contingent assets

31 An entity shall not recognise a contingent asset.

- 32 Contingent assets usually arise from unplanned or other unexpected events that give rise to the possibility of an inflow of economic benefits to the entity. An example is a claim that an entity is pursuing through legal processes, where the outcome is uncertain.
- 33 Contingent assets are not recognised in financial statements since this may result in the recognition of income that may never be realised. However, when the realisation of income is virtually certain, then the related asset is not a contingent asset and its recognition is appropriate.
- 34 A contingent asset is disclosed, as required by paragraph 89, where an inflow of economic benefits is probable.
- 35 Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits will arise, the asset and the related income are recognised in the financial statements of the period in which the change occurs. If an inflow of economic benefits has become probable, an entity discloses the contingent asset (see paragraph 89).

Measurement

Best estimate

- 36 **The amount recognised as a provision shall be the best estimate of the expenditure required to settle the present obligation at the end of the reporting period.**
- 37 The best estimate of the expenditure required to settle the present obligation is the amount that an entity would rationally pay to settle the obligation at the end of the reporting period or to transfer it to a third party at that time. It will often be impossible or prohibitively expensive to settle or transfer an obligation at the end of the reporting period. However, the estimate of the amount that an entity would rationally pay to settle or transfer the obligation gives the best estimate of the expenditure required to settle the present obligation at the end of the reporting period.
- 38 The estimates of outcome and financial effect are determined by the judgement of the management of the entity, supplemented by experience of similar transactions and, in some cases, reports from independent experts. The evidence considered includes any additional evidence provided by events after the reporting period.
- 39 Uncertainties surrounding the amount to be recognised as a provision are dealt with by various means according to the circumstances. Where the provision being measured involves a large population of items, the obligation is estimated by weighting all possible outcomes by their associated probabilities. The name for this statistical method of estimation is 'expected value'. The provision will therefore be different depending on whether the probability of a loss of a given amount is, for example, 60 per cent or 90 per cent. Where there is a continuous range of possible outcomes, and each point in that range is as likely as any other, the mid-point of the range is used.

Example

An entity sells goods with a warranty under which customers are covered for the cost of repairs of any manufacturing defects that become apparent within the first six months after purchase. If minor defects were detected in all products sold, repair costs of Rs 1 million would result. If major defects were detected in all products sold, repair costs of Rs 4 million would result. The entity's past experience and future expectations indicate that, for the coming year, 75 per cent of the goods sold will have no defects, 20 per cent of the goods sold will have minor defects and 5 per cent of the goods sold will have major defects. In accordance with paragraph 24, an entity assesses the probability of an outflow for the warranty obligations as a whole.

The expected value of the cost of repairs is:

$$(75\% \text{ of nil}) + (20\% \text{ of } 1\text{m}) + (5\% \text{ of } 4\text{m}) = \text{Rs } 400,000$$

- 40 Where a single obligation is being measured, the individual most likely outcome may be the best estimate of the liability. However, even in such a case, the entity considers other possible outcomes. Where other possible outcomes are either mostly higher or mostly lower than the most likely outcome, the best estimate will be a higher or lower amount. For example, if an entity has to rectify a serious fault in a major plant that it has constructed for a customer,

the individual most likely outcome may be for the repair to succeed at the first attempt at a cost of Rs 1,000, but a provision for a larger amount is made if there is a significant chance that further attempts will be necessary.

- 41 The provision is measured before tax, as the tax consequences of the provision, and changes in it, are dealt with under Ind AS 12.

Risks and uncertainties

- 42 The risks and uncertainties that inevitably surround many events and circumstances shall be taken into account in reaching the best estimate of a provision.**

- 43 Risk describes variability of outcome. A risk adjustment may increase the amount at which a liability is measured. Caution is needed in making judgements under conditions of uncertainty, so that income or assets are not overstated and expenses or liabilities are not understated. However, uncertainty does not justify the creation of excessive provisions or a deliberate overstatement of liabilities. For example, if the projected costs of a particularly adverse outcome are estimated on a prudent basis, that outcome is not then deliberately treated as more probable than is realistically the case. Care is needed to avoid duplicating adjustments for risk and uncertainty with consequent overstatement of a provision.

- 44 Disclosure of the uncertainties surrounding the amount of the expenditure is made under paragraph 85(b).

Present value

- 45 Where the effect of the time value of money is material, the amount of a provision shall be the present value of the expenditures expected to be required to settle the obligation.**

- 46 Because of the time value of money, provisions relating to cash outflows that arise soon after the reporting period are more onerous than those where cash outflows of the same amount arise later. Provisions are therefore discounted, where the effect is material.

- 47 The discount rate (or rates) shall be a pre-tax rate (or rates) that reflect(s) current market assessments of the time value of money and the risks specific to the liability. The discount rate(s) shall not reflect risks for which future cash flow estimates have been adjusted.**

Future events

- 48 Future events that may affect the amount required to settle an obligation shall be reflected in the amount of a provision where there is sufficient objective evidence that they will occur.**

- 49 Expected future events may be particularly important in measuring provisions. For example, an entity may believe that the cost of cleaning up a site at the end of its life will be reduced by future changes in technology. The amount recognised reflects a reasonable expectation of technically qualified, objective observers, taking account of all available evidence as to the technology that will be available at the time of the clean-up. Thus it is appropriate to include, for example, expected cost reductions associated with increased experience in applying existing technology or the expected cost of applying existing technology to a larger or more complex clean-up operation than has previously been carried out. However, an entity does not anticipate the development of a completely new technology for cleaning up unless it is supported by sufficient objective evidence.

- 50 The effect of possible new legislation is taken into consideration in measuring an existing obligation when sufficient objective evidence exists that the legislation is virtually certain to be enacted. The variety of circumstances that arise in practice makes it impossible to specify a single event that will provide sufficient, objective evidence in every case. Evidence is required both of what legislation will demand and of whether it is virtually certain to be enacted and implemented in due course. In many cases sufficient objective evidence will not exist until the new legislation is enacted.

Expected disposal of assets

- 51 Gains from the expected disposal of assets shall not be taken into account in measuring a provision.**

- 52 Gains on the expected disposal of assets are not taken into account in measuring a provision, even if the expected disposal is closely linked to the event giving rise to the provision. Instead, an entity recognises gains on expected disposals of assets at the time specified by the Standard dealing with the assets concerned.

Reimbursements

- 53 Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement shall be recognised when, and only when, it is virtually certain that reimbursement will be received if the entity settles the obligation. The reimbursement shall be treated as a separate asset. The amount recognised for the reimbursement shall not exceed the amount of the provision.**

- 54 In the statement of profit and loss, the expense relating to a provision may be presented net of the amount recognised for a reimbursement.**
- 55 Sometimes, an entity is able to look to another party to pay part or all of the expenditure required to settle a provision (for example, through insurance contracts, indemnity clauses or suppliers' warranties). The other party may either reimburse amounts paid by the entity or pay the amounts directly.
- 56 In most cases the entity will remain liable for the whole of the amount in question so that the entity would have to settle the full amount if the third party failed to pay for any reason. In this situation, a provision is recognised for the full amount of the liability, and a separate asset for the expected reimbursement is recognised when it is virtually certain that reimbursement will be received if the entity settles the liability.
- 57 In some cases, the entity will not be liable for the costs in question if the third party fails to pay. In such a case the entity has no liability for those costs and they are not included in the provision.
- 58 As noted in paragraph 29, an obligation for which an entity is jointly and severally liable is a contingent liability to the extent that it is expected that the obligation will be settled by the other parties.

Changes in provisions

- 59 Provisions shall be reviewed at the end of each reporting period and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision shall be reversed.**
- 60 Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as borrowing cost.

Use of provisions

- 61 A provision shall be used only for expenditures for which the provision was originally recognised.**
- 62 Only expenditures that relate to the original provision are set against it. Setting expenditures against a provision that was originally recognised for another purpose would conceal the impact of two different events.

Application of the recognition and measurement rules

Future operating losses

- 63 Provisions shall not be recognised for future operating losses.**
- 64 Future operating losses do not meet the definition of a liability in paragraph 10 and the general recognition criteria set out for provisions in paragraph 14.
- 65 An expectation of future operating losses is an indication that certain assets of the operation may be impaired. An entity tests these assets for impairment under Ind AS 36, *Impairment of Assets*.

Onerous contracts

- 66 If an entity has a contract that is onerous, the present obligation under the contract shall be recognised and measured as a provision.**
- 67 Many contracts (for example, some routine purchase orders) can be cancelled without paying compensation to the other party, and therefore there is no obligation. Other contracts establish both rights and obligations for each of the contracting parties. Where events make such a contract onerous, the contract falls within the scope of this Standard and a liability exists which is recognised. Executory contracts that are not onerous fall outside the scope of this Standard.
- 68 This Standard defines an onerous contract as a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it.
- 68A The cost of fulfilling a contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract consist of both—
- (a) the incremental costs of fulfilling that contract — for example, direct labour and materials; and
 - (b) an allocation of other costs that relate directly to fulfilling contracts — for example, an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling that contract among others.
- 69 Before a separate provision for an onerous contract is established, an entity recognises any impairment loss that has occurred on assets used in fulfilling the contract (see Ind AS 36).

Restructuring

70 The following are examples of events that may fall under the definition of restructuring:

- (a) sale or termination of a line of business;
- (b) the closure of business locations in a country or region or the relocation of business activities from one country or region to another;
- (c) changes in management structure, for example, eliminating a layer of management; and
- (d) fundamental reorganisations that have a material effect on the nature and focus of the entity's operations.

71 A provision for restructuring costs is recognised only when the general recognition criteria for provisions set out in paragraph 14 are met. Paragraphs 72–83 set out how the general recognition criteria apply to restructurings.

72 A constructive obligation to restructure arises only when an entity:

(a) has a detailed formal plan for the restructuring identifying at least:

- (i) the business or part of a business concerned;**
- (ii) the principal locations affected;**
- (iii) the location, function, and approximate number of employees who will be compensated for terminating their services;**
- (iv) the expenditures that will be undertaken; and**
- (v) when the plan will be implemented; and**

(b) has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

73 Evidence that an entity has started to implement a restructuring plan would be provided, for example, by dismantling plant or selling assets or by the public announcement of the main features of the plan. A public announcement of a detailed plan to restructure constitutes a constructive obligation to restructure only if it is made in such a way and in sufficient detail (ie setting out the main features of the plan) that it gives rise to valid expectations in other parties such as customers, suppliers and employees (or their representatives) that the entity will carry out the restructuring.

74 For a plan to be sufficient to give rise to a constructive obligation when communicated to those affected by it, its implementation needs to be planned to begin as soon as possible and to be completed in a timeframe that makes significant changes to the plan unlikely. If it is expected that there will be a long delay before the restructuring begins or that the restructuring will take an unreasonably long time, it is unlikely that the plan will raise a valid expectation on the part of others that the entity is at present committed to restructuring, because the timeframe allows opportunities for the entity to change its plans.

75 A management or board decision to restructure taken before the end of the reporting period does not give rise to a constructive obligation at the end of the reporting period unless the entity has, before the end of the reporting period—

- (a) started to implement the restructuring plan; or
- (b) announced the main features of the restructuring plan to those affected by it in a sufficiently specific manner to raise a valid expectation in them that the entity will carry out the restructuring.

If an entity starts to implement a restructuring plan, or announces its main features to those affected, only after the reporting period, disclosure is required under Ind AS 10 *Events after the Reporting Period*, if the restructuring is material and non-disclosure could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

76 Although a constructive obligation is not created solely by a management decision, an obligation may result from other earlier events together with such a decision. For example, negotiations with employee representatives for termination payments, or with purchasers for the sale of an operation, may have been concluded subject only to board approval. Once that approval has been obtained and communicated to the other parties, the entity has a constructive obligation to restructure, if the conditions of paragraph 72 are met.

77 In some countries, the ultimate authority is vested in a board whose membership includes representatives of interests other than those of management (eg employees) or notification to such representatives may be necessary before the board decision is taken. Because a decision by such a board involves communication to these representatives, it may result in a constructive obligation to restructure.

78 No obligation arises for the sale of an operation until the entity is committed to the sale, ie there is a binding sale agreement.

79 Even when an entity has taken a decision to sell an operation and announced that decision publicly, it cannot be committed to the sale until a purchaser has been identified and there is a binding sale agreement. Until there is a binding sale agreement, the entity will be able to change its mind and indeed will have to take another course of action if a purchaser cannot be found on acceptable terms. When the sale of an operation is envisaged as part of a restructuring, the assets of the operation are reviewed for impairment, under Ind AS 36. When a sale is only part of a restructuring, a constructive obligation can arise for the other parts of the restructuring before a binding sale agreement exists.

80 A restructuring provision shall include only the direct expenditures arising from the restructuring, which are those that are both:

- (a) necessarily entailed by the restructuring; and**
- (b) not associated with the ongoing activities of the entity.**

81 A restructuring provision does not include such costs as:

- (a) retraining or relocating continuing staff;
- (b) marketing; or
- (c) investment in new systems and distribution networks.

These expenditures relate to the future conduct of the business and are not liabilities for restructuring at the end of the reporting period. Such expenditures are recognised on the same basis as if they arose independently of a restructuring.

82 Identifiable future operating losses up to the date of a restructuring are not included in a provision, unless they relate to an onerous contract as defined in paragraph 10.

83 As required by paragraph 51, gains on the expected disposal of assets are not taken into account in measuring a restructuring provision, even if the sale of assets is envisaged as part of the restructuring.

Disclosure

84 For each class of provision, an entity shall disclose:

- (a) the carrying amount at the beginning and end of the period;**
- (b) additional provisions made in the period, including increases to existing provisions;**
- (c) amounts used (ie incurred and charged against the provision) during the period ;**
- (d) unused amounts reversed during the period ; and**
- (e) the increase during the period in the discounted amount arising from the passage of time and the effect of any change in the discount rate.**

Comparative information is not required.

85 An entity shall disclose the following for each class of provision:

- (a) a brief description of the nature of the obligation and the expected timing of any resulting outflows of economic benefits;**
- (b) an indication of the uncertainties about the amount or timing of those outflows. Where necessary to provide adequate information, an entity shall disclose the major assumptions made concerning future events, as addressed in paragraph 48;and**
- (c) the amount of any expected reimbursement, stating the amount of any asset that has been recognised for that expected reimbursement.**

86 Unless the possibility of any outflow in settlement is remote, an entity shall disclose for each class of contingent liability at the end of the reporting period a brief description of the nature of the contingent liability and, where practicable:

- (a) an estimate of its financial effect, measured under paragraphs 36–52;**
- (b) an indication of the uncertainties relating to the amount or timing of any outflow; and**
- (c) the possibility of any reimbursement.**

- 87 In determining which provisions or contingent liabilities may be aggregated to form a class, it is necessary to consider whether the nature of the items is sufficiently similar for a single statement about them to fulfil the requirements of paragraphs 85(a) and (b) and 86(a) and (b). Thus, it may be appropriate to treat as a single class of provision amounts relating to warranties of different products, but it would not be appropriate to treat as a single class amounts relating to normal warranties and amounts that are subject to legal proceedings.
- 88 Where a provision and a contingent liability arise from the same set of circumstances, an entity makes the disclosures required by paragraphs 84–86 in a way that shows the link between the provision and the contingent liability.
- 89 Where an inflow of economic benefits is probable, an entity shall disclose a brief description of the nature of the contingent assets at the end of the reporting period, and, where practicable, an estimate of their financial effect, measured using the principles set out for provisions in paragraphs 36–52.**
- 90 It is important that disclosures for contingent assets avoid giving misleading indications of the likelihood of income arising.
- 91 Where any of the information required by paragraphs 86 and 89 is not disclosed because it is not practicable to do so, that fact shall be stated.**
- 92 In extremely rare cases, disclosure of some or all of the information required by paragraphs 84–89 can be expected to prejudice seriously the position of the entity in a dispute with other parties on the subject matter of the provision, contingent liability or contingent asset. In such cases, an entity need not disclose the information, but shall disclose the general nature of the dispute, together with the fact that, and reason why, the information has not been disclosed.**

Transitional Provisions

93 *

94 *

94A *Onerous Contracts — Cost of Fulfilling a Contract*, added paragraph 68A and amended paragraph 69. An entity shall apply those amendments to contracts for which it has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments (the date of initial application). The entity shall not restate comparative information. Instead, the entity shall recognise the cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings or other component of equity, as appropriate, at the date of initial application.

Effective date

95 *

96 *

97 *

98 *

99 *

100 As a consequence of issuance of Ind AS 115, *Revenue from Contracts with Customers*, paragraph 5 is amended and paragraph 6 is deleted. An entity shall apply those amendments when it applies Ind AS 115.

101 *Omitted**

102 Ind AS 116, amended paragraph 5. An entity shall apply that amendment when it applies Ind AS 116.

103 [Refer Appendix 1]

104 *Definition of Material* (Amendments to Ind AS 1 and Ind AS 8), amended paragraph 75. An entity shall apply those amendments when it applies the amendments to the definition of material in paragraph 7 of Ind AS 1 and paragraphs 5 and 6 of Ind AS 8.

105 *Onerous Contracts — Cost of Fulfilling a Contract*, added paragraphs 68A and 94A and amended paragraph 69. An entity shall apply those amendments for annual reporting periods beginning on or after 1st April, 2022.

* Refer Appendix 1.

Appendix A

Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds

This Appendix is an integral part of the Ind AS.

Background

- 1 The purpose of decommissioning, restoration and environmental rehabilitation funds, hereafter referred to as 'decommissioning funds' or 'funds', is to segregate assets to fund some or all of the costs of decommissioning plant (such as a nuclear plant) or certain equipment (such as cars), or in undertaking environmental rehabilitation (such as rectifying pollution of water or restoring mined land), together referred to as 'decommissioning'.
- 2 Contributions to these funds may be voluntary or required by regulation or law. The funds may have one of the following structures:
 - (a) funds that are established by a single contributor to fund its own decommissioning obligations, whether for a particular site, or for a number of geographically dispersed sites.
 - (b) funds that are established with multiple contributors to fund their individual or joint decommissioning obligations, when contributors are entitled to reimbursement for decommissioning expenses to the extent of their contributions plus any actual earnings on those contributions less their share of the costs of administering the fund. Contributors may have an obligation to make additional contributions, for example, in the event of the bankruptcy of another contributor.
 - (c) funds that are established with multiple contributors to fund their individual or joint decommissioning obligations when the required level of contributions is based on the current activity of a contributor and the benefit obtained by that contributor is based on its past activity. In such cases there is a potential mismatch in the amount of contributions made by a contributor (based on current activity) and the value realisable from the fund (based on past activity).
- 3 Such funds generally have the following features:
 - (a) the fund is separately administered by independent trustees.
 - (b) entities (contributors) make contributions to the fund, which are invested in a range of assets that may include both debt and equity investments, and are available to help pay the contributors' decommissioning costs. The trustees determine how contributions are invested, within the constraints set by the fund's governing documents and any applicable legislation or other regulations.
 - (c) the contributors retain the obligation to pay decommissioning costs. However, contributors are able to obtain reimbursement of decommissioning costs from the fund up to the lower of the decommissioning costs incurred and the contributor's share of assets of the fund.
 - (d) the contributors may have restricted access or no access to any surplus of assets of the fund over those used to meet eligible decommissioning costs.

Scope

- 4 This Appendix applies to accounting in the financial statements of a contributor for interests arising from decommissioning funds that have both of the following features:
 - (a) the assets are administered separately (either by being held in a separate legal entity or as segregated assets within another entity); and
 - (b) a contributor's right to access the assets is restricted.
- 5 A residual interest in a fund that extends beyond a right to reimbursement, such as a contractual right to distributions once all the decommissioning has been completed or on winding up the fund, may be an equity instrument within the scope of Ind AS 109 and is not within the scope of this Appendix.

Issues

- 6 The issues addressed in this Appendix are:
 - (a) how should a contributor account for its interest in a fund?
 - (b) when a contributor has an obligation to make additional contributions, for example, in the event of the bankruptcy of another contributor, how should that obligation be accounted for?

Accounting Principles

Accounting for an interest in a fund

- 7 The contributor shall recognise its obligation to pay decommissioning costs as a liability and recognise its interest in the fund separately unless the contributor is not liable to pay decommissioning costs even if the fund fails to pay.
- 8 The contributor shall determine whether it has control or joint control of, or significant influence over, the fund by reference to Ind AS 110, *Consolidated Financial Statements*, Ind AS 111, *Joint Arrangements*, and Ind AS 28, *Investments in Associates and Joint Ventures*. If it does, the contributor shall account for its interest in the fund in accordance with those Standards.
- 9 If a contributor does not have control or joint control of, or significant influence over, the fund, the contributor shall recognise the right to receive reimbursement from the fund as a reimbursement in accordance with Ind AS 37. This reimbursement shall be measured at the lower of:
 - (a) the amount of the decommissioning obligation recognised; and
 - (b) the contributor's share of the fair value of the net assets of the fund attributable to contributors.

Changes in the carrying value of the right to receive reimbursement other than contributions to and payments from the fund shall be recognised in profit or loss in the period in which these changes occur.

Accounting for obligations to make additional contributions

- 10 When a contributor has an obligation to make potential additional contributions, for example, in the event of the bankruptcy of another contributor or if the value of the investment assets held by the fund decreases to an extent that they are insufficient to fulfil the fund's reimbursement obligations, this obligation is a contingent liability that is within the scope of Ind AS 37. The contributor shall recognise a liability only if it is probable that additional contributions will be made.

Disclosure

- 11 A contributor shall disclose the nature of its interest in a fund and any restrictions on access to the assets in the fund.
- 12 When a contributor has an obligation to make potential additional contributions that is not recognised as a liability (see paragraph 10), it shall make the disclosures required by paragraph 86 of Ind AS 37.
- 13 When a contributor accounts for its interest in the fund in accordance with paragraph 9, it shall make the disclosures required by paragraph 85(c) of Ind AS 37.

Appendix B

Liabilities arising from Participating in a Specific Market — Waste Electrical and Electronic Equipment¹

This Appendix is an integral part of the Ind AS.

Background

- 1 Paragraph 17 of Ind AS 37 specifies that an obligating event is a past event that leads to a present obligation that an entity has no realistic alternative to settling.
- 2 Paragraph 19 of Ind AS 37 states that provisions are recognised only for 'obligations arising from past events existing independently of an entity's future actions'.
- 3 The European Union's Directive on Waste Electrical and Electronic Equipment (WE&EE), which regulates the collection, treatment, recovery and environmentally sound disposal of waste equipment, has given rise to questions about when the liability for the decommissioning of WE&EE should be recognised. The Directive distinguishes between 'new' and 'historical' waste and between waste from private households and waste from sources other than private households. New waste relates to products sold after 13 August 2005. All household equipment sold before that date is deemed to give rise to historical waste for the purposes of the Directive.
- 4 The Directive states that the cost of waste management for historical household equipment should be borne by producers of that type of equipment that are in the market during a period to be specified in the applicable legislation of each Member State (the measurement period). The Directive states that each Member State shall

¹ This Appendix is in the context of European Union. However, if similar regulations exist in other countries including India the principles as enunciated in this Appendix shall apply.

establish a mechanism to have producers contribute to costs proportionately ‘e.g. in proportion to their respective share of the market by type of equipment.’

- 5 Several terms used in this Appendix such as ‘market share’ and ‘measurement period’ may be defined very differently in the applicable legislation of individual Member States. For example, the length of the measurement period might be a year or only one month. Similarly, the measurement of market share and the formulae for computing the obligation may differ in the various national legislations. However, all of these examples affect only the measurement of the liability, which is not within the scope of this Appendix.

Scope

- 6 This Appendix provides guidance on the recognition, in the financial statements of producers, of liabilities for waste management under the EU Directive on WE&EE in respect of sales of historical household equipment.
- 7 This Appendix addresses neither new waste nor historical waste from sources other than private households. The liability for such waste management is adequately covered in Ind AS 37. However, if, in national legislation, new waste from private households is treated in a similar manner to historical waste from private households, the principles of this Appendix apply by reference to the hierarchy in paragraphs 10-12 of Ind AS 8. The Ind AS 8 hierarchy is also relevant for other regulations that impose obligations in a way that is similar to the cost attribution model specified in the EU Directive.

Issue

- 8 This Appendix determines in the context of the decommissioning of WE&EE what constitutes the obligating event in accordance with paragraph 14(a) of Ind AS 37 for the recognition of a provision for waste management costs:
- the manufacture or sale of the historical household equipment?
 - participation in the market during the measurement period?
 - the incurrence of costs in the performance of waste management activities?

Accounting Principles

- 9 Participation in the market during the measurement period is the obligating event in accordance with paragraph 14(a) of Ind AS 37. As a consequence, a liability for waste management costs for historical household equipment does not arise as the products are manufactured or sold. Because the obligation for historical household equipment is linked to participation in the market during the measurement period, rather than to production or sale of the items to be disposed of, there is no obligation unless and until a market share exists during the measurement period. The timing of the obligating event may also be independent of the particular period in which the activities to perform the waste management are undertaken and the related costs incurred.

Appendix C

Levies

This Appendix is an integral part of the Ind AS.

Background

1. A government may impose a levy on an entity. An issue arises when to recognise a liability to pay a levy that is accounted for in accordance with Ind AS 37, *Provisions, Contingent Liabilities and Contingent Assets*.

Scope

2. This Appendix addresses the accounting for a liability to pay a levy if that liability is within the scope of Ind AS 37. It also addresses the accounting for a liability to pay a levy whose timing and amount is certain.
3. This Appendix does not address the accounting for the costs that arise from recognising a liability to pay a levy. Entities should apply other Standards to decide whether the recognition of a liability to pay a levy gives rise to an asset or an expense.

4. For the purposes of this Appendix, a levy is an outflow of resources embodying economic benefits that is imposed by governments on entities in accordance with legislation (ie laws and/or regulations), other than:
 - (a) those outflows of resources that are within the scope of other Standards (such as income taxes that are within the scope of Ind AS 12, *Income Taxes*); and
 - (b) fines or other penalties that are imposed for breaches of the legislation. 'Government' refers to government, government agencies and similar bodies whether local, national or international.
5. A payment made by an entity for the acquisition of an asset, or for the rendering of services under a contractual agreement with a government, does not meet the definition of a levy.
6. An entity is not required to apply this Appendix to liabilities that arise from emissions trading schemes.

Issues

7. To clarify the accounting for a liability to pay a levy, this Appendix addresses the following issues:
 - (a) what is the obligating event that gives rise to the recognition of a liability to pay a levy?
 - (b) does economic compulsion to continue to operate in a future period create a constructive obligation to pay a levy that will be triggered by operating in that future period?
 - (c) does the going concern assumption imply that an entity has a present obligation to pay a levy that will be triggered by operating in a future period?
 - (d) does the recognition of a liability to pay a levy arise at a point in time or does it, in some circumstances, arise progressively over time?
 - (e) what is the obligating event that gives rise to the recognition of a liability to pay a levy that is triggered if a minimum threshold is reached?
 - (f) are the principles for recognising in the annual financial statements and in the interim financial report a liability to pay a levy the same?

Accounting Principles

8. The obligating event that gives rise to a liability to pay a levy is the activity that triggers the payment of the levy, as identified by the legislation. For example, if the activity that triggers the payment of the levy is the generation of revenue in the current period and the calculation of that levy is based on the revenue that was generated in a previous period, the obligating event for that levy is the generation of revenue in the current period. The generation of revenue in the previous period is necessary, but not sufficient, to create a present obligation.
9. An entity does not have a constructive obligation to pay a levy that will be triggered by operating in a future period as a result of the entity being economically compelled to continue to operate in that future period.
10. The preparation of financial statements under the going concern assumption does not imply that an entity has a present obligation to pay a levy that will be triggered by operating in a future period.
11. The liability to pay a levy is recognised progressively if the obligating event occurs over a period of time (ie if the activity that triggers the payment of the levy, as identified by the legislation, occurs over a period of time). For example, if the obligating event is the generation of revenue over a period of time, the corresponding liability is recognised as the entity generates that revenue.
12. If an obligation to pay a levy is triggered when a minimum threshold is reached, the accounting for the liability that arises from that obligation shall be consistent with the principles established in paragraphs 8–14 of this Appendix (in particular, paragraphs 8 and 11). For example, if the obligating event is the reaching of a minimum activity threshold (such as a minimum amount of revenue or sales generated or outputs produced), the corresponding liability is recognised when that minimum activity threshold is reached.
13. An entity shall apply the same recognition principles in the interim financial report that it applies in the annual financial statements. As a result, in the interim financial report, a liability to pay a levy:
 - (a) shall not be recognised if there is no present obligation to pay the levy at the end of the interim reporting period; and
 - (b) shall be recognised if a present obligation to pay the levy exists at the end of the interim reporting period.
14. An entity shall recognise an asset if it has prepaid a levy but does not yet have a present obligation to pay that levy.

Appendix D**References to matters contained in other Indian Accounting Standards**

This Appendix is an integral part of the Ind AS.

This appendix lists the appendices which are part of other Indian Accounting Standards and makes references to Ind AS 37, *Provisions, Contingent Liabilities and Contingent Assets*.

- (i) Appendix D, *Service Concession Arrangements* and Appendix E, *Service Concession Arrangements: Disclosures*, contained in Ind AS 115, *Revenue from Contracts with Customers*.
- (ii) Appendix A, *Changes in Existing Decommissioning, Restoration and Similar Liabilities*, contained in Ind AS 16, *Property, Plant and Equipment*.
- (iii) *Omitted*.

Appendix 1

Note: This Appendix is not a part of the Indian Accounting Standard. The purpose of this Appendix is only to bring out the major differences, if any, between Indian Accounting Standard (Ind AS) 37 and the corresponding International Accounting Standard (IAS) 37, Provisions, Contingent Liabilities and Contingent Assets, IFRIC 5, Rights to Interests arising from Decommissioning Restoration and Environmental Rehabilitation Funds, IFRIC 6, Liabilities arising from Participating in Specific Market-Waste electrical and Electronic Equipment and IFRIC 21, Levies, issued by the International Accounting Standards Board.

Comparison with IAS 37, Provisions, Contingent Liabilities and Contingent Assets, IFRIC 5, IFRIC 6 and IFRIC 21

- 1 The transitional provisions given in IAS 37 and IFRIC 5 and IFRIC 6 have not been given in Ind AS 37, since all transitional provisions related to Ind ASs, wherever considered appropriate have been included in Ind AS 101, *First-time Adoption of Indian Accounting Standards*, corresponding to IFRS 1, *First-time Adoption of International Financial Reporting Standards*
- 2 Different terminology is used in this standard, eg, term ‘balance sheet’ is used instead of ‘Statement of financial position’ and ‘Statement of profit and loss’ is used instead of ‘Statement of comprehensive income’. Words ‘approval of the financial statements for issue’ have been used instead of ‘authorisation of the financial statements for issue’ in the context of financial statements considered for the purpose of events after the reporting period.
- 3 The following paragraph numbers have been omitted in IAS 37. In order to maintain consistency with paragraph numbers of IAS 37, the paragraph numbers are retained in Ind AS 37:
 - (i) paragraph 1(b)
 - (ii) paragraph 4 (iii) paragraph 5(a) (iv) paragraph 6.
- 4 Paragraphs 93-99 and 101 related to Transitional Provisions and Effective date given in IAS 37 have not been given in Ind AS 37, since all transitional provisions related to Ind ASs, wherever considered appropriate have been included in Ind AS 101, *First-time Adoption of Indian Accounting Standards* corresponding to IFRS 1, *First-time Adoption of International Financial Reporting Standards* and paragraphs related to Effective date are not relevant in Indian context. However, in order to maintain consistency with paragraph numbers of IAS 37, these paragraph numbers are retained in Ind AS 37. Paragraph 103 relates to IFRS 17, *Insurance Contracts*, for which corresponding Ind AS is under formulation.

Indian Accounting Standard (Ind AS) 38

Intangible Assets

(This Indian Accounting Standard includes paragraphs set in **bold** type and plain type, which have equal authority. Paragraphs in bold type indicate the main principles.)

Objective

- 1 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.

Scope

- 2 **This Standard shall be applied in accounting for intangible assets, except:**
 - (a) **intangible assets that are within the scope of another Standard;**
 - (b) **financial assets, as defined in Ind AS 32, *Financial Instruments: Presentation*;**
 - (c) **the recognition and measurement of exploration and evaluation assets (see Ind AS 106, *Exploration for and Evaluation of Mineral Resources*); and**
 - (d) **expenditure on the development and extraction of minerals, oil, natural gas and similar non-regenerative resources.**
- 3 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:
 - (a) intangible assets held by an entity for sale in the ordinary course of business (see Ind AS 2, *Inventories*).
 - (b) deferred tax assets (see Ind AS 12, *Income Taxes*).
 - (c) leases of intangible assets accounted for in accordance with Ind AS 116, *Leases*.
 - (d) assets arising from employee benefits (see Ind AS 19, *Employee Benefits*).
 - (e) financial assets as defined in Ind AS 32. The recognition and measurement of some financial assets are covered by Ind AS 110, *Consolidated Financial Statements*, Ind AS 27, *Separate Financial Statements*, and Ind AS 28, *Investments in Associates and Joint Ventures*.
 - (f) goodwill acquired in a business combination (see Ind AS 103, *Business Combinations*).
 - (g) deferred acquisition costs, and intangible assets, arising from an insurer's contractual rights under insurance contracts within the scope of Ind AS 104, *Insurance Contracts*. Ind AS 104 sets out specific disclosure requirements for those deferred acquisition costs but not for those intangible assets. Therefore, the disclosure requirements in this Standard apply to those intangible assets.
 - (h) non-current intangible assets classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with Ind AS 105, *Non-current Assets Held for Sale and Discontinued Operations*.
 - (i) assets arising from contracts with customers that are recognised in accordance with Ind AS 115, *Revenue from Contracts with Customers*.
- 4 Some intangible assets may be contained in or on a physical substance such as a compact disc (in the case of computer software), legal documentation (in the case of a licence or patent) or film. 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.

- 5 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 (eg a prototype), the physical element of the asset is secondary to its intangible component, ie the knowledge embodied in it.
- 6 Rights held by a lease under licensing agreements for items such as motion picture films, video recordings, plays, manuscripts, patents and copyrights are within the scope of this Standard and are excluded from the scope of Ind AS 116.
- 7 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.
- 7AA The amortisation method specified in this Standard does not apply to an entity that opts to amortise the intangible assets arising from service concession arrangements in respect of toll roads recognised in the financial statements for the period ending immediately before the beginning of the first Ind AS reporting period as per the exception given in paragraph D22 of Appendix D to Ind AS 101.

Definitions

8 The following terms are used in this Standard with the meanings specified:

Amortisation is the systematic allocation of the depreciable amount of an intangible asset* over its useful life.

An *asset* is a resource:

- (a) controlled by an entity as a result of past events; and
- (b) from which future economic benefits are expected to flow to the entity.

Carrying amount is the amount at which an asset is recognised in the balance sheet after deducting any accumulated amortisation and accumulated impairment losses thereon.

Cost is the amount of cash or cash equivalents paid or the fair value of other consideration given to acquire an asset at the time of its acquisition or construction, or, when applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other Indian Accounting Standards, eg Ind AS 102, *Share-based Payment*.

Depreciable amount is the cost of an asset, or other amount substituted for cost, less its residual value.

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

Entity-specific value is the present value of the cash flows an entity expects to arise from the continuing use of an asset and from its disposal at the end of its useful life or expects to incur when settling a liability.

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. (See Ind AS 113, *Fair Value Measurement*.)

An *impairment loss* is the amount by which the carrying amount of an asset exceeds its recoverable amount.

An *intangible asset* is an identifiable non-monetary asset without physical substance.

Monetary assets are money held and assets to be received in fixed or determinable amounts of money.

Research is original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding.

* The definition of an asset in this Standard is not revised following the revision of the definition of an asset in the *Conceptual Framework for Financial Reporting under Indian Accounting Standards* issued in 2021 by the Institute of Chartered Accountants of India.

The residual value of an intangible asset is the estimated amount that an entity would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.

Useful life is:

- (a) the period over which an asset is expected to be available for use by an entity; or**
- (b) the number of production or similar units expected to be obtained from the asset by an entity.**

Intangible assets

- 9 Entities frequently expend resources, or incur liabilities, on the acquisition, development, maintenance or enhancement of intangible resources such as scientific or technical knowledge, design and implementation of new processes or systems, licences, intellectual property, market knowledge and trademarks (including brand names and publishing titles). Common examples of items encompassed by these broad headings are computer software, patents, copyrights, motion picture films, customer lists, mortgage servicing rights, fishing licences, import quotas, franchises, customer or supplier relationships, customer loyalty, market share and marketing rights.
- 10 Not all the items described in paragraph 9 meet the definition of an intangible asset, ie identifiability, control over a resource and existence of future economic benefits. If an item within the scope of this Standard does not meet the definition of an intangible asset, expenditure to acquire it or generate it internally is recognised as an expense when it is incurred. However, if the item is acquired in a business combination, it forms part of the goodwill recognised at the acquisition date (see paragraph 68).

Identifiability

- 11 The definition of an intangible asset requires an intangible asset to be identifiable to distinguish it from goodwill. Goodwill recognised in a business combination is an asset representing the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognised. The future economic benefits may result from synergy between the identifiable assets acquired or from assets that, individually, do not qualify for recognition in the financial statements.
- 12 **An asset is identifiable if it either:**
 - (a) is separable, ie is capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable asset or liability, regardless of whether the entity intends to do so; or**
 - (b) arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.**

Control

- 13 An entity controls an asset if the entity has the power to obtain the future economic benefits flowing from the underlying resource and to restrict the access of others to those benefits. The capacity of an entity to control the future economic benefits from an intangible asset would normally stem from legal rights that are enforceable in a court of law. In the absence of legal rights, it is more difficult to demonstrate control. However, legal enforceability of a right is not a necessary condition for control because an entity may be able to control the future economic benefits in some other way.
- 14 Market and technical knowledge may give rise to future economic benefits.

An entity controls those benefits if, for example, the knowledge is protected by legal rights such as copyrights, a restraint of trade agreement (where permitted) or by a legal duty on employees to maintain confidentiality.
- 15 An entity may have a team of skilled staff and may be able to identify incremental staff skills leading to future economic benefits from training. The entity may also expect that the staff will continue to make their skills available to the entity. However, an entity usually has insufficient control over the expected future economic benefits arising from a team of skilled staff and from training for these items to meet the definition of an intangible asset. For a similar reason, specific management or technical talent is unlikely to meet the definition of an intangible asset, unless it is protected by legal rights to use it and to obtain the future economic benefits expected from it, and it also meets the other parts of the definition.
- 16 An entity may have a portfolio of customers or a market share and expect that, because of its efforts in building customer relationships and loyalty, the customers will continue to trade with the entity. However, in the absence of legal rights to protect, or other ways to control, the relationships with customers or the loyalty of the customers to

the entity, the entity usually has insufficient control over the expected economic benefits from customer relationships and loyalty for such items (eg portfolio of customers, market shares, customer relationships and customer loyalty) to meet the definition of intangible assets. In the absence of legal rights to protect customer relationships, exchange transactions for the same or similar non-contractual customer relationships (other than as part of a business combination) provide evidence that the entity is nonetheless able to control the expected future economic benefits flowing from the customer relationships. Because such exchange transactions also provide evidence that the customer relationships are separable, those customer relationships meet the definition of an intangible asset.

Future economic benefits

- 17 The future economic benefits flowing from an intangible asset may include revenue from the sale of products or services, cost savings, or other benefits resulting from the use of the asset by the entity. For example, the use of intellectual property in a production process may reduce future production costs rather than increase future revenues.

Recognition and measurement

- 18 The recognition of an item as an intangible asset requires an entity to demonstrate that the item meets:
- the definition of an intangible asset (see paragraphs 8–17); and
 - the recognition criteria (see paragraphs 21–23).

This requirement applies to costs incurred initially to acquire or internally generate an intangible asset and those incurred subsequently to add to, replace part of, or service it.

- 19 Paragraphs 25–32 deal with the application of the recognition criteria to separately acquired intangible assets, and paragraphs 33–43 deal with their application to intangible assets acquired in a business combination. Paragraph 44 deals with the initial measurement of intangible assets acquired by way of a government grant, paragraphs 45–47 with exchanges of intangible assets, and paragraphs 48–50 with the treatment of internally generated goodwill. Paragraphs 51–67 deal with the initial recognition and measurement of internally generated intangible assets.
- 20 The nature of intangible assets is such that, in many cases, there are no additions to such an asset or replacements of part of it. Accordingly, most subsequent expenditures are likely to maintain the expected future economic benefits embodied in an existing intangible asset rather than meet the definition of an intangible asset and the recognition criteria in this Standard. In addition, it is often difficult to attribute subsequent expenditure directly to a particular intangible asset rather than to the business as a whole. Therefore, only rarely will subsequent expenditure—expenditure incurred after the initial recognition of an acquired intangible asset or after completion of an internally generated intangible asset—be recognised in the carrying amount of an asset. Consistently with paragraph 63, subsequent expenditure on brands, mastheads, publishing titles, customer lists and items similar in substance (whether externally acquired or internally generated) is always recognised in profit or loss as incurred. This is because such expenditure cannot be distinguished from expenditure to develop the business as a whole.

21 An intangible asset shall be recognised if, and only if:

- it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity; and**
- the cost of the asset can be measured reliably.**

22 An entity shall assess the probability of expected future economic benefits using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

- 23 An entity uses judgement to assess the degree of certainty attached to the flow of future economic benefits that are attributable to the use of the asset on the basis of the evidence available at the time of initial recognition, giving greater weight to external evidence.

24 An intangible asset shall be measured initially at cost.

Separate acquisition

- 25 Normally, the price an entity pays to acquire separately an intangible asset will reflect expectations about the probability that the expected future economic benefits embodied in the asset will flow to the entity. In other words, the entity expects there to be an inflow of economic benefits, even if there is uncertainty about the timing or the amount of the inflow. Therefore, the probability recognition criterion in paragraph 21(a) is always considered to be satisfied for separately acquired intangible assets.
- 26 In addition, the cost of a separately acquired intangible asset can usually be measured reliably. This is particularly so when the purchase consideration is in the form of cash or other monetary assets.

- 27 The cost of a separately acquired intangible asset comprises:
- (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.
- 28 Examples of directly attributable costs are:
- (a) costs of employee benefits (as defined in Ind AS 19) arising directly from bringing the asset to its working condition;
 - (b) professional fees arising directly from bringing the asset to its working condition; and
 - (c) costs of testing whether the asset is functioning properly.
- 29 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.
- 30 Recognition of costs in the carrying amount of an intangible asset ceases when the asset is in the condition necessary for it to be capable of operating in the manner intended by management. Therefore, costs incurred in using or redeploying an intangible asset are not included in the carrying amount of that asset. For example, the following costs are not included in the carrying amount of an intangible asset:
- (a) costs incurred while an asset capable of operating in the manner intended by management has yet to be brought into use; and
 - (b) initial operating losses, such as those incurred while demand for the asset's output builds up.
- 31 Some operations occur in connection with the development of an intangible asset, but are not necessary to bring the asset to the condition necessary for it to be capable of operating in the manner intended by management. These incidental operations may occur before or during the development activities. Because incidental operations are not necessary to bring an asset to the condition necessary for it to be capable of operating in the manner intended by management, the income and related expenses of incidental operations are recognised immediately in profit or loss, and included in their respective classifications of income and expense.
- 32 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*.

Acquisition as part of a business combination

- 33 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. The fair value of an intangible asset will reflect market participants' expectations at the acquisition date about the probability that the expected future economic benefits embodied in the asset will flow to the entity. In other words, the entity expects there to be an inflow of economic benefits, even if there is uncertainty about the timing or the amount of the inflow. Therefore, the probability recognition criterion in paragraph 21(a) is always considered to be satisfied for intangible assets acquired in business combinations. If an asset acquired in a business combination is separable or arises from contractual or other legal rights, sufficient information exists to measure reliably the fair value of the asset. Thus, the reliable measurement criterion in paragraph 21(b) is always considered to be satisfied for intangible assets acquired in business combinations.
- 34 In accordance with this Standard and Ind AS 103, an acquirer recognises at the acquisition date, separately from goodwill, an intangible asset of the acquiree, 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. An acquiree's in-process research and development project meets the definition of an intangible asset when it:
- (a) meets the definition of an asset; and
 - (b) is identifiable, ie is separable or arises from contractual or other legal rights.

Intangible asset acquired in a business combination

- 35 If an intangible asset acquired in a business combination is separable or arises from contractual or other legal rights, sufficient information exists to measure reliably the fair value of the asset. When, for the estimates used to measure an intangible asset's fair value, there is a range of possible outcomes with different probabilities that uncertainty enters into the measurement of the asset's fair value.
- 36 An intangible asset acquired in a business combination might be separable, but only together with a related contract, identifiable asset or liability. In such cases, the acquirer recognises the intangible asset separately from goodwill, but together with the related item.
- 37 The acquirer may recognise a group of complementary intangible assets as a single asset provided the individual assets have similar useful lives. For example, the terms 'brand' and 'brand name' are often used as synonym for trademarks and other marks. However, the former are general marketing terms that are typically used to refer to a group of complimentary assets such as a trademark (or service mark) and its related trade name, formulas, recipes and technological expertise.
- 38- [Refer Appendix 1]
41

Subsequent expenditure on an acquired in-process research and development project**42 Research or development expenditure that:**

- (a) **relates to an in-process research or development project acquired separately or in a business combination and recognised as an intangible asset; and**
- (b) **is incurred after the acquisition of that project shall be accounted for in accordance with paragraphs 54–62.**
- 43 Applying the requirements in paragraphs 54–62 means that subsequent expenditure on an in-process research or development project acquired separately or in a business combination and recognised as an intangible asset is:
- (a) recognised as an expense when incurred if it is research expenditure;
- (b) recognised as an expense when incurred if it is development expenditure that does not satisfy the criteria for recognition as an intangible asset in paragraph 57; and
- (c) added to the carrying amount of the acquired in-process research or development project if it is development expenditure that satisfies the recognition criteria in paragraph 57.

Acquisition by way of a government grant

- 44 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 airport landing rights, licences to operate radio or television stations, import licences or quotas or rights to access other restricted resources. In accordance with Ind AS 20, *Accounting for Government Grants and Disclosure of Government Assistance*, an entity may choose to recognise both the intangible asset and the grant initially at fair value. If an entity chooses not to recognise the asset initially at fair value, the entity recognises the asset initially at a nominal amount (the other treatment permitted by Ind AS 20) plus any expenditure that is directly attributable to preparing the asset for its intended use.

Exchanges of assets

- 45 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 following discussion refers simply to an exchange of one non-monetary asset for another, but it also applies to all exchanges described in the preceding sentence. 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. The acquired asset is measured in this way even if an entity cannot immediately derecognise the asset given up. If the acquired asset is not measured at fair value, its cost is measured at the carrying amount of the asset given up.
- 46 An entity determines whether an exchange transaction has commercial substance by considering the extent to which its future cash flows are expected to change as a result of the transaction. An exchange transaction has commercial substance if:
- (a) the configuration (ie risk, timing and amount) of the cash flows of the asset received differs from the configuration of the cash flows of the asset transferred; or

- (b) the entity-specific value of the portion of the entity's operations affected by the transaction changes as a result of the exchange; and
- (c) the difference in (a) or (b) is significant relative to the fair value of the assets exchanged.

For the purpose of determining whether an exchange transaction has commercial substance, the entity-specific value of the portion of the entity's operations affected by the transaction shall reflect post-tax cash flows. The result of these analyses may be clear without an entity having to perform detailed calculations.

- 47 Paragraph 21(b) specifies that a condition for the recognition of an intangible asset is that the cost of the asset can be measured reliably. The fair value of an intangible asset is reliably measurable if (a) the variability in the range of reasonable fair value measurements is not significant for that asset or (b) the probabilities of the various estimates within the range can be reasonably assessed and used when measuring fair value. If an entity is able to measure reliably the fair value of either the asset received or the asset given up, then the fair value of the asset given up is used to measure cost unless the fair value of the asset received is more clearly evident.

Internally generated goodwill

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

- 49 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. Internally generated goodwill is not recognised as an asset because it is not an identifiable resource (ie it is not separable nor does it arise from contractual or other legal rights) controlled by the entity that can be measured reliably at cost.
- 50 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.

Internally generated intangible assets

- 51 It is sometimes difficult to assess whether an internally generated intangible asset qualifies for recognition because of problems in:
- (a) identifying whether and when there is an identifiable asset that will generate expected future economic benefits; and
 - (b) determining the cost of the asset reliably. In some cases, the cost of generating an intangible asset internally cannot be distinguished from the cost of maintaining or enhancing the entity's internally generated goodwill or of running day-to-day operations.

Therefore, in addition to complying with the general requirements for the recognition and initial measurement of an intangible asset, an entity applies the requirements and guidance in paragraphs 52–67 to all internally generated intangible assets.

- 52 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.

Although the terms 'research' and 'development' are defined, the terms 'research phase' and 'development phase' have a broader meaning for the purpose of this Standard.

- 53 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.

Research phase

54 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.

- 55 In the research phase of an internal project, an entity cannot demonstrate that an intangible asset exists that will generate probable future economic benefits. Therefore, this expenditure is recognised as an expense when it is incurred.

56 Examples of research activities are:

- (a) activities aimed at obtaining new knowledge;
- (b) the search for, evaluation and final selection of, applications of research findings or other knowledge;
- (c) the search for alternatives for materials, devices, products, processes, systems or services; and
- (d) the formulation, design, evaluation and final selection of possible alternatives for new or improved materials, devices, products, processes, systems or services.

Development phase

57 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.**

58 In the development phase of an internal project, an entity can, in some instances, identify an intangible asset and demonstrate that the asset will generate probable future economic benefits. This is because the development phase of a project is further advanced than the research phase.

59 Examples of development activities are:

- (a) the design, construction and testing of pre-production or pre-use prototypes and models;
- (b) the design of tools, jigs, moulds and dies involving new technology;
- (c) the design, construction and operation of a pilot plant that is not of a scale economically feasible for commercial production; and
- (d) the design, construction and testing of a chosen alternative for new or improved materials, devices, products, processes, systems or services.

60 To demonstrate how an intangible asset will generate probable future economic benefits, an entity assesses the future economic benefits to be received from the asset using the principles in Ind AS 36, *Impairment of Assets*. If the asset will generate economic benefits only in combination with other assets, the entity applies the concept of cash-generating units in Ind AS 36.

61 Availability of resources to complete, use and obtain the benefits from an intangible asset can be demonstrated by, for example, a business plan showing the technical, financial and other resources needed and the entity's ability to secure those resources. In some cases, an entity demonstrates the availability of external finance by obtaining a lender's indication of its willingness to fund the plan.

62 An entity's costing systems can often measure reliably the cost of generating an intangible asset internally, such as salary and other expenditure incurred in securing copyrights or licences or developing computer software.

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

64 Expenditure on internally generated brands, mastheads, publishing titles, customer lists and items similar in substance cannot be distinguished from the cost of developing the business as a whole. Therefore, such items are not recognised as intangible assets.

Cost of an internally generated intangible asset

65 The cost of an internally generated intangible asset for the purpose of paragraph 24 is the sum of expenditure incurred from the date when the intangible asset first meets the recognition criteria in paragraphs 21, 22 and 57. Paragraph 71 prohibits reinstatement of expenditure previously recognised as an expense.

- 66 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; and
 - 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.
- 67 The following are not components of the cost of an internally generated intangible asset:
- selling, administrative and other general overhead expenditure unless this expenditure can be directly attributed to preparing the asset for use;
 - identified inefficiencies and initial operating losses incurred before the asset achieves planned performance; and
 - expenditure on training staff to operate the asset.

Example illustrating paragraph 65

An entity is developing a new production process. During 20X5, expenditure incurred was Rs.1,000, of which Rs.900 was incurred before 1 December 20X5 and Rs.100 was incurred between 1 December 20X5 and 31 December 20X5. The entity is able to demonstrate that, at 1 December 20X5, the production process met the criteria for recognition as an intangible asset. The recoverable amount of the know-how embodied in the process (including future cash outflows to complete the process before it is available for use) is estimated to be Rs.500.

At the end of 20X5, the production process is recognised as an intangible asset at a cost of Rs.100 (expenditure incurred since the date when the recognition criteria were met, ie 1 December 20X5). The Rs.900 expenditure incurred before 1 December 20X5 is recognised as an expense because the recognition criteria were not met until 1 December 20X5. This expenditure does not form part of the cost of the production process recognised in the balance sheet.

During 20X6, expenditure incurred is Rs.2,000. At the end of 20X6, the recoverable amount of the know-how embodied in the process (including future cash outflows to complete the process before it is available for use) is estimated to be Rs.1,900.

At the end of 20X6, the cost of the production process is Rs.2,100 (Rs.100 expenditure recognised at the end of 20X5 plus Rs.2,000 expenditure recognised in 20X6). The entity recognises an impairment loss of Rs.200 to adjust the carrying amount of the process before impairment loss (Rs.2,100) to its recoverable amount (Rs.1,900). This impairment loss will be reversed in a subsequent period if the requirements for the reversal of an impairment loss in Ind AS 36 are met.

Recognition of an expense

- 68 Expenditure on an intangible item shall be recognised as an expense when it is incurred unless:**
- it forms part of the cost of an intangible asset that meets the recognition criteria (see paragraphs 18–67); or**
 - the item is acquired in a business combination and cannot be recognised as an intangible asset. If this is the case, it forms part of the amount recognised as goodwill at the acquisition date (see Ind AS 103).**
- 69 In some cases, expenditure is incurred to provide future economic benefits to an entity, but no intangible asset or other asset is acquired or created that can be recognised. In the case of the supply of goods, the entity recognises such expenditure as an expense when it has a right to access those goods. In the case of the supply of services, the entity recognises the expenditure as an expense when it receives the services. For example, expenditure on research is recognised as an expense when it is incurred (see paragraph 54), except when it is acquired as part of a business combination. Other examples of expenditure that is recognised as an expense when it is incurred include:
- expenditure on start-up activities (ie start-up costs), unless this expenditure is included in the cost of an item of property, plant and equipment in accordance with Ind AS 16. Start-up costs may consist of establishment costs such as legal and secretarial costs incurred in establishing a legal entity, expenditure to open a new facility or business (ie pre-opening costs) or expenditures for starting new operations or launching new products or processes (ie pre-operating costs).
 - expenditure on training activities.

- (c) expenditure on advertising and promotional activities (including mail order catalogues).
 - (d) expenditure on relocating or reorganising part or all of an entity.
- 69A An entity has a right to access goods when it owns them. Similarly, it has a right to access goods when they have been constructed by a supplier in accordance with the terms of a supply contract and the entity could demand delivery of them in return for payment. Services are received when they are performed by a supplier in accordance with a contract to deliver them to the entity and not when the entity uses them to deliver another service, for example, to deliver an advertisement to customers.
- 70 Paragraph 68 does not preclude an entity from recognising a prepayment as an asset when payment for goods has been made in advance of the entity obtaining a right to access those goods. Similarly, paragraph 68 does not preclude an entity from recognising a prepayment as an asset when payment for services has been made in advance of the entity receiving those services.

Past expenses not to be recognised as an asset

- 71 Expenditure on an intangible item that was initially recognised as an expense shall not be recognised as part of the cost of an intangible asset at a later date.**

Measurement after recognition

- 72 An entity shall choose either the cost model in paragraph 74 or the revaluation model in paragraph 75 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.**
- 73 A class of intangible assets is a grouping of assets of a similar nature and use in an entity's operations. The items within a class of intangible assets are revalued simultaneously to avoid selective revaluation of assets and the reporting of amounts in the financial statements representing a mixture of costs and values as at different dates.

Cost model

- 74 After initial recognition, an intangible asset shall be carried at its cost less any accumulated amortisation and any accumulated impairment losses.**

Revaluation model

- 75 After initial recognition, an intangible asset shall be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated amortisation and any subsequent accumulated impairment losses. For the purpose of revaluations under this Standard, fair value shall be measured by reference to an active market. Revaluations shall be made with such regularity that at the end of the reporting period the carrying amount of the asset does not differ materially from its fair value.**
- 76 The revaluation model does not allow:
- (a) the revaluation of intangible assets that have not previously been recognised as assets; or
 - (b) the initial recognition of intangible assets at amounts other than cost.
- 77 The revaluation model is applied after an asset has been initially recognised at cost. However, if only part of the cost of an intangible asset is recognised as an asset because the asset did not meet the criteria for recognition until part of the way through the process (see paragraph 65), the revaluation model may be applied to the whole of that asset. Also, the revaluation model may be applied to an intangible asset that was received by way of a Government grant and recognised at a nominal amount (see paragraph 44).
- 78 It is uncommon for an active market to exist for an intangible asset, although this may happen. For example, in some jurisdictions, an active market may exist for freely transferable taxi licences, fishing licences or production quotas. However, an active market cannot exist for brands, newspaper mastheads, music and film publishing rights, patents or trademarks, because each such asset is unique. Also, although intangible assets are bought and sold, contracts are negotiated between individual buyers and sellers, and transactions are relatively infrequent. For these reasons, the price paid for one asset may not provide sufficient evidence of the fair value of another. Moreover, prices are often not available to the public.
- 79 The frequency of revaluations depends on the volatility of the fair values of the intangible assets being revalued. If the fair value of a revalued asset differs materially from its carrying amount, a further revaluation is necessary. Some intangible assets may experience significant and volatile movements in fair value, thus necessitating annual revaluation. Such frequent revaluations are unnecessary for intangible assets with only insignificant movements in fair value.

- 80 When an intangible asset is revalued, the carrying amount of that asset is adjusted to the revalued amount. At the date of the revaluation, the asset is treated in one of the following ways:
- (a) the gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. For example, the gross carrying amount may be restated by reference to observable market data or it may be restated proportionately to the change in the carrying amount. The accumulated amortisation at the date of the revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account accumulated impairment losses; or
 - (b) the accumulated amortisation is eliminated against the gross carrying amount of the asset.
- The amount of the adjustment of accumulated amortisation forms part of the increase or decrease in the carrying amount that is accounted for in accordance with paragraphs 85 and 86.
- 81 If an intangible asset in a class of revalued intangible assets cannot be revalued because there is no active market for this asset, the asset shall be carried at its cost less any accumulated amortisation and impairment losses.**
- 82 If the fair value of a revalued intangible asset can no longer be measured by reference to an active market, the carrying amount of the asset shall be its revalued amount at the date of the last revaluation by reference to the active market less any subsequent accumulated amortisation and any subsequent accumulated impairment losses.**
- 83 The fact that an active market no longer exists for a revalued intangible asset may indicate that the asset may be impaired and that it needs to be tested in accordance with Ind AS 36.
- 84 If the fair value of the asset can be measured by reference to an active market at a subsequent measurement date, the revaluation model is applied from that date.
- 85 If an intangible asset's carrying amount is increased as a result of a revaluation, the increase shall be recognised in other comprehensive income and accumulated in equity under the heading of revaluation surplus. However, the increase shall be recognised in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss.**
- 86 If an intangible asset's carrying amount is decreased as a result of a revaluation, the decrease shall be recognised in profit or loss. However, the decrease shall be recognised in other comprehensive income to the extent of any credit balance in the revaluation surplus in respect of that asset. The decrease recognised in other comprehensive income reduces the amount accumulated in equity under the heading of revaluation surplus.**
- 87 The cumulative revaluation surplus included in equity may be transferred directly to retained earnings when the surplus is realised. The whole surplus may be realised on the retirement or disposal of the asset. However, some of the surplus may be realised as the asset is used by the entity; in such a case, the amount of the surplus realised is the difference between amortisation based on the revalued carrying amount of the asset and amortisation that would have been recognised based on the asset's historical cost. The transfer from revaluation surplus to retained earnings is not made through profit or loss.

Useful life

- 88 An entity shall assess whether the useful life of an intangible asset is finite or indefinite and, if finite, the length of, or number of production or similar units constituting, that useful life. 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.**
- 89 The accounting for an intangible asset is based on its useful life. An intangible asset with a finite useful life is amortised (see paragraphs 97–106), and an intangible asset with an indefinite useful life is not (see paragraphs 107–110).
- 90 Many factors are considered in determining the useful life of an intangible asset, including:
- (a) the expected usage of the asset by the entity and whether the asset could be managed efficiently by another management team;
 - (b) typical product life cycles for the asset and public information on estimates of useful lives of similar assets that are used in a similar way;
 - (c) technical, technological, commercial or other types of obsolescence;

- (d) the stability of the industry in which the asset operates and changes in the market demand for the products or services output from the asset;
 - (e) expected actions by competitors or potential competitors;
 - (f) the level of maintenance expenditure required to obtain the expected future economic benefits from the asset and the entity's ability and intention to reach such a level;
 - (g) the period of control over the asset and legal or similar limits on the use of the asset, such as the expiry dates of related leases; and
 - (h) whether the useful life of the asset is dependent on the useful life of other assets of the entity.
- 91 The term 'indefinite' does not mean 'infinite'. The useful life of an intangible asset reflects only that level of future maintenance expenditure required to maintain the asset at its standard of performance assessed at the time of estimating the asset's useful life, and the entity's ability and intention to reach such a level. A conclusion that the useful life of an intangible asset is indefinite should not depend on planned future expenditure in excess of that required to maintain the asset at that standard of performance.
- 92 Given the history of rapid changes in technology, computer software and many other intangible assets are susceptible to technological obsolescence. Therefore, it will often be the case that their useful life is short. Expected future reductions in the selling price of an item that was produced using an intangible asset could indicate the expectation of technological or commercial obsolescence of the asset, which, in turn, might reflect a reduction of the future economic benefits embodied in the asset.
- 93 The useful life of an intangible asset may be very long or even indefinite. Uncertainty justifies estimating the useful life of an intangible asset on a prudent basis, but it does not justify choosing a life that is unrealistically short.
- 94 The useful life of an intangible asset that arises from contractual or other legal rights shall not exceed the period of the contractual or other legal rights, but may be shorter depending on the period over which the entity expects to use the asset. If the contractual or other legal rights are conveyed for a limited term that can be renewed, the useful life of the intangible asset shall include the renewal period(s) only if there is evidence to support renewal by the entity without significant cost. The useful life of a reacquired right recognised as an intangible asset in a business combination is the remaining contractual period of the contract in which the right was granted and shall not include renewal periods.**
- 95 There may be both economic and legal factors influencing the useful life of an intangible asset. Economic factors determine the period over which future economic benefits will be received by the entity. Legal factors may restrict the period over which the entity controls access to these benefits. The useful life is the shorter of the periods determined by these factors.
- 96 Existence of the following factors, among others, indicates that an entity would be able to renew the contractual or other legal rights without significant cost:
- (a) there is evidence, possibly based on experience, that the contractual or other legal rights will be renewed. If renewal is contingent upon the consent of a third party, this includes evidence that the third party will give its consent;
 - (b) there is evidence that any conditions necessary to obtain renewal will be satisfied; and
 - (c) the cost to the entity of renewal is not significant when compared with the future economic benefits expected to flow to the entity from renewal.
- If the cost of renewal is significant when compared with the future economic benefits expected to flow to the entity from renewal, the 'renewal' cost represents, in substance, the cost to acquire a new intangible asset at the renewal date.

Intangible assets with finite useful lives

Amortisation period and amortisation method

- 97 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, ie 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.

- 98 A variety of amortisation methods can be used to allocate the depreciable amount of an asset on a systematic basis over its useful life. These methods include the straight-line method, the diminishing balance method and the units of production method. The method used is selected on the basis of the expected pattern of consumption of the expected future economic benefits embodied in the asset and is applied consistently from period to period, unless there is a change in the expected pattern of consumption of those future economic benefits.
- 98A 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. The revenue generated by an activity that includes the use of an intangible asset typically reflects factors that are not directly linked to the consumption of the economic benefits embodied in the intangible asset. For example, revenue is affected by other inputs and processes, selling activities and changes in sales volumes and prices. The price component of revenue may be affected by inflation, which has no bearing upon the way in which an asset is consumed. This presumption can be overcome only in the limited circumstances:
- (a) in which the intangible asset is expressed as a measure of revenue, as described in paragraph 98C; or
 - (b) when it can be demonstrated that revenue and the consumption of the economic benefits of the intangible asset are highly correlated.
- 98B In choosing an appropriate amortisation method in accordance with paragraph 98, an entity could determine the predominant limiting factor that is inherent in the intangible asset. For example, the contract that sets out the entity's rights over its use of an intangible asset might specify the entity's use of the intangible asset as a predetermined number of years (i.e. time), as a number of units produced or as a fixed total amount of revenue to be generated. Identification of such a predominant limiting factor could serve as the starting point for the identification of the appropriate basis of amortisation, but another basis may be applied if it more closely reflects the expected pattern of consumption of economic benefits.
- 98C In the circumstance in which the predominant limiting factor that is inherent in an intangible asset is the achievement of a revenue threshold, the revenue to be generated can be an appropriate basis for amortisation. For example, an entity could acquire a concession to explore and extract gold from a gold mine. The expiry of the contract might be based on a fixed amount of total revenue to be generated from the extraction (for example, a contract may allow the extraction of gold from the mine until total cumulative revenue from the sale of gold reaches Rs.2 billion) and not be based on time or on the amount of gold extracted. In another example, the right to operate a toll road could be based on a fixed total amount of revenue to be generated from cumulative tolls charged (for example, a contract could allow operation of the toll road until the cumulative amount of tolls generated from operating the road reaches Rs.100 million). In the case in which revenue has been established as the predominant limiting factor in the contract for the use of the intangible asset, the revenue that is to be generated might be an appropriate basis for amortising the intangible asset, provided that the contract specifies a fixed total amount of revenue to be generated on which amortisation is to be determined.
- 99 Amortisation 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 amortisation charge constitutes part of the cost of the other asset and is included in its carrying amount. For example, the amortisation of intangible assets used in a production process is included in the carrying amount of inventories (see Ind AS 2, *Inventories*).

Residual value

- 100 The residual value of an intangible asset with a finite useful life shall be assumed to be zero unless:**
- (a) **there is a commitment by a third party to purchase the asset at the end of its useful life; or**
 - (b) **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.**
- 101 The depreciable amount of an asset with a finite useful life is determined after deducting its residual value. A residual value other than zero implies that an entity expects to dispose of the intangible asset before the end of its economic life.

- 102 An estimate of an asset's residual value is based on the amount recoverable from disposal using prices prevailing at the date of the estimate for the sale of a similar asset that has reached the end of its useful life and has operated under conditions similar to those in which the asset will be used. The residual value is reviewed at least at each financial year-end. A change in the asset's residual value is accounted for as a change in an accounting estimate in accordance with Ind AS 8, Accounting *Policies, Changes in Accounting Estimates and Errors*.
- 103 The residual value of an intangible asset may increase to an amount equal to or greater than the asset's carrying amount. If it does, the asset's amortisation charge is zero unless and until its residual value subsequently decreases to an amount below the asset's carrying amount.

Review of amortisation period and amortisation method

- 104 **The amortisation period and the amortisation method for an intangible asset with a finite useful life shall be reviewed at least at each financial year-end. 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.**
- 105 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.
- 106 Over time, the pattern of future economic benefits expected to flow to an entity from an intangible asset may change. For example, it may become apparent that a diminishing balance method of amortisation is appropriate rather than a straight-line method. Another example is if use of the rights represented by a licence is deferred pending action on other components of the business plan. In this case, economic benefits that flow from the asset may not be received until later periods.

Intangible assets with indefinite useful lives

- 107 **An intangible asset with an indefinite useful life shall not be amortised.**
- 108 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.

Review of useful life assessment

- 109 **The useful life of an intangible asset that is not being amortised shall 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 shall be accounted for as a change in an accounting estimate in accordance with Ind AS 8.**
- 110 In accordance with Ind AS 36, reassessing the useful life of an intangible asset as finite rather than indefinite is an indicator that the asset may be impaired. As a result, the entity tests the asset for impairment by comparing its recoverable amount, determined in accordance with Ind AS 36, with its carrying amount, and recognising any excess of the carrying amount over the recoverable amount as an impairment loss.

Recoverability of the carrying amount—impairment losses

- 111 To determine whether an intangible asset is impaired, an entity applies Ind AS 36. That Standard explains when and how an entity reviews the carrying amount of its assets, how it determines the recoverable amount of an asset and when it recognises or reverses an impairment loss.

Retirements and disposals

- 112 **An intangible asset shall be derecognised:**
- on disposal; or**
 - when no future economic benefits are expected from its use or disposal.**
- 113 **The gain or loss arising from the 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 116 requires otherwise on a sale and leaseback). Gains shall not be classified as revenue.**
- 114 The disposal of an intangible asset may occur in a variety of ways (e.g. by sale, by entering into a finance lease, or by donation). The date of disposal of an intangible asset is the date that the recipient obtains control of that asset in accordance with the requirements for determining when a performance obligation is satisfied in Ind AS 115. Ind AS 116 applies to disposal by a sale and leaseback.

- 115 If in accordance with the recognition principle in paragraph 21 an entity recognises in the carrying amount of an asset the cost of a replacement for part of an intangible asset, then it derecognises the carrying amount of the replaced part. If it is not practicable for an entity to determine the carrying amount of the replaced part, it may use the cost of the replacement as an indication of what the cost of the replaced part was at the time it was acquired or internally generated.
- 115A In the case of a reacquired right in a business combination, if the right is subsequently reissued (sold) to a third party, the related carrying amount, if any, shall be used in determining the gain or loss on reissue.
- 116 The amount of consideration to be included in the gain or loss arising from the derecognition of an intangible asset is determined in accordance with the requirements for determining the transaction price in paragraphs 47-72 of Ind AS 115. Subsequent changes to the estimated amount of the consideration included in the gain or loss shall be accounted for in accordance with the requirements for changes in the transaction price in Ind AS 115.
115. Subsequent changes to the estimated amount of the consideration included in the gain or loss shall be accounted for in accordance with the requirements for changes in the transaction price in Ind AS 115.
- 117 Amortisation of an intangible asset with a finite useful life does not cease when the intangible asset is no longer used, unless the asset has been fully depreciated or 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.

Disclosure

General

- 118 **An entity shall disclose the following for each class of intangible assets, distinguishing between internally generated intangible assets and other intangible assets:**
- (a) **whether the useful lives are indefinite or finite and, if finite, the useful lives or the amortisation rates used;**
 - (b) **the amortisation methods used for intangible assets with finite useful lives;**
 - (c) **the gross carrying amount and any accumulated amortisation (aggregated with accumulated impairment losses) at the beginning and end of the period;**
 - (d) **the line item(s) of the statement of profit and loss in which any amortisation of intangible assets is included;**
 - (e) **a reconciliation of the carrying amount at the beginning and end of the period showing:**
 - (i) **additions, indicating separately those from internal development, those acquired separately, and those acquired through business combinations;**
 - (ii) **assets classified as held for sale or included in a disposal group classified as held for sale in accordance with Ind AS 105 and other disposals;**
 - (iii) **increases or decreases during the period resulting from revaluations under paragraphs 75, 85 and 86 and from impairment losses recognised or reversed in other comprehensive income in accordance with Ind AS 36 (if any);**
 - (iv) **impairment losses recognised in profit or loss during the period in accordance with Ind AS 36 (if any);**
 - (v) **impairment losses reversed in profit or loss during the period in accordance with Ind AS 36 (if any);**
 - (vi) **any amortisation recognised during the period;**
 - (vii) **net exchange differences arising on the translation of the financial statements into the presentation currency, and on the translation of a foreign operation into the presentation currency of the entity; and**
 - (viii) **other changes in the carrying amount during the period.**
- 119 A class of intangible assets is a grouping of assets of a similar nature and use in an entity's operations. Examples of separate classes may include:
- (a) brand names;

- (b) mastheads and publishing titles; (c) computer software;
- (d) licences and franchises;
- (e) copyrights, patents and other industrial property rights, service and operating rights;
- (f) recipes, formulae, models, designs and prototypes; and
- (g) intangible assets under development.

The classes mentioned above are disaggregated (aggregated) into smaller (larger) classes if this results in more relevant information for the users of the financial statements.

- 120 An entity discloses information on impaired intangible assets in accordance with Ind AS 36 in addition to the information required by paragraph 118(e)(iii)–(v).
- 121 Ind AS 8 requires an entity to disclose the nature and amount of a change in an accounting estimate that has a material effect in the current period or is expected to have a material effect in subsequent periods. Such disclosure may arise from changes in:
- (a) the assessment of an intangible asset's useful life;
 - (b) the amortisation method; or
 - (c) residual values.

122 An entity shall also disclose:

- (a) for an intangible asset assessed as having an indefinite useful life, the carrying amount of that asset and the reasons supporting the assessment of an indefinite useful life. In giving these reasons, the entity shall describe the factor(s) that played a significant role in determining that the asset has an indefinite useful life.**
 - (b) a description, the carrying amount and remaining amortisation period of any individual intangible asset that is material to the entity's financial statements.**
 - (c) for intangible assets acquired by way of a government grant and initially recognised at fair value (see paragraph 44):**
 - (i) the fair value initially recognised for these assets;**
 - (ii) their carrying amount; and**
 - (iii) whether they are measured after recognition under the cost model or the revaluation model.**
 - (d) the existence and carrying amounts of intangible assets whose title is restricted and the carrying amounts of intangible assets pledged as security for liabilities.**
 - (e) the amount of contractual commitments for the acquisition of intangible assets.**
- 123 When an entity describes the factor(s) that played a significant role in determining that the useful life of an intangible asset is indefinite, the entity considers the list of factors in paragraph 90.

Intangible assets measured after recognition using the revaluation model

124 If intangible assets are accounted for at revalued amounts, an entity shall disclose the following:

- (a) by class of intangible assets:**
 - (i) the effective date of the revaluation;**
 - (ii) the carrying amount of revalued intangible assets; and**
 - (iii) the carrying amount that would have been recognised had the revalued class of intangible assets been measured after recognition using the cost model in paragraph 74; and**
- (b) the amount of the revaluation surplus that relates to intangible assets at the beginning and end of the period, indicating the changes during the period and any restrictions on the distribution of the balance to shareholders.**
- (c) [Refer Appendix 1]**

125 It may be necessary to aggregate the classes of revalued assets into larger classes for disclosure purposes. However, classes are not aggregated if this would result in the combination of a class of intangible assets that includes amounts measured under both the cost and revaluation models.

Research and development expenditure

126 An entity shall disclose the aggregate amount of research and development expenditure recognised as an expense during the period.

127 Research and development expenditure comprises all expenditure that is directly attributable to research or development activities (see paragraphs 66 and 67 for guidance on the type of expenditure to be included for the purpose of the disclosure requirement in paragraph 126).

Other information

128 An entity is encouraged, but not required, to disclose the following information:

- (a) a description of any fully amortised intangible asset that is still in use; and
- (b) a brief description of significant intangible assets controlled by the entity

but not recognised as assets because they did not meet the recognition criteria in this Standard or because they were acquired or generated before this standard was effective.

Transitional provisions and effective date

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130K As a consequence of issuance of Ind AS 115, *Revenue from Contracts with Customers*, paragraphs 3,114,116 and in Appendix A paragraph 6 are amended. An entity shall apply those amendments when it applies Ind AS 115.

130L Ind AS 116 amended paragraphs 3, 6, 113 and 114. An entity shall apply those amendments when it applies Ind AS 116.

Appendix A

Intangible Assets — Web Site Costs

This appendix is an integral part of the Ind AS.

Issue

1 An entity may incur internal expenditure on the development and operation of its own web site for internal or external access. A web site designed for external access may be used for various purposes such as to promote and advertise an entity's own products and services, provide electronic services, and sell products and services. A web site designed for internal access may be used to store company policies and customer details, and search relevant information.

* Refer Appendix 1

- 2 The stages of a web site's development can be described as follows:
 - (a) Planning – includes undertaking feasibility studies, defining objectives and specifications, evaluating alternatives and selecting preferences.
 - (b) Application and Infrastructure Development – includes obtaining a domain name, purchasing and developing hardware and operating software, installing developed applications and stress testing.
 - (c) Graphical Design Development – includes designing the appearance of web pages.
 - (d) Content Development – includes creating, purchasing, preparing and uploading information, either textual or graphical in nature, on the web site before the completion of the web site's development. This information may either be stored in separate databases that are integrated into (or accessed from) the web site or coded directly into the web pages.
- 3 Once development of a web site has been completed, the Operating stage begins.

During this stage, an entity maintains and enhances the applications, infrastructure, graphical design and content of the web site.
- 4 When accounting for internal expenditure on the development and operation of an entity's own web site for internal or external access, the issues are:
 - (a) whether the web site is an internally generated intangible asset that is subject to the requirements of Ind AS 38; and
 - (b) the appropriate accounting treatment of such expenditure.
- 5 This Appendix does not apply to expenditure on purchasing, developing, and operating hardware (eg web servers, staging servers, production servers and Internet connections) of a web site. Such expenditure is accounted for under Ind AS 16. Additionally, when an entity incurs expenditure on an Internet service provider hosting the entity's web site, the expenditure is recognised as an expense under paragraph 88 of Ind AS 1 and the *Conceptual Framework for Financial Reporting under Indian Accounting Standards* issued by The Institute of Chartered Accountants of India when the services are received.
- 6 Ind AS 38 does not apply to intangible assets held by an entity for sale in the ordinary course of business (see Ind AS 2 and Ind AS 115) or leases of intangible assets accounted for in accordance with Ind AS 116. Accordingly, this Appendix does not apply to expenditure on the development or operation of a web site (or web site software) for sale to another entity or that is accounted for in accordance with Ind AS 116.

Accounting Principles

- 7 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.
- 8 A web site arising from development shall be recognised as an intangible asset if, and only if, in addition to complying with the general requirements described in paragraph 21 of Ind AS 38 for recognition and initial measurement, an entity can satisfy the requirements in paragraph 57 of Ind AS 38. In particular, an entity may be able to satisfy the requirement to demonstrate how its web site will generate probable future economic benefits in accordance with paragraph 57 (d) of Ind AS 38 when, for example, the web site is capable of generating revenues, including direct revenues from enabling orders to be placed. An entity is not able to demonstrate how a web site developed solely or primarily for promoting and advertising its own products and services will generate probable future economic benefits, and consequently all expenditure on developing such a web site shall be recognised as an expense when incurred.
- 9 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. For example:
 - (a) the Planning stage is similar in nature to the research phase in paragraphs 54-56 of Ind AS 38. Expenditure incurred in this stage shall be recognised as an expense when it is incurred.
 - (b) the Application and Infrastructure Development stage, the Graphical Design stage and the Content Development stage, to the extent that content is developed for purposes other than to advertise and promote an entity's own products and services, are similar in nature to the development phase in paragraphs 57-64 of Ind AS 38. Expenditure incurred in these stages shall be included in the cost of a web site recognised as an

intangible asset in accordance with paragraph 8 of this Appendix when the expenditure can be directly attributed and is necessary to creating, producing or preparing the web site for it to be capable of operating in the manner intended by management. For example, expenditure on purchasing or creating content (other than content that advertises and promotes an entity's own products and services) specifically for a web site, or expenditure to enable use of the content (eg a fee for acquiring a licence to reproduce) on the web site, shall be included in the cost of development when this condition is met. However, in accordance with paragraph 71 of Ind AS 38, expenditure on an intangible item that was initially recognised as an expense in previous financial statements shall not be recognised as part of the cost of an intangible asset at a later date (eg if the costs of a copyright have been fully amortised, and the content is subsequently provided on a web site).

- (c) expenditure incurred in the Content Development stage, to the extent that content is developed to advertise and promote an entity's own products and services (eg digital photographs of products), shall be recognised as an expense when incurred in accordance with paragraph 69(c) of Ind AS 38. For example, when accounting for expenditure on professional services for taking digital photographs of an entity's own products and for enhancing their display, expenditure shall be recognised as an expense as the professional services are received during the process, not when the digital photographs are displayed on the web site.
 - (d) the Operating stage begins once development of a web site is complete. Expenditure incurred in this stage shall be recognised as an expense when it is incurred unless it meets the recognition criteria in paragraph 18 of Ind AS 38.
- 10 A web site that is recognised as an intangible asset under paragraph 8 of 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.

Effective date

Amendments to References to the Conceptual Framework in Ind AS issued in 2021, amended paragraph 5. An entity shall apply that amendment for annual periods beginning on or after 1 April 2021. An entity shall apply the amendment to Appendix A retrospectively in accordance with Ind AS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*. However, if an entity determines that retrospective application would be impracticable or would involve undue cost or effort, it shall apply the amendment to Appendix A by reference to paragraphs 23–28, 50–53 and 54F of Ind AS 8.

Appendix B

References to matters contained in other Indian Accounting Standards

This appendix is an integral part of the Ind AS.

This appendix lists the appendices which are part of other Indian Accounting Standards and make reference to Ind AS 38, *Intangible Assets*.

1. Appendix D, *Service Concession Arrangements* contained in Ind AS 115, *Revenue from Contracts with Customers*.
2. Appendix E, *Service Concession Arrangements: Disclosures* contained in Ind AS 115, *Revenue from Contracts with Customers*.
3. *Omitted*
4. Appendix B, *Stripping Costs in the Production Phase of a Surface Mine*, contained in Ind AS 16, *Property, Plant and Equipment*.

Appendix 1

Note: This Appendix is not a part of the Indian Accounting Standard. The purpose of this Appendix is only to bring out the major differences, if any, between Indian Accounting Standard (Ind AS) 38 and the corresponding International Accounting Standard (IAS) 38, Intangible Assets, and SIC 32, Intangible Assets—Web Site Costs, issued by the International Accounting Standards Board.

Comparison with IAS 38, *Intangible Assets* and SIC 32

- 1 ~~[Omitted by Companies (Indian Accounting Standards) Second Amendment Rules, 2018, dated 20-9-2018] With regard to the acquisition of an intangible asset by way of a government grant, IAS 38, *Intangible Assets*, provides the option to an 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.~~
- 2 Paragraphs 129 to 130J related to transitional provisions and effective date have not been included in Ind AS 38 as transitional provisions given in IAS 38 have not been given in Ind AS 38, since all transitional provisions related to Ind ASs, wherever considered appropriate, have been included in Ind AS 101, First-time Adoption of Indian Accounting Standards, corresponding to IFRS 1, First-time Adoption of International Financial Reporting Standards and paragraphs related to Effective date are not relevant in Indian context. However, in order to maintain consistency with paragraph numbers of IAS 38, these paragraph numbers are retained in Ind AS 38.
- 3 Different terminology is used in this standard, eg, the term ‘balance sheet’ is used instead of ‘Statement of financial position’ and ‘Statement of profit and loss’ is used instead of ‘Statement of comprehensive income’.
- 4 Paragraph 7AA has been inserted to scope out the entity that opts to amortise the intangible assets arising from service concession arrangements in respect of toll roads recognised in the financial statements for the period ending immediately before the beginning of the first Ind AS reporting period as per the exception given in paragraph D22 of Appendix D to Ind AS 101.
- 5 Following Paragraph numbers appear as ‘Deleted’ in IAS 38. In order to maintain consistency with paragraph numbers of IAS 38, the paragraph number have been retained in Ind AS 38.
 - (i) paragraphs 38-41
 - (ii) paragraph 124(c)
- 6 Following references to Illustrative Examples which are not integral part of IAS 38 or SIC 32 have not been included in Ind AS 38:
 - (i) Reference to Illustrative Examples in paragraph 89 illustrating the determination of useful life for different intangible assets, and the subsequent accounting for those assets based on the useful life determinations.
 - (ii) Reference in paragraph 9 of SIC 32 to additional guidance provided in examples.

Indian Accounting Standard (Ind AS) 40

Investment Property

(This Indian Accounting Standard includes paragraphs set in **bold** type and plain type, which have equal authority. Paragraphs in bold type indicate the main principles.)

Objective

- 1 The objective of this Standard is to prescribe the accounting treatment for investment property and related disclosure requirements.

Scope

- 2 **This Standard shall be applied in the recognition, measurement and disclosure of investment property.**
- 3 *Omitted*
- 4 This Standard does not apply to:
 - (a) biological assets related to agricultural activity (see Ind AS 41, *Agriculture* and Ind AS 16 *Property, Plant and Equipment*); and
 - (b) mineral rights and mineral reserves such as oil, natural gas and similar non-regenerative resources.

Definitions

- 5 **The following terms are used in this Standard with the meanings specified:**

***Carrying amount* is the amount at which an asset is recognised in the balance sheet.**

***Cost* is the amount of cash or cash equivalents paid or the fair value of 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 Ind ASs, eg Ind AS 102, *Share-based Payment*.**

***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. (See Ind AS 113, *Fair Value Measurement*).**

***Investment property* is property (land or a building—or part of a building—or both) held (by the owner or by the lessee as a right-of-use asset) to earn rentals or for capital appreciation or both, rather than for:**

- (a) use in the production or supply of goods or services or for administrative purposes; or
- (b) sale in the ordinary course of business.

***Owner-occupied property* is property held (by the owner or by the lessee as a right-of-use asset) for use in the production or supply of goods or services or for administrative purposes.**

Classification of property as investment property or owner-occupied property

- 6 **[Refer Appendix 1]**

- 7 Investment property is held to earn rentals or for capital appreciation or both. Therefore, an investment property generates cash flows largely independently of the other assets held by an entity. This distinguishes investment property from owner-occupied property. The production or supply of goods or services (or the use of property for administrative purposes) generates cash flows that are attributable not only to property, but also to other assets used in the production or supply process. Ind AS 16 applies to owned owner-occupied property and Ind AS 116, *Leases* applies to owner-occupied property held by a lessee as a right-of-use asset.

- 8 The following are examples of investment property:
 - (a) land held for long-term capital appreciation rather than for short-term sale in the ordinary course of business.
 - (b) land held for a currently undetermined future use. (If an entity has not determined that it will use the land as owner-occupied property or for short-term sale in the ordinary course of business, the land is regarded as held for capital appreciation.)

- (c) a building owned by the entity (or a right-of-use asset relating to a building held by the entity) and leased out under one or more operating leases.
 - (d) a building that is vacant but is held to be leased out under one or more operating leases.
 - (e) property that is being constructed or developed for future use as investment property.
- 9 The following are examples of items that are not investment property and are therefore outside the scope of this Standard:
- (a) property intended for sale in the ordinary course of business or in the process of construction or development for such sale (see Ind AS 2, *Inventories*), for example, property acquired exclusively with a view to subsequent disposal in the near future or for development and resale.
 - (b) ~~[Omitted by the Companies (Indian Accounting Standards) Amendment Rules, 2018, dated 28-3-2018] property being constructed or developed on behalf of third parties (see Ind AS 11, *Construction Contracts*).~~
 - (c) owner-occupied property (see Ind AS 16 and Ind AS 116), including (among other things) property held for future use as owner-occupied property, property held for future development and subsequent use as owner-occupied property, property occupied by employees (whether or not the employees pay rent at market rates) and owner-occupied property awaiting disposal.
 - (d) [Refer Appendix 1]
 - (e) property that is leased to another entity under a finance lease.
- 10 Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately (or leased out separately under a finance lease), an entity accounts for the portions separately. If the portions could not be sold separately, the property is investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes.
- 11 In some cases, an entity provides ancillary services to the occupants of a property it holds. An entity treats such a property as investment property if the services are insignificant to the arrangement as a whole. An example is when the owner of an office building provides security and maintenance services to the lessees who occupy the building.
- 12 In other cases, the services provided are significant. For example, if an entity owns and manages a hotel, services provided to guests are significant to the arrangement as a whole. Therefore, an owner-managed hotel is owner-occupied property, rather than investment property.
- 13 It may be difficult to determine whether ancillary services are so significant that a property does not qualify as investment property. For example, the owner of a hotel sometimes transfers some responsibilities to third parties under a management contract. The terms of such contracts vary widely. At one end of the spectrum, the owner's position may, in substance, be that of a passive investor. At the other end of the spectrum, the owner may simply have outsourced day-to-day functions while retaining significant exposure to variation in the cash flows generated by the operations of the hotel.
- 14 Judgement is needed to determine whether a property qualifies as investment property.
- An entity develops criteria so that it can exercise that judgement consistently in accordance with the definition of investment property and with the related guidance in paragraphs 7–13. Paragraph 75(c) requires an entity to disclose these criteria when classification is difficult.
- 14A Judgement is also needed to determine whether the acquisition of investment property is the acquisition of an asset or a group of assets or a business combination within the scope of Ind AS 103, *Business Combinations*. Reference should be made to Ind AS 103 to determine whether it is a business combination. The discussion in paragraphs 7–14 of this Standard relates to whether or not property is owner-occupied property or investment property and not to determining whether or not the acquisition of property is a business combination as defined in Ind AS 103. Determining whether a specific transaction meets the definition of a business combination as defined in Ind AS 103 and includes an investment property as defined in this Standard requires the separate application of both Standards.
- 15 In some cases, an entity owns property that is leased to, and occupied by, its parent or another subsidiary. The property does not qualify as investment property in the consolidated financial statements, because the property is owner-occupied from the perspective of the group. However, from the perspective of the entity that owns it, the property is investment property if it meets the definition in paragraph 5. Therefore, the lessor treats the property as investment property in its individual financial statements.

Recognition

16 An owned investment property shall be recognised as an asset when, and only when:

- (a) **it is probable that the future economic benefits that are associated with the investment property will flow to the entity; and**
- (b) **the cost of the investment property can be measured reliably.**

17 An entity evaluates under this recognition principle all its investment property costs at the time they are incurred. These costs include costs incurred initially to acquire an investment property and costs incurred subsequently to add to, replace part of, or service a property.

18 Under the recognition principle in paragraph 16, an entity does not recognise in the carrying amount of an investment property the costs of the day-to-day servicing of such a property. Rather, these costs are recognised in profit or loss as incurred. Costs of day-to-day servicing are primarily the cost of labour and consumables, and may include the cost of minor parts. The purpose of these expenditures is often described as for the 'repairs and maintenance' of the property.

19 Parts of investment properties may have been acquired through replacement. For example, the interior walls may be replacements of original walls. Under the recognition principle, an entity recognises in the carrying amount of an investment property the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met. The carrying amount of those parts that are replaced is derecognised in accordance with the derecognition provisions of this Standard.

19A An investment property held by a lessee as a right-of-use asset shall be recognised in accordance with Ind AS 116.

Measurement at recognition

20 An owned investment property shall be measured initially at its cost. Transaction costs shall be included in the initial measurement.

21 The cost of a purchased investment property comprises its purchase price and any directly attributable expenditure. Directly attributable expenditure includes, for example, professional fees for legal services, property transfer taxes and other transaction costs.

22 [Refer Appendix 1]

23 The cost of an investment property is not increased by:

- (a) start-up costs (unless they are necessary to bring the property to the condition necessary for it to be capable of operating in the manner intended by management),
- (b) operating losses incurred before the investment property achieves the planned level of occupancy, or
- (c) abnormal amounts of wasted material, labour or other resources incurred in constructing or developing the property.

24 If payment for an investment property is deferred, 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.

25 Omitted

26 Omitted

27 One or more investment properties may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets. The following discussion refers to an exchange of one non-monetary asset for another, but it also applies to all exchanges described in the preceding sentence. The cost of such an investment property 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. The acquired asset is measured in this way even if an entity cannot immediately derecognise the asset given up. If the acquired asset is not measured at fair value, its cost is measured at the carrying amount of the asset given up.

28 An entity determines whether an exchange transaction has commercial substance by considering the extent to which its future cash flows are expected to change as a result of the transaction. An exchange transaction has commercial substance if:

- (a) the configuration (risk, timing and amount) of the cash flows of the asset received differs from the configuration of the cash flows of the asset transferred, or
- (b) the entity-specific value of the portion of the entity's operations affected by the transaction changes as a result of the exchange, and
- (c) the difference in (a) or (b) is significant relative to the fair value of the assets exchanged.

For the purpose of determining whether an exchange transaction has commercial substance, the entity-specific value of the portion of the entity's operations affected by the transaction shall reflect post-tax cash flows. The result of these analyses may be clear without an entity having to perform detailed calculations.

- 29 The fair value of an asset is reliably measurable if (a) the variability in the range of reasonable fair value measurements is not significant for that asset or (b) the probabilities of the various estimates within the range can be reasonably assessed and used when measuring fair value. If the entity is able to measure reliably the fair value of either the asset received or the asset given up, then the fair value of the asset given up is used to measure cost unless the fair value of the asset received is more clearly evident.
- 29A An investment property held by a lessee as a right-of-use asset shall be measured initially at its cost in accordance with Ind AS 116.

Measurement after recognition

Accounting policy

- 30 An entity shall adopt as its accounting policy the cost model prescribed in paragraph 56 to all of its investment property.**

31 [Refer Appendix 1]

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

32A-32C [Refer Appendix 1]

Fair value measurement

33-35 [Refer Appendix 1]

36-39 [Refer Appendix 1]

- 40 When measuring the fair value of investment property in accordance with Ind AS 113, an entity shall ensure that the fair value reflects, among other things, rental income from current leases and other assumptions that market participants would use when pricing investment property under current market conditions.

40A When a lessee measures fair value of an investment property that is held as a right-of-use asset, it shall measure the right-of-asset, and not the underlying property at fair value.

41 [Refer Appendix 1]

42-47 [Refer Appendix 1]

- 48 In exceptional cases, there is clear evidence when an entity first acquires an investment property (or when an existing property first becomes investment property after a change in use) that the variability in the range of reasonable fair value measurements will be so great, and the probabilities of the various outcomes so difficult to assess, that the usefulness of a single measure of fair value is negated. This may indicate that the fair value of the property will not be reliably measurable on a continuing basis (see paragraph 53).

49-52 [Refer Appendix 1]

Inability to measure fair value reliably

- 53 There is a rebuttable presumption that an entity can reliably measure the fair value of an investment property on a continuing basis. However, in exceptional cases, there is clear evidence when an entity first acquires an investment property (or when an existing property first becomes investment property after a change in use) that the fair value of the investment property is not reliably measurable on a continuing basis. This arises when, and only when, the market for comparable properties is inactive (eg there are few recent transactions, price quotations are not current or observed transaction prices indicate that the seller was forced to sell) and alternative reliable measurements of fair value (for example, based on discounted cash flow projections) are not available. If an entity determines that the fair value of an investment property**

under construction is not reliably measurable but expects the fair value of the property to be reliably measurable when construction is complete, it shall measure the fair value of that investment property either when its fair value becomes reliably measurable or construction is completed (whichever is earlier). If an entity determines that the fair value of an investment property (other than an investment property under construction) is not reliably measurable on a continuing basis, the entity shall make the disclosures required by paragraphs 79(e)(i), (ii) and (iii).

- 53A Once an entity becomes able to measure reliably the fair value of an investment property under construction for which the fair value was not previously measured, it shall measure the fair value of that property. Once construction of that property is complete, it is presumed that fair value can be measured reliably. If this is not the case, in accordance with paragraph 53, the entity shall make the disclosures required by paragraphs 79(e)(i), (ii) and (iii).
- 53B The presumption that the fair value of investment property under construction can be measured reliably can be rebutted only on initial recognition. An entity that has measured the fair value of an item of investment property under construction may not conclude that the fair value of the completed investment property cannot be measured reliably.
- 54 In the exceptional cases when an entity is compelled, for the reason given in paragraph 53, to make the disclosures required by paragraphs 79(e)(i), (ii) and (iii), it shall determine the fair value of all its other investment property, including investment property under construction. In these cases, although an entity may make the disclosures required by paragraphs 79(e)(i), (ii) and (iii) for one investment property, the entity shall continue to determine the fair value of each of the remaining properties for disclosure required by paragraph 79(e).
- 55 **If an entity has previously measured the fair value of an investment property, it shall continue to measure the fair value of that property until disposal (or until the property becomes owner-occupied property or the entity begins to develop the property for subsequent sale in the ordinary course of business) even if comparable market transactions become less frequent or market prices become less readily available.**

Cost model

- 56 **After initial recognition, an entity shall measure investment property:**
- in accordance with Ind AS 105, *Non-current Assets Held for Sale and Discontinued Operations*, if it meets the criteria to be classified as held for sale (or is included in a disposal group that is classified as held for sale);**
 - in accordance with Ind AS 116 if it is held by a lessee as a right-of-use asset and is not held for sale in accordance with Ind AS 105; and**
 - in accordance with the requirements in Ind AS 16 for cost model in all other cases.**

Transfers

- 57 **An entity shall transfer a property to, or from, investment property when, and only when, there is a change in use. A change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. In isolation, a change in management's intentions for the use of a property does not provide evidence of a change in use. Examples of evidence of a change in use include:**
- commencement of owner-occupation, or of development with a view to owner-occupation, for a transfer from investment property to owner-occupied property;**
 - commencement of development with a view to sale, for a transfer from investment property to inventories;**
 - end of owner-occupation, for a transfer from owner-occupied property to investment property; and**
 - inception of an operating lease to another party, for a transfer from inventories to investment property.**
 - Omitted*;**
- 58 When an entity decides to dispose of an investment property without development, it continues to treat the property as an investment property until it is derecognised (eliminated from the balance sheet) and does not reclassify it as inventory. Similarly, if an entity begins to redevelop an existing investment property for continued future use as investment property, the property remains an investment property and is not reclassified as owner-occupied property during the redevelopment.

* Refer Appendix 1.

59 Transfers between investment property, owner-occupied property and inventories do not change the carrying amount of the property transferred and they do not change the cost of that property for measurement or disclosure purposes.

60-65 [Refer Appendix 1]**Disposals**

66 An investment property shall be derecognised (eliminated from the balance sheet) on disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal.

67 The disposal of an investment property may be achieved by sale or by entering into a finance lease. The date of disposal for investment property that is sold is the date the recipient obtains control of the investment property in accordance with the requirements for determining when a performance obligation is satisfied in Ind AS 115. Ind AS 116 applies to a disposal effected by entering into a finance lease and to a sale and leaseback.

68 If, in accordance with the recognition principle in paragraph 16, an entity recognises in the carrying amount of an asset the cost of a replacement for part of an investment property, it derecognises the carrying amount of the replaced part. A replaced part may not be a part that was depreciated separately. If it is not practicable for an entity to determine the carrying amount of the replaced part, it may use the cost of the replacement as an indication of what the cost of the replaced part was at the time it was acquired or constructed.

69 Gains or losses arising from the retirement or disposal of investment property shall be determined as the difference between the net disposal proceeds and the carrying amount of the asset and shall be recognised in profit or loss (unless Ind AS 116 requires otherwise on a sale and leaseback) in the period of the retirement or disposal.

70 The amount of consideration to be included in the gain or loss arising from the derecognition of an investment property is determined in accordance with the requirements for determining the transaction price in paragraphs 47-72 of Ind AS 115. Subsequent changes to the estimated amount of the consideration included in the gain or loss shall be accounted for in accordance with the requirements for changes in the transaction price in Ind AS 115.

71 An entity applies Ind AS 37 or other Standards, as appropriate, to any liabilities that it retains after disposal of an investment property.

72 Compensation from third parties for investment property that was impaired, lost or given up shall be recognised in profit or loss when the compensation becomes receivable.

73 Impairments or losses of investment property, related claims for or payments of compensation from third parties and any subsequent purchase or construction of replacement assets are separate economic events and are accounted for separately as follows:

- (a) impairments of investment property are recognised in accordance with Ind AS 36;
- (b) retirements or disposals of investment property are recognised in accordance with paragraphs 66–71 of this Standard;
- (c) compensation from third parties for investment property that was impaired, lost or given up is recognised in profit or loss when it becomes receivable; and
- (d) the cost of assets restored, purchased or constructed as replacements is determined in accordance with paragraphs 20–29 of this Standard.

Disclosure

74 The disclosures below apply in addition to those in Ind AS 116. In accordance with Ind AS 116, the owner of an investment property provides lessors' disclosures about leases into which it has entered. A lessee that holds an investment property as a right-of-use asset provides lessees' disclosures as required by Ind AS 116 and lessors' disclosures as required by Ind AS 116 for any operating leases into which it has entered.

75 An entity shall disclose:

- (a) **its accounting policy for measurement of investment property.**
- (b) **[Refer Appendix 1]**
- (c) **when classification is difficult (see paragraph 14), the criteria it uses to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of business.**

- (d) [Refer Appendix 1]
- (e) the extent to which the fair value of investment property (as measured or disclosed in the financial statements) is based on a valuation by an independent valuer who holds a recognised and relevant professional qualification and has recent experience in the location and category of the investment property being valued. If there has been no such valuation, that fact shall be disclosed.
- (f) the amounts recognised in profit or loss for:
 - (i) rental income from investment property;
 - (ii) direct operating expenses (including repairs and maintenance) arising from investment property that generated rental income during the period; and
 - (iii) direct operating expenses (including repairs and maintenance) arising from investment property that did not generate rental income during the period.
- (iv) [Refer Appendix 1]
- (g) the existence and amounts of restrictions on the realisability of investment property or the remittance of income and proceeds of disposal.
- (h) contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements.

76-78 [Refer Appendix 1]

79 In addition to the disclosures required by paragraph 75, an entity shall disclose:

- (a) the depreciation methods used;
- (b) the useful lives or the depreciation rates used;
- (c) the gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period;
- (d) a reconciliation of the carrying amount of investment property at the beginning and end of the period, showing the following:
 - (i) additions, disclosing separately those additions resulting from acquisitions and those resulting from subsequent expenditure recognised as an asset;
 - (ii) additions resulting from acquisitions through business combinations;
 - (iii) assets classified as held for sale or included in a disposal group classified as held for sale in accordance with Ind AS 105 and other disposals;
 - (iv) depreciation;
 - (v) the amount of impairment losses recognised, and the amount of impairment losses reversed, during the period in accordance with Ind AS 36;
 - (vi) the net exchange differences arising on the translation of the financial statements into a different presentation currency, and on translation of a foreign operation into the presentation currency of the reporting entity;
 - (vii) transfers to and from inventories and owner-occupied property; and
 - (viii) other changes.
- (e) the fair value of investment property. In the exceptional cases described in paragraph 53, when an entity cannot measure the fair value of the investment property reliably, it shall disclose:
 - (i) a description of the investment property;
 - (ii) an explanation of why fair value cannot be measured reliably; and
 - (iii) if possible, the range of estimates within which fair value is highly likely to lie.

Transitional Provisions

- 80 *
- 81 *
- 82 *
- 83 *
- 84 *
- 84A *

Ind AS 116

84B An entity applying Ind AS 116, and its related amendments to this Standard, for the first time shall apply the transition requirements in Appendix C of Ind AS 116 to its investment property held as right-of-use asset.

Transfers of investment property

84C *Transfers of Investment Property* (Amendments to Ind AS 40), amended paragraphs 57–58. An entity shall apply those amendments to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments (the date of initial application). At the date of initial application, an entity shall reassess the classification of property held at that date and, if applicable, reclassify property applying paragraphs 7–14 to reflect the conditions that exist at that date.

84D Notwithstanding the requirements in paragraph 84C, an entity is permitted to apply the amendments to paragraphs 57–58 retrospectively in accordance with Ind AS 8 if, and only if, that is possible without the use of hindsight.

84E If, in accordance with paragraph 84C, an entity reclassifies property at the date of initial application, the entity shall:

(a) account for the reclassification applying the requirements in paragraph 59.

(i) *

(ii) *

(b) disclose the amounts reclassified to, or from, investment property in accordance with paragraph 84C. The entity shall disclose those amounts reclassified as part of the reconciliation of the carrying amount of investment property at the beginning and end of the period as required by paragraph 79.

Effective date

- 85 *
- 85A *
- 85B *
- 85C *
- 85D *

85E As a consequence of issuance of Ind AS 115, *Revenue from Contracts with Customers*, paragraphs 3(b), 9, 67 and 70 are amended. An entity shall apply those amendments when it applies Ind AS 115.

85F Ind AS 116, amended the scope of Ind AS 40 by defining investment property to include both owned investment property and property held by a lessee as a right-of-use asset. Ind AS 116 amended paragraphs 5, 7, 8, 9, 16, 20, 56, 67, 69 and 74, added paragraphs 19A, 29A, 40A and 84B and its related heading and deleted paragraphs 3, 25 and 26. An entity shall apply those amendments when it applies Ind AS 116.

85G *Transfers of Investment Property* (Amendments to Ind AS 40), amended paragraphs 57–58 and added paragraphs 84C–84E. An entity shall apply those amendments for annual periods beginning on or after 1st April, 2018.

* Refer Appendix 1.

* Refer Appendix 1.

* Refer Appendix 1.

Appendix 1

Note: This Appendix is not a part of the Indian Accounting Standard. The purpose of this Appendix is only to bring out the major differences, if any, between Indian Accounting Standard (Ind AS) 40 and the corresponding International Accounting Standard (IAS) 40, Investment Property, issued by the International Accounting Standards Board.

Comparison with IAS 40, *Investment Property*

- 1 IAS 40 permits both cost model and fair value model (except in some situations) for measurement of investment properties after initial recognition. Ind AS 40 permits only the cost model. The following paragraphs of IAS 40 which deal with fair value model have been deleted in Ind AS 40. In order to maintain consistency with paragraph numbers of IAS 40, the paragraph numbers are retained in Ind AS 40:
 - (i) Paragraph 31
 - (ii) Paragraphs 32A-32C
 - (iii) Paragraphs 33 and 35
 - (iv) Paragraph 41
 - (v) Paragraph 50
 - (vi) Paragraph 52
 - (vii) Paragraphs 60-65
 - (viii) Paragraph 75(f)(iv)
 - (ix) Paragraphs 76-78
 - (x) Paragraphs 84E(i) - (ii)
- 2 The transitional provisions given in IAS 40 have not been included in Ind AS 40 since all transitional provisions related to Ind ASs, wherever considered appropriate have been included in Ind AS 101, *First-time Adoption of Indian Accounting Standards*, corresponding to IFRS 1, *First-time Adoption of International Financial Reporting Standards*.
- 3 IAS 40 requires disclosure of fair values of investment property when cost model is used.

Since this requirement is retained in Ind AS 40, paragraphs 53, 53A, 53B, 54 and 55 and certain other paragraphs of IAS 40 have been modified. The modifications include deletion of reference to use of cost model when fair value measurement is unreliable.
- 4 *Omitted*
- 5 As a result of prohibition of use of fair value model in Ind AS 40, there are some modifications in the wording of paragraphs 30 and 32 (Accounting policy), heading above paragraph 33 ('Fair value measurement' instead of 'Fair value model'), paragraph 40A, paragraph 56, paragraph 59 (deletion of portion relating to fair value model), paragraph 68 (deletion of a portion dealing with fair value model), heading above paragraph 74 (deletion of the heading 'Fair value model and cost model'), paragraph 75(a) (disclosure of accounting policy), heading above paragraph 76 (deletion of the heading 'Fair value model'), heading above paragraph 79 (deletion of the heading 'Cost model') and paragraph 79 (deletion of the words ' that applies the cost model in paragraph 56') as compared to the wording used in IAS 40.
- 6 Different terminology is used in this Standard eg, the term 'balance sheet' is used instead of 'Statement of financial position'.
- 7 The following paragraphs appear as 'Deleted' in IAS 40. In order to maintain consistency with paragraph numbers of IAS 40, the paragraph numbers are retained in Ind AS 40:
 - (i) Paragraph 3
 - (ii) Paragraph 6
 - (iii) Paragraph 9(b)
 - (iv) Paragraph 9(d)
 - (v) Paragraph 22
 - (vi) Paragraph 34

- (vii) Paragraphs 36-39
 - (viii) Paragraphs 42-47
 - (ix) Paragraph 49
 - (x) Paragraph 51
 - (xi) Paragraph 57(e)
 - (xii) Paragraph 75(b) and (d).
- 8 Paragraphs 80 to 84A of IAS 40 which deals with the transitional provisions have not been included in Ind AS 40 as all transitional provisions related to Ind ASs, wherever considered appropriate have been included in Ind AS 101, *First-time Adoption of Indian Accounting Standards* corresponding to IFRS 1, *First-time Adoption of International Financial Reporting Standards*, Paragraphs 85 to 85D in IAS 40 have not been included in Ind AS 40 as these paragraphs relate to effective date which are not relevant in Indian context. However, in order to maintain consistency with paragraph numbers of IAS 40, the paragraph numbers are retained in Ind AS 40.
- 9 *Omitted*

Indian Accounting Standard (Ind AS) 41

Agriculture

(The Indian Accounting Standard includes paragraphs set in bold type and plain type, which have equal authority. Paragraphs in bold type indicate the main principles.)

Objective

The objective of this Standard is to prescribe the accounting treatment and disclosures related to agricultural activity.

Scope

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

- (a) biological assets;**
- (b) agricultural produce at the point of harvest; and**
- (c) government grants covered by paragraphs 34 and 35.**

2 This Standard does not apply to:

- (a) land related to agricultural activity (see Ind AS 16 *Property, Plant and Equipment* and Ind AS 40 *Investment Property*);
- (b) bearer plants related to agricultural activity (see Ind AS 16). However, this Standard applies to the produce on those bearer plants.
- (c) government grants related to bearer plants (see Ind AS 20 *Accounting for Government Grants and Disclosure of Government Assistance*).
- (d) intangible assets related to agricultural activity (See Ind AS 38 *Intangible Assets*).
- (e) right-of-use assets arising from a lease of land related to agricultural activity (see Ind AS 116, *Leases*).

3 This Standard is applied to agricultural produce, which is the harvested produce of the entity's biological assets, at the point of harvest. Thereafter, Ind AS 2 *Inventories* or another applicable Standard is applied. Accordingly, this Standard does not deal with the processing of agricultural produce after harvest; for example, the processing of grapes into wine by a vintner who has grown the grapes. While such processing may be a logical and natural extension of agricultural activity, and the events taking place may bear some similarity to biological transformation, such processing is not included within the definition of agricultural activity in this Standard.

4 The 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

Biological assets	Agricultural produce	Products that are the result of processing after harvest
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.		

Definitions

Agriculture-related definitions

5 The following terms are used in this Standard with the meanings specified:

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

Agricultural produce is the harvested product of the entity's biological assets. A ***bearer plant*** is a living plant that:

- (a) is used in the production or supply of agricultural produce;
- (b) is expected to bear produce for more than one period; and
- (c) has a remote likelihood of being sold as agricultural produce, except for incidental scrap sales.

A ***biological asset*** is a living animal or plant.

Biological transformation comprises the processes of growth, degeneration, production, and procreation that cause qualitative or quantitative changes in a biological asset.

Costs to sell are the incremental costs directly attributable to the disposal of an asset, excluding finance costs and income taxes.

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

Harvest is the detachment of produce from a biological asset or the cessation of a biological asset's life processes.

5A The following are not bearer plants:

- (a) plants cultivated to be harvested as agricultural produce (for example, trees grown for use as lumber);
- (b) 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 (for example, trees that are cultivated both for their fruit and their lumber); and
- (c) annual crops (for example, maize and wheat).

5B 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.

5C Produce growing on bearer plants is a biological asset.

6 Agricultural activity covers a diverse range of activities; for example, raising livestock, forestry, annual or perennial cropping, cultivating orchards and plantations, floriculture and aquaculture (including fish farming). Certain common features exist within this diversity:

- (a) ***Capability to change*** Living animals and plants are capable of biological transformation;
- (b) ***Management of change*** Management facilitates biological transformation by enhancing, or at least stabilising, conditions necessary for the process to take place (for example, nutrient levels, moisture, temperature, fertility, and light). Such management distinguishes agricultural activity from other activities. For example, harvesting from unmanaged sources (such as ocean fishing and deforestation) is not agricultural activity; and

(c) *Measurement of change* The change in quality (for example, genetic merit, density, ripeness, fat cover, protein content, and fibre strength) or quantity (for example, progeny, weight, cubic metres, fibre length or diameter, and number of buds) brought about by biological transformation or harvest is measured and monitored as a routine management function.

7 Biological transformation results in the following types of outcomes:

- (a) asset changes through (i) growth (an increase in quantity or improvement in quality of an animal or plant), (ii) degeneration (a decrease in the quantity or deterioration in quality of an animal or plant), or (iii) procreation (creation of additional living animals or plants); or
- (b) production of agricultural produce such as latex, tea leaf, wool, and milk.

General definitions

8 The following terms are used in this Standard with the meanings specified:

Carrying amount is the amount at which an asset is recognised in the balance sheet.

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. (See Ind AS 113 *Fair Value Measurement*.)

Government grants are as defined in Ind AS 20.

9 [Refer Appendix 1]

Recognition and measurement

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

- (a) the entity controls the asset as a result of past events;
- (b) it is probable that future economic benefits associated with the asset will flow to the entity; and
- (c) the fair value or cost of the asset can be measured reliably.

11 In agricultural activity, control may be evidenced by, for example, legal ownership of cattle and the branding or otherwise marking of the cattle on acquisition, birth, or weaning. The future benefits are normally assessed by measuring the significant physical attributes.

12 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.

13 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.

14 [Refer Appendix 1]

15 The fair value measurement of a biological asset or agricultural produce may be facilitated by grouping biological assets or agricultural produce according to significant attributes; for example, by age or quality. An entity selects the attributes corresponding to the attributes used in the market as a basis for pricing.

16 Entities often enter into contracts to sell their biological assets or agricultural produce at a future date. Contract prices are not necessarily relevant in measuring fair value, because fair value reflects the current market conditions in which market participant buyers and sellers would enter into a transaction. As a result, the fair value of a biological asset or agricultural produce is not adjusted because of the existence of a contract. In some cases, a contract for the sale of a biological asset or agricultural produce may be an onerous contract, as defined in Ind AS 37 *Provisions, Contingent Liabilities and Contingent Assets*. Ind AS 37 applies to onerous contracts.

17-21 [Refer Appendix 1]

22 An entity does not include any cash flows for financing the assets or re-establishing biological assets after harvest (for example, the cost of replanting trees in a plantation forest after harvest).

23 [Refer Appendix 1]

24 Cost may sometimes approximate fair value, particularly when:

- (a) little biological transformation has taken place since initial cost incurrence (for example, for seedlings planted immediately prior to the end of a reporting period or newly acquired livestock); or

- (b) the impact of the biological transformation on price is not expected to be material (for example, for the initial growth in a 30-year pine plantation production cycle).
- 25 Biological assets are often physically attached to land (for example, trees in a plantation forest). There may be no separate market for biological assets that are attached to the land but an active market may exist for the combined assets, that is, the biological assets, raw land, and land improvements, as a package. An entity may use information regarding the combined assets to measure the fair value of the biological assets. For example, the fair value of raw land and land improvements may be deducted from the fair value of the combined assets to arrive at the fair value of biological assets.

Gains and losses

- 26 **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.**
- 27 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.
- 28 **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.**
- 29 A gain or loss may arise on initial recognition of agricultural produce as a result of harvesting.

Inability to measure fair value reliably

- 30 **There is a presumption that fair value can be measured reliably for a biological asset. However, that presumption can be rebutted only on initial recognition for a biological asset for which quoted market prices are not available and for which alternative fair value measurements are determined to be clearly unreliable. In such a case, that biological asset shall be measured at its cost less any accumulated depreciation and any accumulated impairment losses. Once the fair value of such a biological asset becomes reliably measurable, an entity shall measure it at its fair value less costs to sell. Once a non-current biological asset meets the criteria to be classified as held for sale (or is included in a disposal group that is classified as held for sale) in accordance with Ind AS 105 *Non-current Assets Held for Sale and Discontinued Operations*, it is presumed that fair value can be measured reliably.**
- 31 The presumption in paragraph 30 can be rebutted only on initial recognition. An entity that has previously measured a biological asset at its fair value less costs to sell continues to measure the biological asset at its fair value less costs to sell until disposal.
- 32 In all cases, an entity measures agricultural produce at the point of harvest at its fair value less costs to sell. This Standard reflects the view that the fair value of agricultural produce at the point of harvest can always be measured reliably.
- 33 In determining cost, accumulated depreciation and accumulated impairment losses, an entity considers Ind AS 2, Ind AS 16 and Ind AS 36 *Impairment of Assets*.

Government grants

- 34 **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.**
- 35 **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.**
- 36 Terms and conditions of government grants vary. 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.
- 37 If a government grant relates to a biological asset measured at its cost less any accumulated depreciation and any accumulated impairment losses (see paragraph 30), Ind AS 20 is applied.

- 38 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.

Disclosure

- 39 [Refer Appendix 1]

General

- 40 **An entity shall disclose the aggregate gain or loss arising during the current period on initial recognition of biological assets and agricultural produce and from the change in fair value less costs to sell of biological assets.**

- 41 **An entity shall provide a description of each group of biological assets.**

- 42 The disclosure required by paragraph 41 may take the form of a narrative or quantified description.

- 43 An entity is encouraged to provide a quantified description of each group of biological assets, distinguishing between consumable and bearer biological assets or between mature and immature biological assets, as appropriate. For example, an entity may disclose the carrying amounts of consumable biological assets and bearer biological assets by group. An entity may further divide those carrying amounts between mature and immature assets. These distinctions provide information that may be helpful in assessing the timing of future cash flows. An entity discloses the basis for making any such distinctions.

- 44 Consumable biological assets are those that are to be harvested as agricultural produce or sold as biological assets. Examples of consumable biological assets are livestock intended for the production of meat, livestock held for sale, fish in farms, crops such as maize and wheat, produce on a bearer plant and trees being grown for lumber. Bearer biological assets are those other than consumable biological assets; for example, livestock from which milk is produced and fruit trees from which fruit is harvested. Bearer biological assets are not agricultural produce but, rather, are held to bear produce.

- 45 Biological assets may be classified either as mature biological assets or immature biological assets. Mature biological assets are those that have attained harvestable specifications (for consumable biological assets) or are able to sustain regular harvests (for bearer biological assets).

- 46 **If not disclosed elsewhere in information published with the financial statements, an entity shall describe:**

- (a) **the nature of its activities involving each group of biological assets; and**
- (b) **non-financial measures or estimates of the physical quantities of:**
 - (i) **each group of the entity's biological assets at the end of the period; and**
 - (ii) **output of agricultural produce during the period.**

- 47-48 [Refer Appendix 1]

- 49 **An entity shall disclose:**

- (a) **the existence and carrying amounts of biological assets whose title is restricted, and the carrying amounts of biological assets pledged as security for liabilities;**
- (b) **the amount of commitments for the development or acquisition of biological assets; and**
- (c) **financial risk management strategies related to agricultural activity.**

- 50 **An entity shall present a reconciliation of changes in the carrying amount of biological assets between the beginning and the end of the current period. The reconciliation shall include:**

- (a) **the gain or loss arising from changes in fair value less costs to sell;**
- (b) **increases due to purchases;**
- (c) **decreases attributable to sales and biological assets classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with Ind AS 105; (d) decreases due to harvest;**
- (e) **increases resulting from business combinations;**
- (f) **net exchange differences arising on the translation of financial statements into a different presentation currency, and on the translation of a foreign operation into the presentation currency of the reporting entity; and**
- (g) **other changes.**

- 51 The fair value less costs to sell of a biological asset can change due to both physical changes and price changes in the market. Separate disclosure of physical and price changes is useful in appraising current period performance and future prospects, particularly when there is a production cycle of more than one year. In such cases, an entity is encouraged to disclose, by group or otherwise, the amount of change in fair value less costs to sell included in profit or loss due to physical changes and due to price changes. This information is generally less useful when the production cycle is less than one year (for example, when raising chickens or growing cereal crops).
- 52 Biological transformation results in a number of types of physical change—growth, degeneration, production, and procreation, each of which is observable and measurable. Each of those physical changes has a direct relationship to future economic benefits. A change in fair value of a biological asset due to harvesting is also a physical change.
- 53 Agricultural activity is often exposed to climatic, disease and other natural risks. If an event occurs that gives rise to a material item of income or expense, the nature and amount of that item are disclosed in accordance with Ind AS 1 *Presentation of Financial Statements*. Examples of such an event include an outbreak of a virulent disease, a flood, a severe drought or frost, and a plague of insects.

Additional disclosures for biological assets where fair value cannot be measured reliably

- 54 **If an entity measures biological assets at their cost less any accumulated depreciation and any accumulated impairment losses (see paragraph 30) at the end of the period, the entity shall disclose for such biological assets:**
- (a) a description of the biological assets;
 - (b) an explanation of why fair value cannot be measured reliably;
 - (c) if possible, the range of estimates within which fair value is highly likely to lie;
 - (d) the depreciation method used;
 - (e) the useful lives or the depreciation rates used; and
 - (f) the gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period.
- 55 **If, during the current period, an entity measures biological assets at their cost less any accumulated depreciation and any accumulated impairment losses (see paragraph 30), an entity shall disclose any gain or loss recognised on disposal of such biological assets and the reconciliation required by paragraph 50 shall disclose amounts related to such biological assets separately. In addition, the reconciliation shall include the following amounts included in profit or loss related to those biological assets:**
- (a) impairment losses;
 - (b) reversals of impairment losses; and
 - (c) depreciation.
- 56 **If the fair value of biological assets previously measured at their cost less any accumulated depreciation and any accumulated impairment losses becomes reliably measurable during the current period, an entity shall disclose for those biological assets:**
- (a) a description of the biological assets;
 - (b) an explanation of why fair value has become reliably measurable; and
 - (c) the effect of the change.

Government grants

- 57 **An entity shall disclose the following related to agricultural activity covered by this Standard:**
- (a) the nature and extent of government grants recognised in the financial statements;
 - (b) unfulfilled conditions and other contingencies attaching to government grants; and
 - (c) significant decreases expected in the level of government grants.

Effective date and transition

58-63 *Omitted**

- 64 Ind AS 116 amended paragraph 2. An entity shall apply that amendment when it applies Ind AS 116.
- 65 *Annual Improvements to Ind AS (2021)*, amended paragraph 22. An entity shall apply that amendment to fair value measurements on or after the beginning of the first annual reporting period beginning on or after 1st April, 2022.

* Refer Appendix 1

Appendix 1

Note: This Appendix is not a part of this Indian Accounting Standard. The purpose of this Appendix is only to bring out the differences, if any, between Indian Accounting Standard (Ind AS) 41 and the corresponding International Accounting Standard (IAS) 41, Agriculture.

Comparison with IAS 41, Agriculture

1. Different terminology is used in this standard, e.g., the term ‘balance sheet’ is used instead of ‘Statement of financial position’, and ‘Statement of profit and loss’ is used instead of ‘Statement of Profit and Loss and comprehensive income’.
2. Following paragraphs appear as ‘Deleted ‘in IAS 41. However, in order to maintain consistency with paragraph numbers of IAS 41, the paragraph numbers are retained in Ind AS 41:
 - (i) Paragraph 9
 - (ii) Paragraph 14
 - (iii) Paragraphs 17-21
 - (iv) Paragraph 23
 - (v) Paragraph 39
 - (vi) Paragraphs 47-48
3. Paragraphs 58-63 of IAS 41 have not been included in Ind AS 41 as these paragraphs relate to effective date and transition which is not relevant in Indian context. However, in order to maintain consistency with paragraph numbers of IAS 41, these paragraph numbers are retained in Ind AS 41.

PERSONAL NOTES

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