CHAPTER 1 INTRODUCTION TO INDIAN ACCOUNTING STANDARDS

SM 1. Following is a snapshot of audited balance sheet of company A as on 31st March 2014. Company A's equity shares are listed on Bombay Stock Exchange since 2010

NW ≥ 500 → 1.4.16
Else 1.4.17 as listed

Liabilities	₹ in crores	Assets	₹ in crores
Equity Share Capital	160	Fixed Assets	455
Securities Premium	200	Investments	200
General Reserve	150	Current Assets	50
Revaluation Reserve	40	Miscellaneous Expenditure not written off	(-) 80
Profit and Loss A/c	75		
Liabilities	160		
Total	**785**	**Total**	**785**

Give reasons if not incl. RRS

- As per roadmap, which Phase company A fall into?
- Will your answer change if Company A is an unlisted company?

Ans.

Calculation of Net Worth:

Particulars	₹ in crores
Equity Share Capital	160
Securities Premium	200
General Reserve	150
Profit and Loss A/c	75
Miscellaneous Expenditure not written off	(80)
Net Worth as per Section 2(57) of The Companies Act, 2013	**505**

Note – Revaluation Reserve would not be included in the calculation of net worth as per definition mentioned in section 2(57) of The Companies Act, 2013

The company is a listed company and it does meet the net worth threshold of ₹ 500 Crores. Hence it would be covered under phase I. Hence Ind AS would be applicable to the company for accounting periods beginning on or after 1st April 2016.

Even if Company A is an unlisted company as company A's net worth is more than 500 Crores, it would be covered under Phase I of the road map and hence Ind AS would be applicable for the accounting periods beginning on or after 1st April 2016.

SM 2. Let's say in SM 1, the balance of profit and loss account is negative ₹ 375 crores. When Ind AS should be applicable to Company A? Will you answer change if Company A is an unlisted company?

Ans.

If the balance of Profit and Loss A/c is negative 375 Crores, the net worth as per section 2(57) of The Companies Act, 2013 would be ₹ 55 Crores (Equity share capital ₹ 160 Cr + Securities Premium ₹ 200 Cr + General Reserve ₹ 150 Cr – Debit balance of P&L ₹375 Cr – Miscellaneous expenditure not written off ₹ 80 Cr). Hence, it does not meet the criteria as mentioned in Phase I

i.e. Listed company or Net worth of ₹ 500 Cr or more.

However, as Company A is a listed company, it will irrespective be covered under Phase II as the first criteria of phase II states "companies whose equity or debt securities are listed or are in the process of being listed on any stock exchange in India or outside India and having net worth of less than rupees five hundred crore". Hence, Ind AS would be applicable to Company A for the accounting periods beginning on or after 1st April 2017.

If Company A is an unlisted company, Ind AS would not be applicable until it breaches the net worth criteria mentioned in the roadmap

1·4·16

SM 3. The net worth of Company B (an unlisted company) was ₹ 600 crores as on 31st March 2014. However due to losses incurred in FY 14-15, the net worth of the company was ₹ 400 Crores as on 31st March 2015. From when company B shall apply Ind AS?

Ans.

Here the company's net worth as on cut-off date was greater than ₹ 500 crores, which suggests that it should be covered under phase I of the roadmap. A question may however arise in mind that since, the net worth as on immediately preceding year-end was ₹ 400 crores, would the company be covered under phase II of the roadmap?

"It may be noted that the net worth shall be calculated in accordance with the stand-alone financial statements of the company as on 31st March, 2014. Accordingly, if the net worth threshold criteria for a company are once met, then it shall be required to comply with Ind AS, irrespective of the fact that as on later date its net worth falls below the criteria specified."

In view of the above, the Company B will be required to follow Ind AS for accounting periods beginning on or after 1st April 2016

1·4·17

SM 4. The net worth of Company C (an unlisted company) was ₹ 400 crores as on 31st March 2014. However, the net worth of the company was ₹ 600 Crores as on 31st March 2015. From when company B shall apply Ind AS?

1·4·16.

Ans.

Similar issue has been encountered in ITFG Bulletin 1, Issue 1 which gives reference to clause 2b of the notification wherein it is stated that:

"For companies which are not in existence on 31st March, 2014 or an existing company falling under any of thresholds specified in sub-rule (1) for the first time after 31st March, 2014, the net worth shall be calculated on the basis of the first audited financial statements ending after that date in respect of which it meets the thresholds specified in sub-rule (1)"

Hence, any company that meets the thresholds as specified in the Companies (Indian Accounting Standards) Rules, 2015 in a particular financial year, Ind AS will become applicable to such company in immediately next financial year. Hence, in the present case, Company C is covered by Phase I of the roadmap and accordingly, Ind AS will be applicable to Company C for accounting periods beginning on or after 1st April 2016

SM 5. Company ~~B~~ A is the parent company of group ~~A~~ D. Company A is an unlisted company having net worth of 60 crores as on 31st March 2014. Following are the other companies of the group.

Name of the company	Relationship	Net worth as on 31st March 2014
Company B (Unlisted)	Subsidiary of Company A	₹ 600 Crore
Company C (Unlisted)	Subsidiary of Company B	₹ 150 Crore

Group D 1·4·16
Parent A
(Un, 60)
Co. B Nw 600
Co. C. Nw 150.
1·4·16

Whether Ind AS be applicable to companies A, B and C?

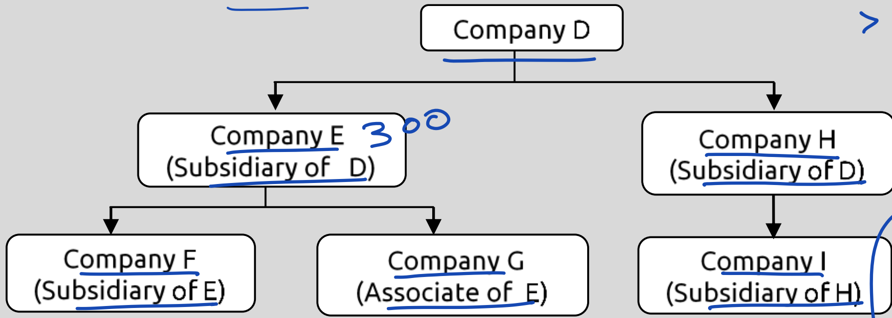
Ans.

1·4·16

Company A and C are unlisted and do not exceed the net worth criteria. However, the net worth of Company B exceeds ₹ 500 Crore hence it would be covered under Phase I of the roadmap.

As Ind AS be applicable to Company B, the parent company of Company B i.e. Company A and subsidiary of Company B i.e. Company C would also get covered under Ind AS irrespective of net worth criteria. Hence Ind AS would be applicable to all three companies i.e. Company A, B and C from 1·4·2016.

SM 6. Following is the structure of Company D



> E NW>250 hence 1.4.17 Therefore Parent D & Subs F & As G also to follow Ind AS wef 1.4.17

> However, H & I are FS So not mandated to follow Ind AS unless voluntarily opt to.

Exemining to see the ans.

All the companies in above structure are unlisted companies and the net worth of company E is ₹ 300 Crores and net worth of all the other companies is below ₹ 250 crores. To which company would Ind AS be applicable?

> However H & I will have to prepare alternate FS as per Ind AS to facilitate Cons FS prep. by Parent D as per Ind AS as D is Covered under Ind AS

Ans. Case 1 or 2m

As mentioned in the Companies (Indian Accounting Standards) Rules, 2015, if Ind AS is applicable to a company, it would also be applicable to its Holding Company, subsidiary company, associate company and Joint Venture.

As the turnover of company E is above ₹ 250 crores, it would be covered under Phase II of the roadmap. Hence, its subsidiary (Company F), associate (Company G) and Holding (Company D) would also be covered under Ind AS with effect from 1st April 2017.

With respect to other companies of the group, following guidance is given in ITFG clarification bulletin 15, Issue 10: "It may be noted that Ind AS applies to holding, subsidiary, joint venture and associate companies of the companies which meet the net worth/listing criteria. This requirement does not extend to another fellow subsidiary of a holding company which is required to adopt Ind AS because of its holding company relationship with a subsidiary meeting the net worth/listing criteria. Holding company will be required to prepare separate and consolidated financial statements mandatorily under Ind AS, if one of its subsidiaries meets the specified criteria and therefore, such subsidiaries may be required by the holding company to furnish financial statements as per Ind AS for the purpose of preparing Holding company's consolidated Ind AS financial statements. Such fellow subsidiaries may, however, voluntarily opt to prepare their financial statements as per Ind AS."

Hence the other companies of the group i.e. Company H and Company I would not be covered under Ind AS. However, as mentioned in ITFG, Company H and I would be required to prepare its financial statements under Ind AS so as to facilitate Company D for preparation of its consolidated financial statements. Hence, though statutorily Company H and I may continue to prepare its financial statements under AS, but it will also have to converge to Ind AS. Moreover, they may also opt to voluntarily adopt Ind AS and prepare its statutory accounts under Ind AS too.

Imp. to quote in exams

Ind AS N.A. → Follow standards as per their law → Trin Trin

SM 7. ABC Inc., incorporated in a foreign country has a net worth of ₹ 700 Crores. It has two subsidiaries Company X whose net worth as on 31st March 2014 is ₹ 600 Crores and Company Y whose net worth is ₹ 150 Crores. Whether Company X and Y would be required to follow Ind AS from accounting periods commencing on or after 1st April 2016 on the basis of their own net worth or on the basis of the net worth of ABC Inc.?

Ans. Ind AS N.A to ABC Inc! Hence Based on ABC's NW no decision on app'n for Subs. India Co. be taken

700 ABC Inc

X 600 1.4.16

Y 150 Not required to follow

Similar issue has been dealt in ITFG Clarification Bulletin 2, Issue 2. ITFG noted that as per Rule 4(1)(ii)(a) of the Companies (Indian Accounting Standards) Rules, 2015, Company X having net worth of ₹ 600 crores at the end of the financial year 2015-16, would be required to prepare its financial statements for the accounting periods commencing from 1st April, 2016, as per the Companies (Indian Accounting Standards) Rules, 2015. While Company Y Ltd. having net worth of ₹ 150 crores in the year 2015-16, would be required to prepare its financial statements as per the Companies (Accounting Standards) Rules, 2006.

Since, the foreign company ABC Inc., is not a company incorporated under the Companies Act, 2013 or the earlier Companies Act, 1956, it is not required to prepare its financial statements as per the Companies (Indian Accounting Standards) Rules, 2015. As the foreign company is not required to prepare financial statements based on Ind AS, the net worth of foreign company ABC would not be the basis for deciding whether Indian Subsidiary Company X Ltd. and Company Y Ltd. are required to prepare financial statements based on Ind AS

SM 8. As per the roadmap, Ind AS is applicable to Company X from the financial year 2017-18. Company X (non-finance company) is a subsidiary of Company Y (NBFC). Company Y is an unlisted NBFC company having net worth of ₹ 400 crores. What will be the date of applicability of Ind AS for company X and company Y? If Ind AS applicability date for parent NBFC is different from the applicability date of corporate subsidiary, then, how will the consolidated financial statements of parent NBFC be prepared?

NW 400 → 1.4.19.
Y (NBFC)

Ans.

In accordance with the roadmap, it may be noted that NBFCs having net worth of less than 500 crore shall apply Ind AS from 1 April, 2019 onwards. Further, the holding, subsidiary, joint venture or associate company of such an NBFC other than those covered by corporate roadmap shall also apply Ind AS from 1 April, 2019.

X (not NBFC) (Sub of Y) follow Ind AS 1.4.17.

Accordingly, in the given case, Company Y (NBFC) shall apply Ind AS for the financial year beginning 1 April, 2019 with comparative for the period ended 31 March, 2019 . Company X shall apply Ind AS in its statutory individual financial statements from financial year 2017-2018 (as per the corporate roadmap). However, for the purpose of Consolidation by Company Y for financial years 2017-2018 and 2018-2019, Company X shall also prepare its individual financial statements as per AS.

Ind AS → Co Y 1.4.19 → Co. X 1.4.17 Hence 17-18 & 18-19 Co. X to provide alternate AS Based FS for Cons.

CE 9. **APPLICABILITY OF IND AS TO AN INDIAN SUBSIDIARY OF A FOREIGN COMPANY AND TO FELLOW SUBSIDIARY**

Company X Ltd. and Company Y Ltd. registered in India having net worth of ₹ 600 crores and 100 crores respectively are subsidiaries of a Foreign Company viz., ABC Inc., which has net worth of more than Rs. 500 crores as on 31 March 2021. Whether Company X Ltd. and Y Ltd. are required to comply with Ind AS from financial year 2021-22 on the basis of net worth of the parent Foreign Company or on the basis of their own net worth?

Repeat

Ans.

As per Rule 4(1)(ii)(a) of the Companies (Indian Accounting Standards) Rules, 2015, Company X having net worth of Rs.600 crores in the end of year 2020-21, would be required to prepare its financial statements for the accounting periods commencing from 1stApril, 2021, as per the Companies (Indian Accounting Standards) Rules, 2015.

Company Y Ltd. having net worth of Rs.100 crores in the year 2020-21, would be required to prepare its financial statements as per the Companies (Accounting Standards) Rules, 2006.

Since, the Foreign company ABC Inc., is not a company incorporated under the Companies Act, 2013 or the earlier Companies Act, 1956, it is not required to prepare its financial statements as per the Companies (Indian Accounting Standards) Rules, 2015. As the foreign company is not required to prepare financial statements based on Ind AS, the net worth of foreign company ABC would not be the basis for deciding whether Indian Subsidiary Company X Ltd. and Company Y Ltd. are required to prepare financial statements based on Ind AS.

FAST Ans: X: Yes, Y : No.

CE 10. **APPLICABILITY – CIC**

Company A is a Core Investment Company (CIC) having net worth of more than 500 crore as on March 31, 2016. During the year 2016-17, the Reserve Bank of India (RBI) had exempted Company A from certain regulations/directions governing CIC in India.

Whether Company A (exempted CIC) will be regarded as Non-Banking Financial Company (NBFC) for the purpose of applicability of Ind AS?

TBD

Ans.

Rule 2(g) of Companies (Indian Accounting Standards) Rules, 2015, read with Companies (Indian Accounting Standards) (Amendment) Rules, 2016, states as follows:

"(g) "Non-banking Financial Company" means a Non-Banking Financial Company as defined in clause (f) of section 45-I of the Reserve Bank of India Act, 1934 and includes Housing Finance Companies, Merchant Banking Companies, Micro Finance Companies, Mutual Benefit Companies, Venture Capital Fund Companies, Stock Broker or Sub-broker Companies, Nidhi Companies and Chit Companies, Securitisation and Reconstruction Companies, Mortgage Guarantee Companies, Pension Fund Companies, Asset Management Companies and **Core Investment Companies**."

It may be noted from above, that core investment companies are specifically included in the definition of NBFC. Accordingly, exempted CIC will be regarded as 'NBFC' for the purpose of roadmap for implementation of Ind AS irrespective of the fact that RBI may have given some exemptions to certain class of core investment companies from its regulations.

Further, as per rule 4 of Companies (Indian Accounting Standards) Rules, 2015, read with the Companies (Indian Accounting Standards) (Amendment) Rules, 2016, NBFCs having net worth of more than 500 crore shall comply with Ind AS for accounting periods beginning on or after the 1st April, 2018, with comparatives for the periods ending on 31st March, 2018.

In view of the above, in the given case, Company A will be required to apply Ind AS from the financial year 2018-19. It may further be noted that it cannot voluntarily adopt Ind AS before 1st April 2018.

FAST Ans: Yes applicable

CE 11. **APPLICABILITY : ACQUISITION OF ASSOCIATE DURING THE YEAR**

Company X, on a standalone basis, has a net worth of above Rs. 500 crore and hence required to comply with Ind AS from financial year 2016-17. Company Y (listed entity), on a standalone basis, has net worth of above INR 250 crore but below Rs. 500 crore and therefore required to comply with Ind AS from financial year 2017-18.

Co. X Ind AS 1.4.16 & Co. Y Ind AS 31.10.16 as it becomes assoc of Co. X

Company X acquires shares of Company Y resulting in Company Y becoming an associate of Company X on October 31, 2016, but before approval of the results for the quarter ended September 2016.

(a) Whether Company Y will be required to comply with Ind AS from financial year 2016-17 or it will comply from financial year 2017-18?

(b) If the response is that compliance is from the financial year 2016-17, would the financial results of Company Y for the quarter ended September 30, 2016 be prepared in accordance with Ind AS?

No only from Dec 16 Qtr

Ans.

Rule 4(1)(ii) of Companies (Indian Accounting Standards) Rules, 2015, states as under:

(ii) the following companies shall comply with the Indian Accounting Standards (Ind AS) for the accounting periods beginning on or after 1st April, 2016, with the comparatives for the periods ending on 31st March, 2016, or thereafter, namely:-

(a) companies whose equity or debt securities are listed or are in the process of being listed on any stock exchange in India or outside India and having net worth of rupees five hundred crore or more;

(b) companies other than those covered by sub-clause (a) of clause (ii) of sub-rule (1) and having net worth of rupees five hundred crore or more;

(c) holding, subsidiary, joint venture or associate companies of companies covered by subclause (a) of clause (ii) of sub-rule (1) and sub-clause (b) of clause (ii) of sub- rule (1) as the case may be; and".

In accordance with the above, it may be noted that holding, subsidiary, joint venture, associate companies of companies falling under any of the thresholds specified in Rule 4(1)(ii) are required to comply with Ind AS from financial year 2016-17 or 2017-18, as the case may be.

In the given case, Company X is required to adopt Ind AS from financial year 2016-17, since net worth of Company X is more than INR 500 crore. Company X has acquired shares of Company Y resulting in Company Y becoming an associate of Company X during the financial year 2016-17. Accordingly, Company Y will prepare Ind AS financial statements for the year ending March 31, 2017.

As far as the quarterly results are concerned, since, Company Y has become an associate as on October 31, 2016, Company Y will prepare Ind AS financial statements from the quarter ending December 2016 onwards.

FAST Ans:

(a) Yes applicable on Y from 16-17

(b) Yes Interim Financial Statements to be as per Ind AS from Dec 2016 quarter

CE 12. APPLICABILITY : ACQUISITION OF HOLDING DURING THE YEAR

Company X (Listed entity) has a net worth of above INR 500 crore and hence required to comply with Ind AS from financial year 2016-17. Company Y (Unlisted entity), on a standalone basis, has net worth below INR 250 crore and hence it is not required to comply with Ind AS. Company Y acquires shares of Company X during financial year 2016-17, whereby Company Y becomes the holding company of Company X.

Whether Company Y will be required to comply with Ind AS from financial year 2016-17, given that it has now become a holding company of Company X during FY 2016-17? Yes

Ans.

Rule 4(1)(ii) of Companies (Indian Accounting Standards) Rules, 2015, states as under:

(ii) the following companies shall comply with the Indian Accounting Standards (Ind AS) for the accounting periods beginning on or after 1st April, 2016, with the comparatives for the periods ending on 31st March, 2016, or thereafter, namely:-

(a) companies whose equity or debt securities are listed or are in the process of being listed on any stock exchange in India or outside India and having net worth of rupees five hundred crore or more;

(b) companies other than those covered by sub-clause (a) of clause (ii) of sub-rule (1) and having net worth of rupees five hundred crore or more;

(c) holding, subsidiary, joint venture or associate companies of companies covered by sub clause (a) of clause (ii) of sub-rule (1) and sub-clause (b) of clause (ii) of sub- rule (1) as the case may be; and".

In accordance with the above, it may be noted that holding, subsidiary, joint venture, associate companies of companies falling under any of threshold specified Rule 4(1)(ii) are required to comply with Ind AS from financial year 2016-17 or 2017-18, as the case may be.

In the given case, Company X is required to adopt Ind AS from financial year 2016-17,since net worth of Company X is more than INR 500 crore. Company Y has acquired shares of Company X resulting in Company Y becoming holding company of Company X during the financial year 2016-17. Accordingly, Company Y will prepare Ind AS financial statements for the year ending March 31, 2017.

FAST Ans: Applies to holding Company , Y also from 16-17

CE 13. APPLICABILITY – UNLISTING OF COMPANY

on 31.3.14 Trin-Trin N.A. assume NW continue to be same.

As on March 31, 2014, Company A is a listed company and has a net worth of 50 crore. As on March 31, 2016, the company is no more a listed company. Whether Company A is required to comply with Ind AS from financial year 2016-17.

↳ means 1.4.16 not listed → so Ind AS N.A.

Ans.

Rule 4(1)(iii) of the Companies (Indian Accounting Standards) Rules, 2015, states as under:

"(iii) the following companies shall comply with the Indian Accounting Standards (Ind AS) for the accounting periods beginning on or after 1st April, 2017, with the comparatives for the periods ending on 31st March, 2017, or thereafter, namely:-

(a) companies whose equity or debt securities are listed or are in the process of being listed on any stock exchange in India or outside India and having net worth of less than rupees five hundred crore;

(b) companies other than those covered in clause (ii) of sub- rule (1) and subclause (a) of clause (iii) of sub-rule (1), that is, unlisted companies having net worth of rupees two hundred and fifty crore or more but less than rupees five hundred crore.

(c) holding, subsidiary, joint venture or associate companies of companies covered under sub-clause (a) of clause (iii) of sub- rule (1) and sub-clause (b) of clause (iii) of sub- rule (1), as the case may be".

Further, Rule 4(2) of the Companies (Indian Accounting Standards) Rules, 2015, states as under:

"(2) For the purposes of calculation of net worth of companies under sub-rule (1), the following principles shall apply, namely:-

(a) the net worth shall be calculated in accordance with the stand-alone financial statements of the company as on 31st March, 2014 or the first audited financial statements for accounting period which ends after that date;

(b) for companies which are not in existence on 31st March, 2014 or an existing company falling under any of thresholds specified in sub-rule (1) for the first time after 31st March, 2014, the net worth shall be calculated on the basis of the first audited financial statements ending after that date in respect of which it meets the thresholds specified in sub-rule (1).

Explanation.- For the purposes of sub-clause (b), the companies meeting the specified thresholds given in sub-rule (1) for the first time at the end of an accounting year shall apply Indian Accounting Standards (Ind AS) from the immediate next accounting year in the manner specified in sub-rule (1)."

FAST Ans: In view of the above requirements, it may be noted that immediately before the mandatory applicability date, if the ~~threshold~~ criteria for a company are not met, then it shall not be required to comply with Ind AS.

listing

In the given case, before the mandatory applicable date (i.e 2017-18), Company A ceases to be a listed company. Accordingly, it will not be required to apply Ind AS from FY 2017-18.

CE 14. APPLICABILITY – NEGATIVE NET WORTH

Will the following companies with negative net worth need to comply with Ind AS?

(a) Company A (listed) having negative net worth of ₹ 600 crore. listed, NW < 0 → 1.4.17 due to listing

(b) Company B (unlisted) having negative net worth of ₹ 300 crore. Unlisted, NW < 0 → N.A. as Unlisted & NW<250

Ans.

Rule 4(1)(ii) and Rule 4(1)(iii) of Companies (Indian Accounting Standards) Rules, 2015, state as follows:

(i) the following companies shall comply with the Indian Accounting Standards (Ind AS) for the accounting periods beginning on or after 1st April, 2016, with the comparatives for the periods ending on 31st March, 2016, or thereafter, namely:-

(a) companies whose equity or debt securities are listed or are in the process of being listed on any stock exchange in India or outside India and having net worth of rupees five hundred crore or more;

(b) companies other than those covered by sub-clause (a) of clause (ii) of subrule (1) and having net worth of rupees five hundred crore or more;

(c) holding, subsidiary, joint venture or associate companies of companies covered by sub-clause (a) of clause (ii) of sub-rule (1) and sub-clause (b) of clause (ii) of sub- rule (1) as the case may be; and".

(ii) the following companies shall comply with the Indian Accounting Standards (Ind AS) for the accounting periods beginning on or after 1st April, 2017, with the comparatives for the periods ending on 31st March, 2017, or thereafter, namely:-

(a) companies whose equity or debt securities are listed or are in the process of being listed on any stock exchange in India or outside India and having net worth of less than rupees five hundred crore;

(b) companies other than those covered in clause (ii) of sub- rule (1) and subclause (a) of clause (iii) of sub-rule (1), that is, unlisted companies having net worth of rupees two hundred and fifty crore or more but less than rupees five hundred crore.

(c) holding, subsidiary, joint venture or associate companies of companies covered under sub-clause (a) of clause (iii) of sub- rule (1) and sub-clause (b) of clause (iii) of sub- rule (1), as the case may be:

In accordance with above provisions, it is clear that Ind AS will be applicable to companies (both listed and unlisted) from financial year 2016-17, if net worth is Rs. 500 crore or more. Therefore, if the net worth of the listed or unlisted company is negative, then Ind AS will not be applicable from F.Y. 2016-17. Accordingly, Ind AS will not be applicable to Company A (listed) and Company B (unlisted) from F.Y. 2016-17.

However, as per the roadmap, Ind AS will be applicable from financial year 2017-18 to all listed companies having net worth less Rs. 500 crore and unlisted companies having net worth Rs. 250 crore or more but less than rupees 500 core. Accordingly, Ind AS will be applicable to Company A (listed) from F.Y. 2017-18, whereas Ind AS will not be applicable to Company B (unlisted) unless net worth criteria being met by Company B subsequently or Ind AS becoming applicable as part of the Group (e.g. holding of Company B is covered under Ind AS) or Company B voluntarily decides to apply Ind AS.

FAST Ans: **Company A : From 2017 – 18 since listed company**

Company B : No.

CE 15. APPLICABILITY : PARTNERSHIP FIRMS

A Ltd. is a first-time adopter of Ind AS. It had incorporated a partnership firm with B Ltd. namely, M/s A&B Associates. Whether Ind AS will be applicable to M/s A & B Associates by virtue of the fact that Ind AS is applicable to A Ltd?

Also clarify, whether Ind AS will be applicable to non-corporate entities?

Ans.

The applicability of Ind AS has been specified for classes of companies specified in Rule 4 of Companies (Indian Accounting Standards) Rules, 2015. Indian Accounting Standards notified under the Companies (Indian Accounting Standards) Rules, 2015, are applicable for the corporates only. Non- corporates are required to follow the accounting standards issued by the Institute of Chartered Accountants of India.. They cannot be applied by non-corporate entities even voluntarily.

However, in case, a relevant regulator specifically provides for implementation of Ind AS, the non-corporate entities shall apply Ind AS, for example, SEBI has mandated implementation of Ind AS for Infrastructure Investment Trusts (InvITs) and Real Estate Investment Trusts (REITs). Similarly, if Central

Government notifies certain body corporate under clause (1)(4)(f) of Companies Act, 2013, such entities will be required to apply Ind AS. For other non-company entities, Accounting Standards issued by the ICAI shall be applicable and there will be no option to follow Ind AS to such entities.

Accordingly, in the given case, Ind AS is not applicable to partnership firms. However, for the purpose of consolidation, the partnership firm will be required to provide financial statements data prepared as per Ind AS to A Ltd provided the partnership qualifies as a subsidiary/joint venture/associate of A Ltd.

FAST Ans: Not Applicable to Partnership Firms

CE 16. APPLICABILITY : FOREIGN BRANCH

ABC & Company incorporated in US with limited liability, has established a branch office in India, with the permission of the Reserve Bank of India (RBI), to provide consultancy services in India. The branch office remits the amounts earned by it to ABC & Company (i.e. Head office) net of applicable Indian taxes and subject to RBI guidelines.

As on April 1, 2016, it has more than 500 crore balance as "Head office account".

Whether the India branch office of ABC Company will be required to comply with Ind AS? No as ABC&Co is not a Co.

Ans.

IndAS applicable for "Entity" not on Branch individually

As per the roadmap issued by the MCA, "company" as defined in clause (20) of section 2 of the Companies Act, 2013 is required to comply with Ind AS. Section 2(20) of the Act defines company as follows:

"company" means a company incorporated under this Act or under any previous company law;

The branch office of a foreign company established in India is not incorporated under the A ct. It is only an establishment of a foreign company in India. The Branch office is just an extension of the foreign company in India.

Further, as per Rule 6 of the Companies (Indian Accounting Standards) Rules, 2015, "Indian company which is a subsidiary, associate, joint venture and other similar entities of a foreign company shall prepare its financial statements in accordance with the Indian Accounting Standards (Ind AS) if it meets the criteria as specified in sub-rule (1)."

In accordance with the above, it may be noted that Branch office of a foreign company is not covered under rule 6 as mentioned above. Accordingly, in the given case, the branch office of ABC & Company is not required to comply with Ind AS.

FAST Ans: Branch office not covered under Ind AS

CE 17. ASSOCIATE – S.8 COMPANY 1.4.16

Company X Ltd. is being covered under Phase I of Ind AS and needs to apply Ind AS from financial year 2016-17. Company Y which is an associate company of Company X Ltd. is a charitable organisation and registered under section 8 of the Companies Act, 2013. 1.4.16 Ind AS applies

Whether Company Y is required to comply with Ind AS from financial year 2016-17? Yes as no exemption for S.8. Cos. allowing Not to follow Ind AS

(**Question on this concept was asked in CA Final New Course Exam Paper3 – Audit, Nov. 2019**)

Ans.

Rule 4(1)(ii) of Companies (Indian Accounting Standards) Rules, 2015, states as under:

the following companies shall comply with the Indian Accounting Standards (Ind AS) for the accounting periods beginning on or after 1st April, 2016, with the comparatives for the periods ending on 31st March, 2016, or thereafter, namely:-

(a) companies whose equity or debt securities are listed or are in the process of being listed on any stock exchange in India or outside India and having net worth of rupees five hundred crore or more;

(b) companies other than those covered by sub-clause (a) of clause (ii) of sub-rule (1) and having net worth of rupees five hundred crore or more;

(c) holding, subsidiary, joint venture or associate companies of companies covered by sub-clause (a) of clause (ii) of sub-rule (1) and sub-clause (b) of clause (ii) of sub- rule (1) as the case may be; and".

In accordance with the above, it may be noted that holding, subsidiary, joint venture, associate companies of companies falling under any of the thresholds specified in Rule 4(1)(ii) are required to comply with Ind AS from financial year 2016-17.

Further, it may be noted that the companies covered under Section 8 are required to comply the provisions of the Companies Act, 2013, unless and until any exemption is provided. Section 8 companies are not exempted from the requirements of section 133 and section 129 of the Companies Act, 2013.

In view of the above, in the given case, Company Y will be required to apply Ind AS from financial year 2016-17.

FAST Ans: Applicable for Company Y from 16-17

RT 18. APPLICABILITY

TBD (after Cons FS chapter discussed)

Fresh Vegetables Limited (FVL) was incorporated on 2nd April, 20X1 under the provisions of the Companies Act, 2013 to carry on the wholesale trading business in vegetables. As per the audited accounts of the financial year ended 31st March, 20X7 approved in its annual general meeting held on 31st August, 20X7 its net worth, for the first time since incorporation, exceeded ₹ 250 crore. The financial statements since inception till financial year ended 31st March, 20X6 were prepared in accordance with the Companies (Accounting Standards) Rules 2006. It has been advised that henceforth it should prepare its financial statements in accordance with the Companies (Indian Accounting Standards) Rules, 2015.

The following additional information is provided by the Company:

- VL has in the financial year 20X2-20X3 entered into a 60:40 partnership with Logistics Limited and incorporated a partnership firm 'Vegetable Logistics Associates' (VLA) to carry on the logistics business of vegetables from farm to market.
- FVL also has an associate company Social Welfare Limited (SWL) that was incorporated in July, 20X5 as a charitable organization and registered under section 8 of the Companies Act, 2013. Social Welfare Limited has been the associate company of FVL since its incorporation.

Examine the applicability of Ind AS on VLA & SWL. **[RTP-May-2022]**

Ans.

Applicability of Ind AS in general:

- Currently Ind AS is applicable to the following companies except for companies other than banks and Insurance Companies, on mandatory basis:
  - (a) All companies which are listed or in process of listing in or outside India on Stock Exchanges.
  - (b) Unlisted companies having net worth of ₹ 250 crore or more but less than ₹ 500 crore.
  - (c) Holding, Subsidiary, Associate and Joint venture of above.
- Companies listed on SME exchange are not required to apply Ind AS on mandatory basis.
- Once a company starts following Ind AS either voluntarily or mandatorily on the basis of criteria specified, it shall be required to follow Ind AS for all the subsequent financial statements even if any of the criteria specified does not subsequently apply to it.
- Application of Ind AS is for both standalone as well as consolidated financial statements if threshold criteria met or adopted voluntarily.
- Companies meeting the thresholds for the first time at the end of an accounting year shall apply Ind AS from the immediate next accounting year with comparatives.
- Companies not covered by the above roadmap shall continue to apply existing Accounting Standards notified in the Companies (Accounting Standards) Rules, 2006.

Since the net worth of FVL in immediately preceding year exceeded ₹ 250 crore, Ind AS is applicable to it. The entity VLA and SWL have to be examined as they may fall in criteria (c) above.

Applicability of Ind AS on VLA

Joint arrangement can be either joint operation or joint venture. However, for the purpose of identifying the applicability of Ind AS, the Act defines Joint venture (as an explanation to section 2(6) of the Companies Act, 2013), as follows:

“The expression "joint venture" means a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement”.

Accordingly, if an entity is classified as joint operation and not joint venture, then Ind AS would not be applicable to such entity.

In the case of VLA, if partners conclude that they have rights in the assets and obligations for the liabilities relating to the partnership firm then this would be a joint operation. However, Ind AS would not be applicable on VLA in such a case since it is the case of joint operation (and not a joint venture).

Applicability of Ind AS on SWL

Social Welfare Limited (SWL) is the associate company of FVL. Accordingly, Ind AS would be applicable on SWL too irrespective of the fact that SWL has been incorporated as a charitable organisation.

TRANSITION DATE & OTHER PROVISIONS

CE 19. TRANSITION DATE CHOICE

Company X Ltd. has prepared its financial statements under IFRS for the first time for year ended March 31, 2016. It had adopted its date of transition to IFRS as April 1, 2014. As per the Companies (Indian Accounting Standards) Rules, 2015, Company X Ltd. is mandatorily required to prepare its financial statements as per Ind AS for the year ended March 31, 2017 and hence under Ind AS, the date of transition would be April 1, 2015.

Whether Company X Ltd. can select date of transition under Ind AS as April 1, 2014 instead of April 1, 2015 since it has already carried out exercise of transition on April 1, 2014 for the purposes of IFRS.

Ans.

Appendix A to Ind AS 101, First- time Adoption of Indian Accounting Standards, defines date of transition as follows:

“The beginning of the earliest period for which an entity presents full comparative information under Ind ASs in first Ind AS financial statements”

The definition of date of transition as stated above therefore permits an entity to select its date of transition. However, Rule 4(1)(i) and (ii) of the Companies (Indian Accounting Standards) Rules, 2015, states as under:

“The Companies and their auditors shall comply with the Indian Accounting Standards (Ind AS) specified in Annexure to these rules in preparation of their financial statements and audit respectively, in the following manner, namely:-

(i) any company may comply with the Indian Accounting Standards (Ind AS) for financial statements for accounting periods beginning on or after 1st April, 2015, with the comparatives for the periods ending on 31st March, 2015, or thereafter;

(ii) the following companies shall comply with the Indian Accounting Standards (Ind AS) for the accounting periods beginning on or after 1st April, 2016, with the comparatives for the periods ending on 31st March, 2016, or thereafter, namely…”.

As per the above rule, the date of transition for X Ltd. will be April 1, 2015 being the beginning of the earliest comparative period presented. To explain it further, X Ltd. is required to mandatorily adopt Ind AS from April 1, 2016, i.e for the period 2016-17, and it will give comparatives as per Ind AS for 2015-16.

Accordingly, the beginning of the comparative period will be April 1, 2015 which will be considered as the date of transition as per Ind AS.

Although Company X Ltd. has already carried out exercise of transition on April 1, 2014 for the purposes of IFRS, Company X Ltd. cannot select date of transition under Ind AS as April 1, 2014.

FAST Ans: No. DoT 1-4-15 only

CE 20. DATE OF TRANSITION : 2 YEARS COMPARATIVES

A company covered under Phase I, having net worth of ₹ 600 crores, decides to give comparatives for F.Y. 2015-16 and F.Y. 2014-15. What should be date of transition in this case?

Ans.

Appendix A to Ind AS 101, First- time Adoption of Indian Accounting Standards, defines date of transition as follows:

"The beginning of the earliest period for which an entity presents full comparative information under Ind ASs in first Ind AS financial statements"

The definition of the date of transition as stated above therefore permits an entity to select its date of transition. However, Rule 4(1)(i) and (ii) of the Companies (Indian Accounting Standards) Rules, 2015, state as under:

"The Companies and their auditors shall comply with the Indian Accounting Standards (Ind AS) specified in Annexure to these rules in preparation of their financial statements and audit respectively, in the following manner, namely:-

(i) any company may comply with the Indian Accounting Standards (Ind AS) for financial statements for accounting periods beginning on or after 1st April, 2015, with the comparatives for the periods ending on 31st March, 2015, or thereafter;

(ii) the following companies shall comply with the Indian Accounting Standards (Ind AS) for the accounting periods beginning on or after 1st April, 2016, with the comparatives for the periods ending on 31st March, 2016, or thereafter, namely…".

In the given case, the Company is required to mandatorily adopt Ind AS from April 1, 2016, i.e., for the period 2016-17, and with comparatives as per Ind AS for 2015-16. Accordingly, the beginning of the comparative period will be April 1, 2015, which will be considered as the date of transition as per Ind AS. Therefore, the date of transition to Ind AS shall be April 1, 2015. The company cannot have the date of transition at April 1, 2014.

FAST Ans:DoT : 1-4-15 only

CE 21. NBFC – ONE OF THE GROUP COMPANY

Company X is falling under Phase II of MCA roadmap for companies and hence Ind AS are applicable to it from the financial year 2017-18. Company X is a subsidiary of Company Y. Company Y is an unlisted NBFC company having net worth of Rs. 285 crores. What will be the date of applicability of Ind AS for company X and company Y? If Ind AS applicability date for parent NBFC is different from the applicability date of corporate subsidiary, then, how will the consolidated financial statements of parent NBFC be prepared?

Ans.

In the given case, Company Y (NBFC) shall apply Ind AS from 1.4.2019. Company X shall apply Ind AS in its individual financial statements from financial year 2017-18 (as per the corporate roadmap) and for the financial year 2017-18 and 2018-19, Company X shall also prepare its individual financial statements as per the Companies (Accounting Standards) Rules, 2006 to facilitate the preparation of consolidated financial statement by parent Company Y (NBFC).

FAST Ans: **Company X from 2017-18**

Company Y (NBFC) (Holding) from 2019-20

CE 22. COMPUTATION OF NET WORTH

A company received grant from government which is in the nature of promoter's contribution and the same was included in capital reserve. This grant has been accounted as per AS 12, Accounting for Government Grants. Is such capital reserve required to be included for computation of net worth to assess Ind AS applicability?

Ans.

As per Rule 2(1)(f) of Companies (Indian Accounting Standards) Rules, 2015 "net worth" shall have the meaning assigned to it in clause (57) of section 2 of the Act.

Section 2(57) of Companies Act, 2013, defines 'net worth' as follows:

"net worth" means the aggregate value of the paid-up share capital and all reserves created out of the profits and securities premium account, after deducting the aggregate value of the accumulated losses, deferred expenditure and miscellaneous expenditure not written off, as per the audited balance sheet, but does not include reserves created out of revaluation of assets, write-back of depreciation and amalgamation;

From the definition of Section 2(57), it may be noted that all reserves created out of the profits are included in calculation of 'net worth'.

In the given case, the capital reserve has arisen pursuant to grant received from government. which is in the nature of promoter's contribution. On a literal interpretation of the definition, it may be concluded that capital reserve in the nature of promoter's contribution should not be included to calculate net worth as the same is not explicitly mentioned in the definition of net worth. However, in substance, the capital reserve in the nature of promoter's contribution is a capital contribution by promoters and should be included in the calculation of net worth. Further, Accounting Standard (AS) 12 also states that government grants in the nature of promoter's contribution are recognised in shareholders' funds. Therefore, such a capital reserve should be included for computation of 'net worth'.

However, it may be noted that capital reserve in the nature of promoter's contribution should be included in the net worth only for the purpose of Ind AS applicability. This definition should not be applied by analogy for determining net worth under other provisions of the Companies Act, 2013.

FAST Ans: ICAI clarifies, should be included in NW

CE 23. NET WORTH : ESOP RESERVE

Whether ESOP reserve is required to be included while computing net worth of a company to assess applicability of Ind AS on the company?

Ans.

As per Rule 2(1)(f) of Companies (Indian Accounting Standards) Rules, 2015, "net worth" shall have the meaning assigned to it as in clause (57) of section 2 of the Act.

Further, as per Section 2(57) of the Companies Act, 2013, "net worth means the aggregate value of the paid-up share capital and all reserves created out of the profits and securities premium account, after deducting the aggregate value of the accumulated losses, deferred expenditure and miscellaneous expenditure not written off, as per the audited balance sheet, but does not include reserves created out of revaluation of assets, write-back of depreciation and amalgamation."

It may be noted that the Guidance Note on Accounting for Employee Share-based Payments, inter alia, provides that an enterprise should recognise as an expense (except where service received qualifies to be included as a part of the cost of an asset) the services received in an equity-settled employee share-based payment plan when it receives the services, with a corresponding credit to an appropriate equity account, say, 'Stock Options Outstanding Account'. This account is transitional in nature as it gets ultimately transferred to another equity account such as share capital, securities premium account and/or general reserve as recommended in the subsequent paragraphs of this Guidance Note.

In accordance with the above, ESOP reserve is required to be included while calculating the net worth of a company.

FAST Ans: YES

Not expected usually to be asked in exams as it is ← **CONCEPT BUILDERS** → For Understanding | Conceptual Clarity

CB 24. Sabka Vikas Mutual Fund, a mutual fund registered with SEBI, has a net worth of 600 crores on 31.03.2023. Whether Ind AS will be applicable on it from 01.04.2023?

CB 25. Not So Happy Ltd. has its net worth as given below:
31.3.2014 ⟶ 600 Cr. |
31.3.2015 ⟶ 600 Cr. |
31.3.2016 ⟶ 400 Cr. |
31.3.2017 ⟶ 100 Cr. | Will Ind AS be applicable from 1-4-2017. What if the company is NBFC ?

Applicable from 1.4.16 itself as NW ≥ 500 Crores on 31.3.14.

31.3.16 → 400 (≥250 Crores)
31.3.17 → 100
31.3.18 → Not known (assume it is same as earlier)
Hence → 1.4.19

CB 26. Net worth…
A. To be computed on?
B. For NBFC?
C. Determined as per Companies Act 2013?
D. Computation as per Ind-AS or existing AS based financial statements?

A. 31.3. every year starting from 31.3.2014
B. ————— " ————— 31.3.2016
C. Yes
D. Existing AS Based FS

CB 27. Listed company – Can a private company be a listed company? Whether a company in the process of listing abroad be also covered under Ind AS? Yes under Ind AS Rules

↳ Yes

CB 28. Ind-AS mandatory at SFS level also? Can Ind-AS be applied voluntarily only at CFS level?

No, if Ind AS applies then applies 100% (on CFS as well as SFS)

CB 29. Can few Ind-AS be applied voluntarily?

Yes
except Bk/Ins/NBFC

CB 30. Fellow subsidiaries, whether covered if one of the subsidiary is covered under IndAS as per rule 4?

No,
unless voluntarily
opts to.

CB 31. If a company adopts Ind-AS voluntarily will its H-S-JV-A be mandated to apply Ind-AS from same date?

Yes

CB 32. Are comparatives to be as per Ind-AS too? Can a company give comparatives for more than 1 year?

TBD

CB 33. Whether Ind-AS applicable if foreign holding company has a net worth exceeding prescribed limits? Whether Ind-AS applicable on Government companies, Section 8 companies?

No

Yes normal prov apply
on these Cos. as well

CB 34. For companies following IndAS whether interim FS also to be prepared as per Ind AS?

Yes

Ind AS applicable

CB 35. If a company is covered under requirements of Rule 4 of Companies (Ind AS) Rules, 2015, whether it's H/S/JV/A company which is a Bank or Insurance company, also required to comply with Ind AS immediately.

No

CB 36. Are Ind AS applicable for ~~partnership firms~~? What about LLPs?

NO

If Cos. Act specifies...

CB 37. Can the company adopt a different transition date, i.e. whether a company adopting Ind AS from 1 April 2021, whether it can restate the previous FS and prepare FS for period prior to the date, 1 April 2020 (Opening Balance Sheet of PY) as per Ind AS?

CB 38. Where Ind AS applicable to Stock Brokers, Merchant Bankers, Asset Management Companies, Chit Fund Companies, Nidhi Company, Micro Finance Institutions, Venture Capital Funds?

CB 39. Will Ind AS application affect Income tax and Indirect Tax computations?

NOTES