CHAPTER 1

INTRODUCTION TO INDIAN ACCOUNTING STANDARDS



LEARNING OUTCOMES

After studying this chapter, you will be able to:

- Appreciate the concept of Accounting Standards
- Grasp the Indian scenario prior to Ind AS and the need of time leading to emergence of global accounting standards
- Acknowledge the benefits of global accounting standards
- Distinguish between convergence and adoption of global accounting standards
- Discuss about Ind AS transition in India and benefits thereof
- Recognise the process of development and finalisation of Ind AS (IASB to ICAI to MCA)
- Describe India's roadmap for applicability of Ind AS for listed and unlisted entities, NBFCs, banking and insurance sector
- Illustrate the salient features of Ind AS like numbering, flow and structure
- Tabulate the important statutory provisions under the Companies Act and SEBI regulations involving Ind AS
- Identify the format of balance sheet, statement of changes in equity, profit and loss and significant notes related to them as given in Division II to Schedule III to the Companies Act, 2013
- Analyse key takeaways from guidance note on Division II to Schedule III to the Companies Act, 2013

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1. INTRODUCTION

A set of financial statements are a key tool of communication about the financial position, performance and changes in financial position of an entity that is useful to a wide range of stakeholders in making economic decisions. Accounting Standards is an essential building block in the financial reporting world. These Accounting Standards provide principles and rules that must be followed to ensure accuracy, consistency and comparability of financial statements. These accounting guidelines also ensure that financial statements should be understandable, relevant, reliable and comparable.

Accounting Standards are a set of documents that lay down the principles covering various aspects, such as, recognition, measurement, presentation & disclosure of accounting transaction in the financial statements. Objective of accounting standards is to standardize the diverse accounting policies & practices with a view to eliminate the non-comparability of financial statements to the extent possible and also to enhance the reliability to the financial statements. Accounting standards play a very significant role in enabling the stakeholders to get the reliable and comparable accounting data and investors to make more informed economic decisions.

The Accounting Standards Board (ASB) of the Institute of Chartered Accountants of India (The ICAI), since its establishment way back in 1977, has been involved in the formulation of Accounting Standards and standard setting process of the country. ASB has been relentlessly working to ensure that the world's fastest growing emerging economy of India is equipped with high quality Accounting Standards (AS) comparable to the best in the world. The ICAI also issued Accounting Standards which are applicable to the entities other than companies and are aligned with Accounting Standards notified by the Ministry of Corporate Affairs (MCA) with certain differences.

ASB is an Accounting Standards-Setting arm of the ICAI, which formulates Accounting Standards through a process that is robust, comprehensive, and inclusive with a view to assisting the Council of the ICAI in evolving and establishing Accounting Standards to discharge its role of national standard-setter. Once the ASB finalises the draft of AS post incorporating the public comments on exposure draft, ASB recommends such approved draft of AS to National Financial Reporting Authority (NFRA)[1] and then Government of India, through MCA notifies AS or Ind-AS for corporate entities under Companies Act and ICAI issues AS for non-corporate entities.

[1] NFRA was constituted under the Companies Act, 2013 which replaced National Advisory Committee On Accounting Standards (NACAS) which was constituted under Companies Act, 1956.

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2. INDIAN SCENARIO PRIOR TO INTRODUCTION OF IND AS IN INDIA

Prior to introduction of Indian Accounting Standards (Ind AS) which are Accounting Standards duly converged with International Financial Reporting Standards (IFRS), ASB has issued various AS to deal with various reporting matters. As on February 2002, ICAI has issued 27 AS, the list thereof with their respective applicability is as under[2]. These AS are applicable to

(a) companies other than those following Ind AS,

(b) SMCs and also

(c) non-corporate entities.

AS No.	Name of AS	Applicable to all Companies Other than those following Ind AS	Applicable to Small and Medium Sized Companies (SMCs)[3]	Applicable to Non-Corporate Entities[4]			
				Level I	Level II	Level III	Level IV
1	Disclosure of Accounting Policies	Yes	Yes	Yes	Yes	Yes	Yes
2	Valuation of Inventories (Revised)	Yes	Yes	Yes	Yes	Yes	Yes
3	Cash Flow Statement	Yes	Yes	Yes	NA	NA	NA
4	Contingencies and Events occurring after the Balance	Yes	Yes	Yes	Yes	Yes	Yes

[2] This table should be read in conjunction of Appendix 1 to Compendium of Accounting Standards (as on 1st February, 2022)

[3] SMCs are defined under Notification dated 23rd June, 2021, issued by the Ministry of Corporate Affairs, Government of India

[4] Criteria for classification of Non-company Entities as decided by the Institute of Chartered Accountants of India should be referred back from Appendix 1 to Compendium of Accounting Standards (as on 1st February, 2022)

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	Sheet Date (Revised 2016)						
5	Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies	Yes	Yes	Yes	Yes	Yes	Yes
7	Construction Contracts	Yes	Yes	Yes	Yes	Yes	Yes
9	Revenue Recognition	Yes	Yes	Yes	Yes	Yes	Yes
10	Property, Plant and Equipment (Revised)	Yes	Yes	Yes	Yes	Yes (with disclosure exemption)	Yes (with disclosure exemption)
11	The Effects of Changes in Foreign Exchange Rates	Yes	Yes	Yes	Yes	Yes (with disclosure exemption)	Yes (with disclosure exemption)
12	Accounting for Government Grants	Yes	Yes	Yes	Yes	Yes	Yes
13	Accounting for Investments (Revised)	Yes	Yes	Yes	Yes	Yes	Yes (with disclosure exemption)
14	Accounting for Amalgamation (Revised)	Yes	Yes	Yes	Yes	Yes	NA
15	Employee Benefits	No	Applicable with some exemptions	Yes	Yes (With certain exemptions)		
16	Borrowing Costs	Yes	Yes	Yes	Yes	Yes	Yes
17	Segment Reporting	No	No	Yes	No	No	No
18	Related Party Disclosure	Yes		Yes	Yes	No	No

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19	Leases	No	Applicable with some exemptions	Yes	Yes (with disclosure exemption)		
20	Earnings per share	No	Applicable with some exemptions	Yes	No	No	No
21	Consolidated Financial Statements (Revised)	Yes	Yes	Yes	No	No	No
22	Accounting for Taxes on Income	Yes	Yes	Yes	Yes	Yes	Yes (only related to current tax provisions)
23	Accounting for Investments in Associates in Consolidated Financial Statements	Yes	Yes	Yes	No	No	No
24	Discontinuing Operations	Yes	Yes	Yes	Yes	No	No
25	Interim Financial Reporting	No	Applicable with some exemptions	Yes	No	No	No
26	Intangible Assets	Yes	Yes	Yes	Yes	Yes	Yes (with disclosure exemption)
27	Financial Reporting of Interests in Joint Ventures	Yes	Yes	Yes	No	No	No
28	Impairment of Assets	No	Applicable with some exemptions	Yes	Yes (with disclosure exemption)		NA
29	Provisions, Contingent Liabilities and Contingent Assets (Revised)	No	Applicable with some exemptions	Yes	Yes (with disclosure exemption)		

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3. LIMITATIONS OF ACCOUNTING STANDARDS

With the increasing flow of foreign funds, following were few of the rising complexities which were not explicitly and comprehensive dealt by AS and it was needed to have guidance around the same to witness consistent accounting treatments by entities.

a) Capital being raised in the form of complex financial instruments like optionally convertible/ compulsorily convertible shares / debentures etc.

b) Various derivative instruments embedded in the foreign currency bonds/equity instruments, commodity derivatives etc.

c) Group restructuring, business acquisitions, mergers, demergers, slump sale etc.

d) Complex revenue arrangements and business models with innovating emerging digital economy

e) Diverse stock-based compensation with innovative remuneration models for C-suite

f) Complex tax provisions and impact thereof in determination of current and deferred tax

g) Different ways to provide shareholders' return and various modes of shareholder's investments in kind in the event of group reorganisation.

Further, a need was felt to have comprehensive disclosures in the financial statements so as to enable the investors to have a complete overview of business background, risks involved and other important aspects. The disclosure requirements in ASs are limited and the need was felt to improve those disclosures especially about aspects like revenue, related party transactions, segment reporting, business combinations etc. so as to improve the quality of financial reporting and enable investors to take an informed decision.

4. EMERGENCE OF GLOBAL ACCOUNTING STANDARDS

In 1973, International Accounting Standards Committee (IASC) was formed through an agreement made by professional accountancy bodies from Canada, Australia, France, Germany, Japan, Mexico, the Netherlands, the UK and Ireland, and the United States of America. The main goal of the committee was to harmonize different financial reporting practices. The standard setting board of the IASC was known as the IASC Board. The IASC Board promoted various standards, conceptual Framework, which was directly adopted by many countries and many national accounting standards setters were referring to the same to govern the standard setting process in their countries.

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Nearly after 25 years of its operations, IASC felt a need to change its structure in order to effectively converge national accounting standards to lead to one set of Global Accounting Standards. As a result, International Accounting Standards Board (IASB) was formed on 1st July 2000. It was further decided that it would operate under a new International Accounting Standards Committee Foundation (IASCF, now known as IFRS Foundation). IASB members are responsible for the development and publication of International Financial Accounting Standards (IFRS). For IFRS to be truly global standards, consistent application and interpretation is required. The Interpretations Committee assists the IASB in improving financial reporting through timely assessment, discussion and resolution of financial reporting issues identified within the IFRS framework.

As early as 1989 the International Organisation of Securities Commissions (IOSCO), the world's primary forum for co–operation among securities regulators, prepared a paper noting that cross border security offerings would be facilitated by the development of internationally accepted standards. For preparers, greater comparability in financial reporting with their global peers had obvious attractions. In May 2000 IOSCO announced that it had completed its assessment of 30 accounting standards of the International Accounting Standards Committee (IASC 2000 standards). As a result, the IOSCO Presidents' Committee recommended that its members permit incoming multinational issuers to use the 30 IASC 2000 standards to prepare their financial statements for cross-border offerings and listings, as supplemented by reconciliation, disclosure and interpretation where necessary to address substantive outstanding issues at a national or regional level.

On 19th July 2002, a regulation was passed by the European Parliament and the European Council of Ministers requiring the adoption of IFRS. As a result of the Regulation, all EU listed companies were required to prepare their financial statements following IFRS from 2005. This has led to IFRS being considered as one of the major unified GAAP in the world.

So with this, two prominent and widely adopted accounting standards have emerged:

1) Accounting Standards set up by US Financial Accounting Standards Board (FASB) (widely known as "US GAAP") and

2) International Financial Reporting Standards (IFRS)

The "Group of 20" (G20) is made up of the finance ministers and central bank governors of 19 countries and the European Union: Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Mexico, Russia, Saudi Arabia, South Africa, Republic of Korea, Turkey, United Kingdom and United States of America. The G20 meets regularly to discuss matters of common interest. As a result of the global financial crisis, the G20 began to explore ways to

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improve the global financial system, including regulations related to financial reporting and institutions. The G20 has for sometime called for the global convergence of accounting standards and has supported the IASB-FASB convergence process.

The joint convergence project was launched in 2002 by the International Accounting Standards Board (IASB) and US Financial Accounting Standards Board (FASB). The objective of this project is to eliminate a variety of differences between International Financial Reporting Standards and US GAAP. The project, which is being done jointly by FASB and IASB, grew out of an agreement reached by the two boards in October 2002 (the 'Norwalk Agreement'). The scope of the overall IASB-FASB convergence project has evolved over time and is currently under progress.

So, IFRS is now, together with US GAAP, one of the two globally recognised financial reporting frameworks. Although the goal of a single set of high–quality global accounting standards has not been fulfilled, as per IASB research, presently, 168 jurisdictions require the use of IFRS Accounting Standards for all or most publicly listed companies.

5. NEED FOR GLOBAL ACCOUNTING STANDARDS IN INDIA

Modern economies rely on cross-border transactions and the free flow of international capital. Investors seek diversification and investment opportunities across the world, while companies raise capital, undertake transactions or have international operations and subsidiaries in multiple countries.

In the past, such cross-border activities were complicated to be followed by Indian Companies due to increased compliance costs of maintaining multiple sets of financial books following varied national accounting standards. This reworking of accounting requirements often added cost, complexity and ultimately risk both to companies preparing financial statements and investors and others using those financial statements to make economic decisions.

Applying local accounting standards led to a totally different basis for amounts appearing in financial statements. Solving this complexity involved studying the details of national accounting standards, because even a small difference in requirements could have a major impact on a company's reported financial performance and financial position — for example, a company may recognise profits under one set of national accounting standards and losses under another. For e.g.: A company has made non-current investments in equity instruments and there is a temporary decline in the value of investments. As per AS, it may be required to report the investment at cost but may have to fair value the same as per IFRS. Hence this may lead to recognizing losses as per IFRS.

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With this emerging need to move AS to comparable Global Standards and also considering the limitations of AS to deal with emerging business transactions and structure, need to revamp current AS was felt inevitably. International investors were apprehensive to rely on the financial information of Indian Companies due to their limited understanding of accounting framework in India and often sought companies to produce such financial information under IFRS.

Considering above, India made a commitment towards the convergence of Indian accounting standards with IFRS at the G20 summit in 2009.

6. BENEFITS OF GLOBAL ACCOUNTING STANDARDS

Global Accounting Standards address above challenges by providing a high-quality, internationally recognised set of accounting standards that bring transparency, accountability and efficiency to financial markets around the world. Global Standards bring transparency by enhancing the international comparability and quality of financial information, enabling investors and other market participants to make informed economic decisions.

Further, Global Standards strengthen accountability by reducing the information gap between the providers of capital and the people to whom they have entrusted their money. As a source of globally comparable information, Global Accounting Standards are also of vital importance to regulators around the world.

Global Accounting Standards also contribute to economic efficiency by helping investors to identify opportunities and risks across the world, thus improving capital allocation. For businesses, the use of a single, trusted accounting language lowers the cost of capital and reduces international reporting costs. This also resulted into increased investment in jurisdictions adopting IFRS. Also for a Company which has operations in multiple countries, it became easy for them to consolidate their operations, track operational key performance indicators, and reduce the number of different reporting systems.

These advantages of global standards have been accepted by various jurisdictions, resulting into many countries following the path of adoption or convergency with IFRS with minimal carve outs.

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7. CONVERGENCE VS ADOPTION OF IFRS

In common parlance, many users refer Convergence to IFRS and Adoption of IFRS interchangeably. However, there exists a significant difference between the two

Adoption of IFRS, in simple terms, means that the Country applying IFRS would be implementing IFRS in the same manner as issued by the IASB and would be 100% compliant with the guidelines issued by IASB.

The dictionary definition of Convergence states that *"to move towards each other or meet at the same point from different directions".* Hence convergence with IFRS means the national accounting standards setter would work with IASB to develop high quality Accounting Standards over the time. Hence the national accounting standard setter is said to have "Converged with IFRS" if it has adopted IFRS with some exceptions, and work with IASB towards those exceptions to reach at a point wherein there are no differences left.

An entity is required to apply IFRS 1 First–time Adoption of International Financial Reporting Standards – when it first asserts compliance with IFRS. The IASB has, therefore, established unambiguously the principle that full application of its standards and related interpretations is necessary for an entity to be able to assert that its financial statements comply with IFRS (as issued by the IASB). Consequently, it is necessary for countries that align their national standards with IFRS to require the application of IFRS 1 so that entities reporting under those standards can assert compliance with IFRS. In addition, an entity that applies IFRS as amended by a local authority cannot assert compliance with IFRS.

It is merely impossible for IASB to consider the individual factors of each country. Hence, such countries decide to converge to IFRS with limited exceptions. These exceptions are regularly looked upon and in order to meet at a point where no exceptions are left.

Countries like Canada, Bahrain, Cambodia etc have adopted IFRS while countries like India, China, Hongkong etc have converged with IFRS.

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8. PROCESS OF DEVELOPMENT AND FINALISATION OF INDIAN ACCOUNTING STANDARDS

As discussed above, accounting standards in India are formulated by the ASB of ICAI. The central government prescribes the standards of accounting, or any addendum thereto, as recommended by the ICAI, in consultation with and after examination of the recommendations made by the NFRA. The Ministry of Corporate Affairs (MCA) notifies the standards under the Companies Act by publishing them in the Gazette of India. Notified standards are authoritative under Indian law.

It may be noted that IFRS are being issued / revised by the IASB from time to time. As a part of convergence with IFRS, the Ind AS may be issued/revised corresponding to the IFRS. Accordingly, whenever IASB issues any new IFRS or update the current one, ASB of ICAI considers the convergence thereof under Ind AS. While doing so ASB provides considerations to local regulatory landscape, business practices, tax and other relevant provisions to develop exposure draft with proposed carve in or carve out from IFRS.

The Ind-AS setting process can be briefly outlined as follows:

- Consideration of preliminary draft prepared (with requisite carve in and carve out) by ASB and revision thereof, as need be.
- Circulation of Draft Ind AS to the Council members of ICAI and specified outside bodies such as MCA, Securities and Exchange Board of India (SEBI), Comptroller and Auditor General of India (C&AG), Central Board of Direct Taxes (CBDT) etc.
- Meeting with the representative of the specified outside bodies to ascertain their views on the Draft Ind AS
- Finalisation of Exposure Draft of Ind AS and its issuance for inviting public comments
- Consideration of comments received on the Exposure Draft and finalisation of Ind AS by ASB for submission to the Council of ICAI for its consideration and approval for issuance.
- Consideration of the final draft of proposed Ind AS by the Council of the ICAI, and if found necessary, modification of the draft in consultation with the ASB
- Final draft Ind AS to be submitted to NFRA with ICAI recommendations for notification
- NFRAs reviews and provides inputs, if any, to ICAI before finalising. Post that, MCA notifies the Ind AS under Companies Act for Companies to follow with announcement of applicability date.

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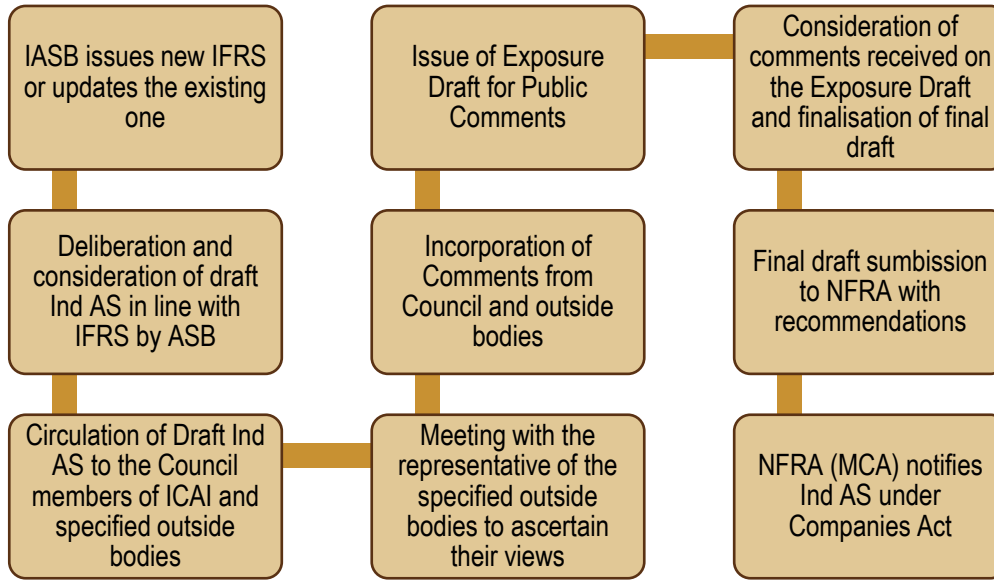
To summarise,



9. TRANSITION FROM AS TO IND AS

India made a commitment towards the convergence of Indian accounting standards with IFRS at the G20 summit in 2009. In line with this, MCA issued a roadmap for implementation of Ind AS converged with IFRS beginning April 2011. However, this plan was suspended due to unresolved tax and other issues. In the presentation of the Union Budget 2014–15, the Honourable Minister for Finance, Corporate Affairs and Information and Broadcasting proposed the adoption of Ind AS. The Minister clarified that the respective regulators will separately notify the date of implementation for banks and insurance companies. Also, standards for tax computation would be notified separately. In accordance with the Budget statement, the MCA has notified the Companies (Indian Accounting Standards) Rules 2015 vide its G.S.R dated 16th February 2015. Accordingly, it has notified 39 Ind AS and has laid down Ind AS transition roadmap for companies and non-banking finance companies excluding banking companies and insurance companies.

The implementation of Indian Accounting Standards (Ind AS) converged with International Financial Reporting Standards (IFRS) by Indian Companies is a monumental step in the accounting history of India. It was possible due to the relentless and collective efforts of regulators and accounting professionals of this large growing economy aspiring to be economic superpower in the coming decades. ICAI believes that Ind AS implementation has provided better insights

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into the financial affairs of the companies and Ind AS based financial statements reflect the underlying economics of the transactions/events in a transparent and unbiased manner. It has also improved the comparability and benchmarking of the financials of Indian Companies with Global Peers, thereby improving the accessibility of Indian Companies to Global Capital Markets.

IFRS convergence is an ongoing initiative, and the process of issuing IFRS is dynamic. The IASB issues new/revised IFRS on a regular basis. To avoid significant changes in Ind AS for a period post its transition in India, it was decided to keep the applicability date of some of the IFRS earlier than its applicability date announced by IASB.

Example 1

IFRS 15 Revenue from Contracts with Customers is effective for annual periods beginning on or after 1st January 2017, while in India Ind AS 115 was applicable from 1st April 2018. Hence, it wasn't implemented in advance of IFRS 15. Another example is that of IFRS 16 Leases, which was issued in 2016 and made effective for annual reporting periods beginning on or after 1st January 2019, while in India Ind AS 116 was applicable from 1st April 2019.

9.1 About Indian Accounting Standards

Ind AS are the IFRS converged standards. Similar to IFRS they are principles-based standards, but substantially different from Indian GAAP. Ind AS is not the same as IFRS. It is a separate accounting framework based on IFRS as created by the MCA and has certain carve-outs to accommodate Indian business nuances.

As on date, 39 Ind AS are notified by Ministry of Corporate Affairs, which are as under:

IND AS	Description
Ind AS 101	First-time Adoption of Indian Accounting Standard
Ind AS 102	Share-based Payment
Ind AS 103	Business Combinations
Ind AS 105	Non-current Assets Held for Sale and Discontinued Operations
Ind AS 106	Exploration for and Evaluation of Mineral Resources
Ind AS 107	Financial Instruments: Disclosures
Ind AS 108	Operating Segments

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Ind AS 109	Financial Instruments
Ind AS 110	Consolidated Financial Statements
Ind AS 111	Joint Arrangements
Ind AS 112	Disclosure of Interests in Other Entities
Ind AS 113	Fair Value Measurement
Ind AS 114	Regulatory Deferral Accounts
Ind AS 115	Revenue from Contracts with Customers
Ind AS 116	Leases
Ind AS 117	Insurance Contracts
Ind AS 1	Presentation of Financial Statements
Ind AS 2	Inventories
Ind AS 7	Statement of Cash Flows
Ind AS 8	Accounting Policies, Changes in Accounting Estimates and Errors
Ind AS 10	Events after the Reporting Period
Ind AS 12	Income Taxes
Ind AS 16	Property, Plant and Equipment
Ind AS 19	Employee Benefits
Ind AS 20	Accounting for Government Grants and Disclosure of Government Assistance
Ind AS 21	The Effects of Changes in Foreign Exchange Rates
Ind AS 23	Borrowing Costs
Ind AS 24	Related Party Disclosures
Ind AS 27	Separate Financial Statements
Ind AS 28	Investments in Associates and Joint Ventures

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

9.2 How Ind AS have been numbered?

Ind AS are numbered in a similar manner as compared to IFRS. So, in order to understand how Ind AS are numbered, it is important to understand how IFRS are numbered. Ind AS differ from the IFRS, as they contain certain carve outs and carve ins for making them contextually relevant to the Indian economic and legal environment.

International Accounting Standard Committee (IASC) was formed in 1973 and its main objective was to harmonize different financial reporting practices. It continued issuing standards under heading "International Accounting standards" (IAS) and they were numbered chronologically from 1. Eg: IAS 1, IAS 2 etc. Till 2000, it had notified 41 IAS (some of them are now repealed or omitted). Post incorporation of IASB on 1st July 2000., standards issued are known as IFRS and a new numerical series was started i.e. IFRS 1, IFRS 2 etc

In Indian context, numbers for IAS are retained. For e.g.: For IAS 1 – Presentation of Financial Statements, corresponding standard in Ind AS is Ind AS 1 – Presentation of Financial statements. For IFRS, a new series starting after 100 was used. For e.g.: For IFRS 1 – First time adoption of International Financial Reporting Standards, corresponding Ind AS is Ind AS 101 - First time adoption of Indian Accounting Standards.

Further, IFRS Interpretations Committee (IFRIC) is the interpretative body of the IASB. Its main work is to address application issues and suggest official IFRS Interpretations, which are eventually approved by the IASB. These interpretations are titled 'IFRIC' and numbered as IFRIC 1,2 etc. Interpretations issued before 2003 were titled 'SIC' and some of them are still in force today. IFRIC and SICs are included in Ind AS as part of Appendix in relevant Ind AS.

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- Total reporting standards required as on 1.11.2024 under IFRS are 41. However, IFRS 18 and IFRS 19 have also been issued which will be effective from 1st January, 2027 internationally. While total reporting standards issued and effective in India under Ind AS are 39. IAS 26 Accounting and Reporting by Retirement Benefit Plans has yet not notified in India as Ind AS. IAS 39 contains only part relating to hedge accounting which is still valid globally as continuation of this part is permitted globally. But in India, only Ind AS 109 corresponding to IFRS 9 hedge accounting is permitted, hence the part of IAS 39 is not relevant, and no equivalent Ind AS exists in India.
- Total interpretations under IFRS (IFRIC + SIC) are 20. Total interpretation included under Ind AS (Appendix to relevant standards) are 18. IFRIC 2 – Members' Shares in Cooperative Entities and Similar Instruments and SIC -7 Introduction of the Euro are neither included under Ind AS nor notified. However, Appendix C to Ind AS 103 – Business Combinations was developed and additionally included in India for which no corresponding IFRIC or SIC is available.

9.3 How Ind AS have been structured?

Ind AS have followed the structure of IFRS and IAS and have not changed the same. Ind AS retained the paragraph numbers of IFRS and IAS too to allow readers to refer back similar guidance under IFRS and IAS while also appreciating the carve out and carve in. For example- if Ind AS do not contain corresponding paragraph of IFRS, the same number had been kept blank with a note mentioned referring to Appendix – Comparison with IFRS.

Ind AS have following components and they are generally structured as follows:

1. **Objective –** What is the main purpose for which the Ind AS is formed is mentioned in this heading. On a bird's eye view, it mentions the issues dealt by it and what objective it seeks to achieve from laying the principles in it.

Example 2

Following is Ind AS 2's objective:

"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."

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2. **Scope –** What the standard intends to cover in its ambit is mentioned in the scope heading. In many cases, it defines specifically what it intends not to cover. For e.g.: Para 2 of Ind AS 2 states that it applies to all inventories except financial instruments and biological assets related to agricultural activity and agricultural produce at the point of harvest.

3. **Definitions –** It includes definitions of various terms used in the standards. For standards which are converged from International Accounting standards, definition is a part of structure while for standards which are converged from International Financial Reporting standards (Ind AS 101 onwards), the definitions are included in appendices.

4. **Content of the Standard –** This includes the main principles of the standard. It generally contains principle of recognition, measurement, subsequent measurement along with any other standard specific contents grouped in appropriate headings.

5. **Disclosure –** This section covers what qualitative / quantitative information required to be disclosed in financial statements pertaining to the matter covered in the standard. Wherever applicable, it also contains how a particular asset / liability / income / expense should be presented in financial statements.

6. **Transitional provisions and effective date –**For any Ind AS notified, it mentions effective date and transitional provisions from which it would be applicable. Under Ind AS, transitional provisions are mentioned mainly at two places. Firstly, it is broadly mentioned in Ind AS 101 - First-time Adoption of Indian Accounting Standard and secondly in the individual Ind AS wherever applicable. The transitional provisions mentioned in Ind AS 101 are applicable to first time adopter of Ind AS. The transitional provisions mentioned in individual standards are applicable to entities that have already applied Ind AS. In many standards, transitional provisions and effective date are mentioned in Appendices

7. **Appendices –** As and where applicable, the Ind AS also has appendices which are integral part of the standard. They mainly consist of:

   a. Explanation on industry specific issues which require detailed guidance. For e.g.: Appendix to Ind AS 16 contains treatment of stripping costs in the production phase of a surface mine.

   b. Application Guidance – These are mainly in standards which are converged from International Financial Reporting Standards (Ind AS 101 and onwards). It contains detailed guidance in applying the principles mentioned in the standard.

   c. Defined terms – It mentions definition of terms mentioned in the standard.

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d. References to matters contained in other Ind AS - It lists the appendix which is a part of another Indian Accounting Standard and makes reference to the particular standard.

e. Comparison with IFRS – Differences with IFRS are explained in this section.

f. IFRIC and SIC applicable and relevant for the respective Ind AS.

In each Ind AS, certain texts are highlighted in bold while certain are in plain. The text in bold mentions the principle while the text in plain mentions its application guidance / other explanation. Paragraphs set in bold type and plain type, have equal authority. In Ind AS 101, principles are numbered in chronological order while detailed explanation or guidance applicable to these principles are included in the respective Appendices, as applicable.

10. ROADMAP FOR APPLICABILITY OF IND AS

MCA has notified the Companies (Indian Accounting Standards) Rules, 2015 vide its G.S.R dated 16 February 2015. Accordingly, it has notified 39 Ind AS and has laid down an Ind AS transition roadmap for companies and non- banking finance companies excluding banking companies and insurance companies. MCA has proposed phase-wise approach for mandatory transition to Ind AS.

10.1 For Listed Entities

Phase I

As per the Companies (Indian Accounting Standards) Rules, 2015, following companies were covered under Phase I for accounting periods beginning on or after 1st April 2016, with the comparatives for the periods ending on 31st March 2016:

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) above 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) and sub-clause (b) as mentioned above

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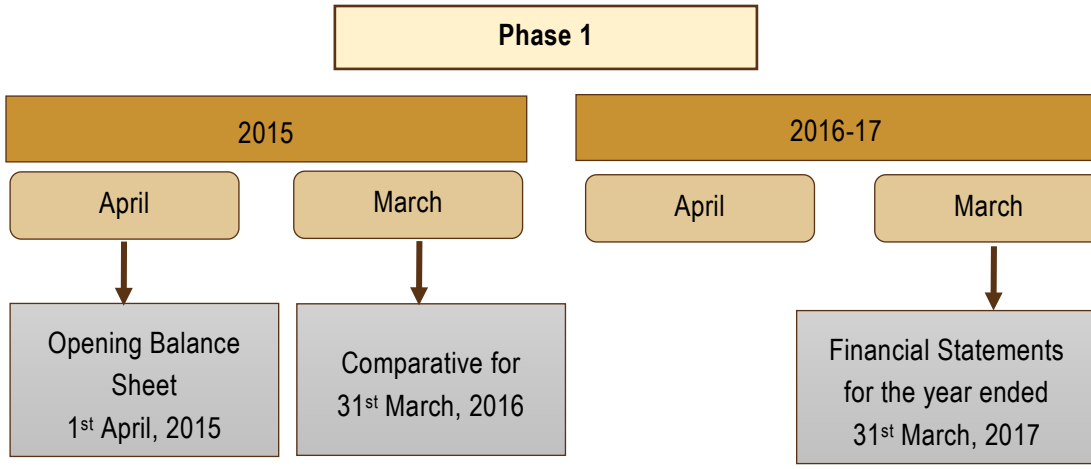

Phase II

Following companies were covered under Phase II for accounting periods beginning on or after 1st April 2017, with the comparatives for the periods ending on 31st March 2017:

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 sub-clause (a) above i.e. 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 by sub-clause (a) and sub-clause (b) as mentioned above.

The Companies (Indian Accounting Standards) Rules, 2015 clarifies that, the roadmap shall not be applicable to companies whose securities are listed or are in the process of being listed on SME exchange as referred to in Chapter XB or on the Institutional Trading Platform without initial public offering in accordance with the provisions of Chapter XC of the Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2009. For the purpose, it clarifies SME Exchange to have the same meaning as assigned to it in Chapter XB of the Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2009.

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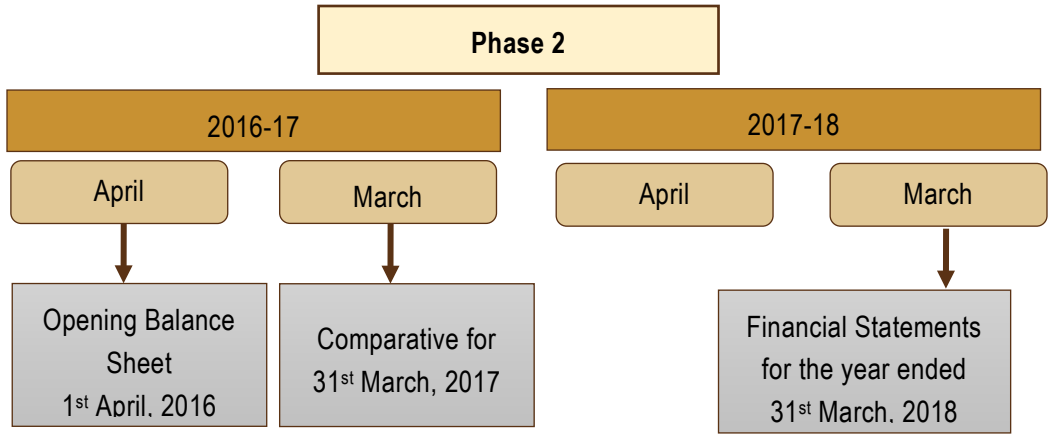

Ind AS would not be applicable to companies other than listed companies whose net worth is less than ₹ 250 Crores and they will continue to follow AS as per its applicability discussed above. However, they can voluntary adopt Ind AS.

It is notable that the Companies (Indian Accounting Standards) Rules, 2015 gave an option to the companies for early adoption of Ind AS for their financial statements for accounting periods beginning on or after 1st April 2015, with the comparatives for the periods ending on 31st March 2015 or any time thereafter.

10.1.1 Key Matters on Transition

1. Comparative Financial Information

All companies applying Ind AS are required to present comparative information as per Ind AS for one year. To comply with this requirement, Ind AS will be applicable from the beginning of the previous period.

Example 3

A company adopted Ind AS from 1st April, 20X4 for its accounting period 20X4-20X5. Hence, it will be required to prepare its first Ind AS financial statements for financial year 20X4-20X5 with comparatives for financial year 20X3-20X4, and the date of transition to Ind AS will be considered as 1st April 20X3.

2. Ind AS applicability

As per clause 4 of the aforementioned MCA notification, companies to which Indian Accounting Standards are applicable as specified in those rules shall prepare their first set of financial statements in accordance with the Ind AS effective at the end of its first Ind AS reporting period.

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Example 4

A company adopted Ind AS from 1st April, 20X4 for its accounting period 20X4-20X5. Hence, it shall prepare Ind AS financial statements for financial year 20X4-20X5 by applying all Ind AS duly effective as on 31st March 20X5.

3. Consistent Application of Ind AS

As per clause 9 of the notification, once a company starts following the Indian Accounting Standards (Ind AS) either voluntarily or mandatorily on the basis of criteria specified, it shall be required to follow the Indian Accounting Standards (Ind AS) for all the subsequent financial statements even if any of the criteria specified in the Rules does not subsequently apply to it.

4. Ind AS Applicability for Indian Group Companies

As specified in the Companies (Indian Accounting Standards) Rules, 2015 issued by MCA, if Ind AS is applicable to a company, it would also be applicable to its holding company, subsidiary company, associate company and joint venture.

5. Ind AS Applicability for Overseas Group Companies

As per clause 5 of the Companies (Indian Accounting Standards) Rules, 2015 issued by MCA, overseas subsidiary, associate, joint venture and other similar entities of an Indian company may prepare its standalone financial statements in accordance with the requirements of the specific jurisdiction, provided that such Indian company shall prepare its consolidated financial statements in accordance with the Indian Accounting Standards (Ind AS) either voluntarily or mandatorily as per the criteria as specified in the Rules.

6. Ind AS Applicability for Standalone and Consolidated Financial Statements

As per clause 3 of the notification issued by MCA, Ind AS once required to be complied with in accordance with these rules, shall apply to both stand-alone financial statements and consolidated financial statements.

10.1.2 Calculation of Net Worth

For the purpose of determining the applicability of Ind AS as per the roadmap, net worth shall have meaning as per clause 57 of section 2 of the Companies Act, 2013.

Following is the definition of net worth as per the section:

"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

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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;"

Further, it is clarified that:

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 the Ind AS applicability thresholds above 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.

Example 5

The companies meeting net worth threshold for the first time as per financial statements of the year ending on 31st March, 2017 shall apply Ind AS for the financial year 2017-2018 with comparatives for financial year 2016-2017.

Hence to summarize, the roadmap considers net worth as on 31st March 2014 as cut-off date for Ind AS applicability. A company which meets the Ind AS applicability criteria on this cut-off date, needs to apply Ind AS as per the applicable phase. If any company does not meet the Ind AS applicability criteria as on the cut-off date, they will have to reassess the Ind AS applicability criteria at each balance sheet date.

Illustration 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.

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*

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Profit and Loss A/c	*75*		
Liabilities	*160*		
Total	***785***	***Total***	***785***

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

Solution

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.

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Illustration 2

Let's say in Illustration 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?

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Solution

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.

*****

Illustration 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?

Solution

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.

*****

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Illustration 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?

Solution

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.

*****

Illustration 5

Company A is the parent company of a group. 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

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

Solution

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 as per the roadmap for implementation of Ind AS in the preparation of its Financial Statements.

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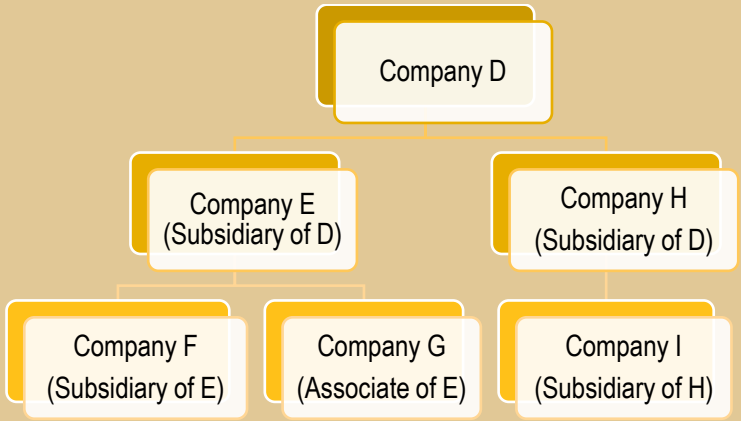
As Ind AS be applicable to Company B, the parent company of Company B i.e. Company A and subsidiary of Company B i.e. Company C would also get covered under Ind AS irrespective of net worth criteria. Hence, Ind AS would be applicable to all three companies i.e. Companies A, B and C.

*****

Illustration 6

Following is the structure of Company D



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?

Solution

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 net worth 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

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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.

*****

Illustration 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.?

Solution

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 having net worth of ₹ 150 crores in the year 2015-2016, 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 and Company Y are required to prepare financial statements based on Ind AS.

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10.2 Ind AS Roadmap for Non -Banking Financial Companies (NBFC)

For the purpose, NBFC is defined as 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, Chit Companies, Securitisation and Reconstruction Companies, Mortgage Guarantee Companies, Pension Fund Companies, Asset Management Companies and Core Investment Companies

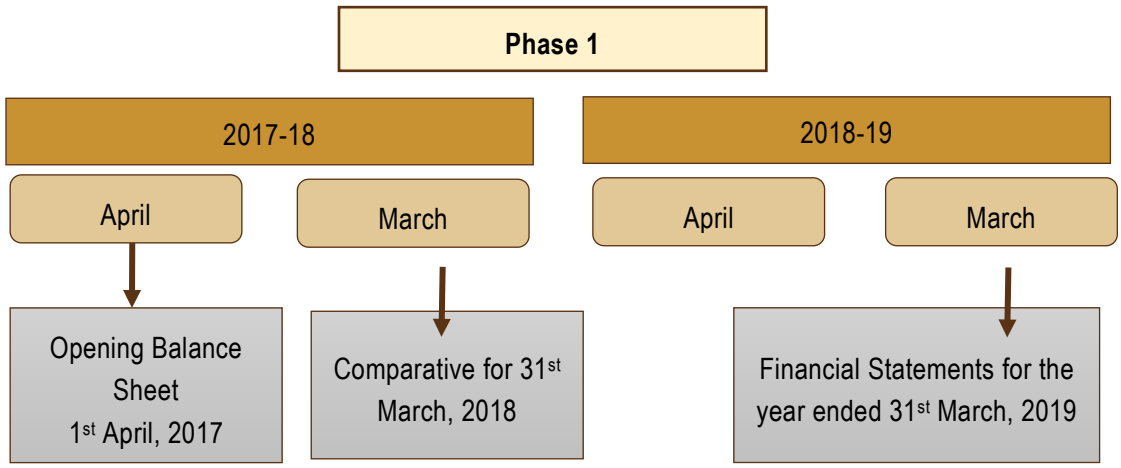
Ministry of Corporate Affairs, in its circular dated 30th March 2016, amended the Companies (Indian Accounting Standards) Rules, 2015 to include its applicability to Non-Banking Finance Companies. As per the circular, NBFCs to apply Ind AS in the following two phases:

Phase I

As per the Companies (Indian Accounting Standards) Rules, 2015, following NBFCs were covered under Phase I for accounting periods beginning on or after 1st April 2018, with the comparatives for the periods ending on 31st March 2018.

a. NBFCs having net worth of ₹ 500 Crores or more

b. Holding, subsidiary, associate or Joint Venture of NBFCs already covered under sub clause (a) above, other than companies already covered under Ind AS roadmap for Non-financial companies



Phase II

Following NBFCs were covered under Phase II for accounting periods beginning on or after 1st April 2019, with the comparatives for the periods ending on 31st March 2019

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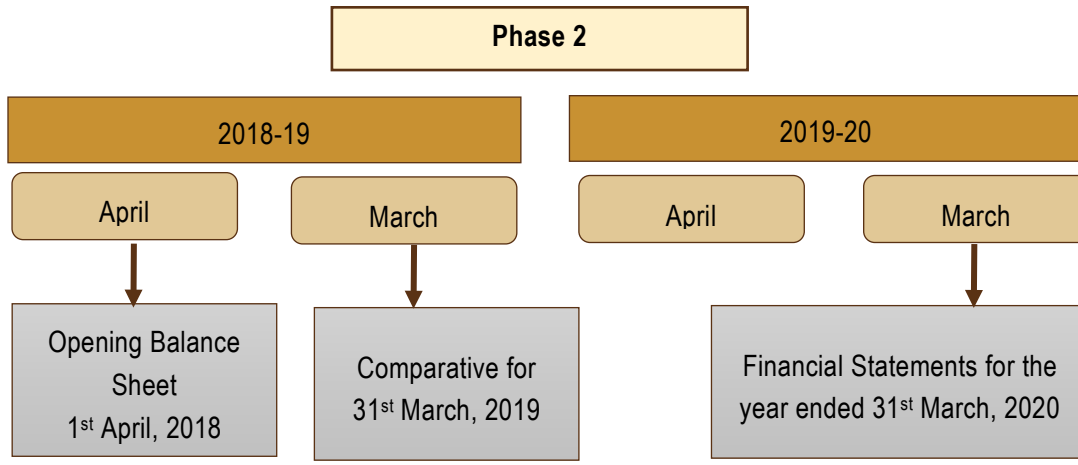
a. NBFCs whose equity or debt securities are listed or in the process of listing on any stock exchange in India or outside India and having net worth less than rupees five hundred crore;

b. NBFCs, that are unlisted companies, having net worth of rupees two-hundred and fifty crore or more but less than rupees five hundred crore; and

c. Holding, subsidiary, associate or Joint Venture of Companies already covered under sub clause (a) and (b) above, other than companies already covered under Ind AS roadmap for Non-financial companies



NBFCs having net worth below rupees two fifty crores and not covered above shall continue to apply AS. Further, where Ind AS is applicable to NBFCs, the same shall apply to both standalone and consolidated financial statements.

It is notable that NBFC can apply Ind AS only if they fall in any of the above criteria. Voluntary adoption of Ind AS by NBFCs are not allowed.

10.2.1 Clarification on calculation of Net Worth

For the purposes of calculation of net worth of NBFCs for determining the applicability of Ind AS, the following principles shall apply, namely:

a. the net worth shall be calculated in accordance with the stand-alone financial statements of the NBFCs as on 31st March 2016 or the first audited financial statements for accounting period which ends after that date;

b. for NBFCs which are not in existence on 31st March 2016 or an existing NBFC falling first time, after 31st March 2016, the net worth shall be calculated on the basis of the first audited

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stand-alone financial statements ending after that date, in respect of which it meets the thresholds.

Explanation- For the purposes of sub-clause (b), the NBFCs meeting the specified thresholds as given in the roadmap for the first time at the end of an accounting year shall apply Ind AS from the immediately next accounting year

For E.g. –

(i) The NBFCs meeting threshold for the first time as on 31st March, 2019 shall apply Ind AS for the financial year 2019-2020 onwards.

(ii) The NBFCs meeting threshold for the first time as on 31st March, 2020 shall apply Ind AS for the financial year 2020-2021 onwards and so on.

Application of Ind AS to non-finance companies whose parent / subsidiary or associate or joint venture is a NBFC

The date for application of Ind AS to non-finance companies is not aligned with that of NBFCs. Hence, it has been clarified in the notification that the companies shall apply AS or Ind AS on the basis of respective standard applicable to them. However, for the purpose of preparation of Consolidated Financial Statements it is clarified that:

A. where an NBFC is a parent (at ultimate level or at intermediate level), and prepares consolidated financial statements as per AS, and its subsidiaries, associates and joint ventures are non-finance companies and are required to prepare financial statements as according to the roadmap given for Ind AS in The Companies (Indian Accounting Standards) Rules, 2015, such subsidiaries, associate and joint venture shall prepare its financials as per Ind AS. However, such subsidiaries, associate and joint venture has to provide the relevant financial statement data in accordance with the accounting policies followed by the parent company for consolidation purposes (until the NBFC is covered under Ind AS.

B. Where a parent is a non-finance company covered under Ind AS, as per the roadmap given in The Companies (Indian Accounting Standards) Rules, 2015 and has a NBFC subsidiary, associate or a joint venture, the parent has to prepare Ind AS-compliant consolidated financial statements and the NBFC subsidiary, associate and a joint venture has to provide the relevant financial statement data in accordance with the accounting policies followed by the parent company for consolidation purposes (until the NBFC is covered under Ind AS).

It implies that the NBFC subsidiary, associate or a joint venture, in such case shall continue to prepare the financials under AS until Ind AS are applicable to it.

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Illustration 8

As per the roadmap, Ind AS is applicable to Company X from the financial year 2017-2018. 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?

Solution

In accordance with the roadmap, it may be noted that NBFCs having net worth of less than 500 crores shall apply Ind AS from 1st 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 1st April, 2019.

Accordingly, in the given case, Company Y (NBFC) shall apply Ind AS for the financial year beginning 1st April, 2019 with comparative for the period ended 31st 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.

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10.3 Ind AS Roadmap for Banking and Insurance Companies

As per the Companies (Indian Accounting Standards) (Amendment) Rules, 2016, The Banking Companies and Insurance Companies shall apply the Ind AS as notified by the Reserve Bank of India (RBI) and Insurance Regulatory Development Authority (IRDA) respectively. As the same are yet to be notified, Ind AS is not applicable to Banking and Insurance Companies presently.

It is notable that Banks and Insurance Companies shall not be allowed to voluntarily adopt Ind AS. However, this does not preclude them from providing Ind AS compliant financial statements for the purpose of preparation of consolidated financial statements by its parent/investor, as required by the parent/investor to comply with the existing requirements of law.

10.4 Ind AS Roadmap for Mutual Funds

The Securities and Exchange Board of India (Mutual Funds) Regulations, 1996 (the MF Regulations) lay down the regulatory framework for operations and functioning of Mutual Funds

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(MFs). The MF Regulations are amended by SEBI from time to time to enhance transparency and disclosures, to address emerging issues, to protect the interests of investors, and to strengthen the regulatory framework of MFs.

On 25 January 2022, SEBI vide a notification issued the SEBI (Mutual Funds) (Amendment) Regulations, 2022. As per this notification, the financial statements and accounts of MF schemes will be prepared in accordance with Indian Accounting Standards (Ind AS). Additionally, SEBI vide a circular dated 4 February 2022 (the circular) provided certain guidelines on accounting with respect to Ind AS for MFs. The circular also provides specific formats of the financial statements to be prepared for the MF schemes under Ind AS. The requirements of the circular will become applicable from 1 April 2023.

11. IND AS RELEVANT STATUTORY PROVISIONS

11.1 Relevant Sections referring to Ind AS in the Companies Act, 2013 and Rules

Ind AS were initially notified under the Companies (Indian Accounting Standards) Rules, 2015. Post that it was amended from time to time to include the amendments / changes in the Ind AS.

Following are the some of the key relevant provisions of the Companies Act 2013, which gives reference to Ind AS:

- **Section 2(2)** states that accounting standards means the standards of accounting or any addendum thereto for companies or class of companies referred to in Section 133
- **Section 133** states the Central Government may prescribe the standards of accounting or any addendum thereto, as recommended by the Institute of Chartered Accountants of India, constituted under section 3 of the Chartered Accountants Act, 1949 (38 of 1949), in consultation with and after examination of the recommendations made by the National Financial Reporting Authority. Under the power given to the Central Government under section 133, it notified the Companies (Indian Accounting Standards) Rules, 2015.
- **Section 129** suggests the financial statements shall give a true and fair view of the state of affairs of the company or companies, comply with the accounting standards notified under section 133 and shall be in the form or forms as may be provided for different class or classes of companies in Schedule III.
- **Section 134 (5) (a)**, a statement that the applicable accounting standards had been followed with proper explanation relating to material departures shall be given in the

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Director Responsibility statement to be issued under section 134 (3) (c) in the Director's report to be published in Annual General Meeting.

- **Section 143**, auditor has to opine whether the financial statements comply with the accounting standards.
- **Section 230 –** Power to compromise or make arrangements with creditors and members and Section 232 – Merger and amalgamation of Companies**,** the scheme of compromise or arrangement is to be sanctioned by the tribunal only after obtaining a certificate from the company's auditor that the accounting treatment given proposed in the scheme of compromise or arrangement is in conformity with the accounting standards mentioned in Section 133.
- **Section 66** – Reduction of Share Capital, which states that no application for reduction of share capital shall be sanctioned by the Tribunal unless the accounting treatment, proposed by the company for such reduction is in conformity with the accounting standards specified in section 133 or any other provision of this Act and a certificate to that effect by the company's auditor has been filed with the Tribunal.

11.2 Relevant SEBI Rules and Regulations

Formats for publishing financial results (Circular dated 30th November 2015)

SEBI via circular dated 30th November, 2015 amended the format for publishing quarterly financial statements. Point 5 of the circular clarified that Companies adopting the Ind AS in terms of Companies (Indian Accounting Standards) Rules, 2015 notified by the Ministry of Corporate Affairs on 16th February, 2015 while publishing quarterly / annual financial results under Regulation 33 of the Listing Regulations, 2015, shall ensure that the comparatives filed along with such quarterly/annual financial results are also Ind AS compliant.

Clarification regarding applicability of Indian Accounting Standards to disclosures in offer documents under SEBI (ICDR) Regulations, 2018

The applicability of Ind AS for financial information (last 3 years financials) to be disclosed in the offer document as specified under SEBI (ICDR) Regulations, 2018 and provided the year wise applicability of Ind AS based on the period of filling offer document.

Example 6

For a company filling offer document between 1st April 2021 to 31st March 2022, the financial statements of latest financial year, second latest financial year and third latest financial year shall be as per Ind AS.

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Revised Formats for financial results and implementation of Ind AS by Listed Entities

For the period ending on or after 31st March, 2017, the formats for Unaudited / Audited quarterly financial results i.e. Statement of Profit and Loss and the Unaudited / Audited Half-Yearly Balance Sheet to be submitted by the Listed Entities, with the stock exchanges, shall be as per the formats for Balance Sheet and Statement of Profit and Loss (excluding notes and detailed sub-classification) as prescribed in Schedule III to the Companies Act, 2013. However, Banking Companies and Insurance Companies shall follow the formats as prescribed under the respective Acts / Regulations as specified by their Regulators.

12. FORMAT OF DIVISION II TO SCHEDULE III TO THE COMPANIES ACT - STRUCTURE

12.1 Introduction

Schedule III to the Companies Act, 2013 was notified along with the Companies Act, 2013 (Act) itself on 29th August, 2013 thereby providing the way every company registered under the Act shall prepare its Financial Statements. Financial Statements as defined under the Act include Balance Sheet, Statement of Changes in Equity for the period if applicable, the Statement of Profit and Loss for the period, Cash flow statement for the period and Notes.

'Division II' – 'Ind AS Schedule III' was inserted in the Companies Act,2013 to give a format of Financial Statements for companies that are required to comply with the Companies (Indian Accounting Standards) Rules, 2015, as amended from time to time. This is newly inserted into Schedule III for companies that adopt Ind AS. Accordingly, such companies, while preparing its first and subsequent Ind AS Financial Statements, would apply Division II to Schedule III to the Act.

The requirements of Division II to Schedule III, however, do not apply any insurance or banking company or to any other class of company for which a form of Balance Sheet and Statement of Profit and Loss has been specified in or under any other Act governing such class of company. Moreover, the requirements of Division II to Schedule III do not apply to Non-Banking Finance Companies (NBFCs) that adopt Ind AS of Companies (Indian Accounting Standards) Rules, 2015 notified in Companies (Indian Accounting Standards) (Amendment) Rules, 2016 as amended from time to time. For NBFCs, Division III to Schedule III to the Companies Act, 2013 prescribes the formats of financial statements.

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'Division II' – 'Ind AS Schedule III' is divided into following three parts:

- Part I – Format of Balance Sheet and Statement of Changes in Equity and notes related to them (Elements of Balance Sheet and its line items)
- Part II – Format of Statement of Profit and Loss and notes related to it (Elements of Statement of Profit and Loss and its line items)
- Part III – General Instructions for preparation of Consolidated Financial Statements

12.2 Applicability

As per the Government Notification no. S.O. 902 (E) dated 26 March, 2014, Schedule III is applicable for the Financial Statements prepared for the financial year commencing on or after 1st April, 2014. Further, as per the Government Notification no. G.S.R. 404(E) dated 6th April, 2016, Schedule III is amended to include a format of Financial Statements for a company preparing Financial Statements in compliance with the Companies Ind AS Rules. Schedule III has been further amended vide the Government Notification dated 24th March, 2021 to include certain additional presentation and disclosures requirements and changes some existing requirements. These changes need to be applied in preparation of financial statements for the financial year commencing on or after 1st April, 2021. All companies that prepare, either voluntarily or mandatorily, Financial Statements in compliance with the Companies Ind AS Rules, should consider Ind AS Schedule III as well as ICAI's Guidance Note on Division II to Schedule III to the Companies Act, 2013. Additionally, preparers of financial statements should also consider requirements of the Act as well as other Statutes, Notifications, Circulars issued by various Regulators.

Division II to Schedule III to the Companies Act, 2013 has been annexed at the end of the study material for reference.

13. GUIDANCE NOTE ON DIVISION II TO SCHEDULE III TO THE COMPANIES ACT, 2013

Corporate Laws & Corporate Governance Committee (CLCGC) of ICAI issued the Guidance Note on Division-II to Schedule III to the Companies Act, 2013 in 2017 and kept on revising the same as per requirements. Latest Guidance Note on the subject is issued in January, 2022. This Guidance Note aims to provide guidance on the amended Division-II to Schedule III to the Companies Act, 2013. It also lays down broad guidelines to deal with practical issues that may arise in the implementation of Division-II to Schedule III to the Companies Act, 2013. Accordingly, wherever required conceptual guidance has been provided in the Guidance Note.

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Following are the some of the key guidance stated in guidance note. The following should be read in conjunction with Guidance Note issued on the subject:

1. Property, Plant and Equipment: Under the Ind AS Schedule III, land and building are presented as two separate classes of property, plant and equipment. In contrast, paragraph 37 of Ind AS 16 gives an example of grouping land and building under same class for revaluation purposes. The para states that a class of property, plant and equipment is a grouping of assets of a similar nature and use in an entity's operations. However, companies should continue to present land and building separately as given in Ind AS Schedule III and such presentation needs to be followed consistently.

   As per Ind AS Schedule III, capital advances/ advances for purchase of capital assets should be included under other non- current assets and hence, should not be included under capital work-in-progress

2. Non-current Investment: Under each sub-classification of Investments, there is a requirement to disclose details of investments including names and the nature and extent of the investment in each body corporate which is a subsidiary, associate, joint venture and structured entity. The nature and extent would imply the number of such instruments held and the face value of such instrument.

   Ind AS Schedule III requires disclosure of the aggregate amount of quoted investments and market value thereof and the aggregate amount of unquoted investments. The aggregate amount of such investments would include aggregate amount of carrying value of these investments as at the reporting date as included in the financial statements.

   The market value of quoted investments would, generally, mean disclosure of the 'fair value' of quoted investments as at each reporting date. Ind AS 113 defines fair value and also states that the fair value of assets might be affected when there has been a significant decrease in the volume or level of activity for that asset in relation to normal market activity for that asset. A decrease in the volume or level of activity on its own may not indicate that a quoted price does not represent fair value. However, based on the company's evaluation, if it determines that a quoted price does not represent fair value, then the company shall disclose the market value of quoted investments based on the quoted price which would be different from the investment's fair value.

   As per Ind AS Schedule III, aggregate amount for impairment in value of investments should

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be disclosed separately. As per Ind AS 109, the company is required to recognize a loss allowance (i.e. impairment) for expected credit losses on investments measured at amortized cost. Such loss allowance should be presented as an adjustment to the amortized cost of the investment.

As per Ind AS 109, in case of debt investments measured at fair value through other comprehensive income (FVTOCI), a company shall estimate a portion of fair value change, if any, attributable to a change in credit risk of such investment and disclose the same in the profit and loss section of the statement of profit and loss with a corresponding impact in other comprehensive income section.

No disclosure is required in case of equity investments measured at fair value since Ind AS 109 does not permit a separate calculation / evaluation of impairment amount for all such investments.

The aggregate provision for impairment as per Ind AS 36 in the value of investments may be either presented in totality, where relevant, for all the investments or separately for each class of investments (e.g., 'Investment at amortized cost', 'Investment in debt instruments at FVOCI') disclosed in the financial statements.

A limited liability partnership is a body corporate and not a partnership firm as envisaged under the Partnership Act, 1932. Hence, disclosures pertaining to Investments in partnership firms will not extend to investments in limited liability partnerships. The investments in limited liability partnerships will be disclosed separately under 'other investment'.

Note: Any application money paid towards securities, where security has not been allotted on the date of the Balance Sheet, shall be disclosed as a separate line item under 'other non-current financial assets'. In case the investment is of current investment in nature, such share application money shall be accordingly, disclosed under other current financial assets.

3. Trade Receivables: A receivable shall be classified as 'trade receivable' if it is in respect of the amount due on account of goods sold or services rendered in the normal course of business and the company has a right to an amount of consideration that is unconditional (i.e. if only the passage of time is required before payment of that consideration is due). Hence, amounts due under contractual rights, other than arising out of sale of goods or rendering of services, cannot be included within Trade Receivables. Such items may include dues in respect of insurance claims, sale of Property, Plant and Equipment, contractually reimbursable expenses, etc. Such receivables should be classified as "other financial assets" and each such item should be disclosed nature-wise

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The ageing of the trade receivables needs to be determined from the due date of the invoice. Due date is generally considered to be the date on which the payment of an invoice falls due. The due date of an invoice is determined based on terms agreed upon between the buyer and supplier. In case if the due date is neither agreed in writing nor orally, then the ageing related disclosure needs to be prepared from the transaction date.

Schedule III requires split of trade receivables between 'disputed' and 'undisputed'. These terms have not been defined in the Schedule III. A dispute is a matter of facts and circumstances of the case; however, dispute means disagreement between two parties demonstrated by some positive evidence which supports or corroborates the fact of disagreement. In case there are any disputes such fact should also be considered while assessing the credit risk associated with respective party while computing the impairment loss. However, a dispute might not always be an indicator of counterparty's credit risk and vice-versa. Hence, both of these should be evaluated independently for the purpose of making these disclosures.

4. Other Non-Current Financial Assets – Ind AS Schedule III does not specify about the presentation of finance lease receivables. However, the guidance note clarifies that he non-current portion of a finance lease receivable shall be presented under 'Other non-current financial assets' while its current portion shall be presented under 'Other current financial assets'.

5. Current Assets - As per Ind AS Schedule III, all items of assets and liabilities are to be bifurcated between current and non-current portions. In some cases, the items presented under the "non-current" head of the Balance Sheet may not have a corresponding "current" head under the format given in Ind AS Schedule III. Since Ind AS Schedule III permits the use of additional line items, in such cases the current portion should be classified under the "Current" category of the respective balance as a separate line item and other relevant disclosures should be made.

6. Cash and Cash Equivalents - Cash and cash equivalents is not defined in Ind AS Schedule III however, according to Ind AS 7 Statement of Cash Flows, Cash is defined to include cash on hand and demand deposits with banks. Cash Equivalents are defined as short term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

   As per para 8 of Ind AS 7 "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." Although Ind AS 7 permits bank overdrafts to be included as cash and cash equivalent, however for the purpose of

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presentation in the balance sheet, it is not appropriate to include bank overdraft as a component of cash and cash equivalents unless the offset conditions as given in paragraph 42 of Ind AS 32 are complied with. Bank overdraft, in the balance sheet, should be included as 'borrowings' under Financial Liabilities.

7. Current Tax Assets - If amount of tax already paid in respect of current and prior periods exceeds the amount of tax due for those periods (assessment year-wise and not cumulative unless tax laws allow for e.g., say tax laws in the country of overseas subsidiary permits), then such excess tax shall be recognised as an asset. The excess tax paid (presented as current tax assets) may not be expected to be recovered / realised within one year from the balance sheet date and if so, the same shall be presented under non-current assets. An entity should evaluate whether current tax assets meet the definition of current assets or not and should accordingly present the same.

8. Equity Share Capital - The accounting definition of 'Equity' is principle based as compared to the legal definition of 'Equity' or 'Share', such that any contract that evidences residual interest in an entity's net asset is termed as 'Equity' irrespective of whether it is legally recognized as a 'Share' or not. Accordingly, all instruments (including convertible preference shares and convertible debentures) that meet the definition of 'Equity' as per Ind AS 32 in its entirety and when they do not have any component of liability, should be considered as having the nature of 'Equity' for the purpose of Ind AS Schedule III. Such instruments shall be termed as 'Instruments entirely equity in nature'.

9. Borrowings- The phrase "term loan" has not been defined in the Schedule III. Term loans normally have a fixed or pre-determined maturity period or a repayment schedule.

   Terms of repayment of term loans and other loans shall be disclosed. The term 'other loans' is used in general sense and should be interpreted to mean all categories listed under the heading 'Non – Current borrowings' as per Ind AS Schedule III. Disclosure of terms of repayment should be made preferably for each loan unless the repayment terms of individual loans within a category are similar, in which case, they may be aggregated.

   Ind AS Schedule III requires presenting 'current maturities of long-term debt' under 'current borrowings'. Long-term debt is specified in Ind AS Schedule III as a borrowing having a period of more than twelve months at the time of origination. The portion of non-current borrowings, which is due for payments within twelve months of the reporting date is required to be classified under "current borrowings" while the balance amount should be classified under non-current borrowings.

10. Trade Payable - A payable shall be classified as 'trade payable' if it is in respect of the amount due on account of goods purchased or services received in the normal course of business. Hence, amounts due under contractual obligations or which are statutory

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payables should not be included within Trade Payables. Such items may include dues payable in respect of statutory obligations like contribution to provident fund or contractual obligations like contractually reimbursable expenses, amounts due towards purchase of capital goods, etc.

Due date shall be the date by when a buyer should make payment to the supplier as per terms agreed upon between the buyer and supplier. In case if the due date is neither agreed in writing nor oral, then the disclosure needs to be prepared from the transaction date. Transaction date shall be the date on which the liability is recognised in the books of accounts as per the requirement of applicable standards. A dispute is a matter of facts and circumstances of the case. However, dispute means disagreement between two parties demonstrated by some positive evidence which supports or corroborates the fact of disagreement. Reference is given to the term "Dispute" as defined under the Insolvency and Bankruptcy Code, 2016.

11. Current Borrowings - Loans payable on demand should be treated as part of current borrowings. Current borrowings will include all loans payable within a period of 12 months from the date of the loan. In the case of current borrowings, the period and the amount of defaults existing as at the date of the Balance Sheet should be disclosed (item-wise).

    To provide relevant information to the users of the financial statements regarding total amount of liability under the respective category of noncurrent borrowings, Companies shall provide the amount of non-current as well as current portion for each of the respective category of non-current borrowings either by way of a note or a schedule or a cross-reference, as appropriate. This shall be in addition to Ind AS Schedule III requirements for presenting 'current maturities of long-term borrowings' under current borrowings.

12. Other Current Liabilities - Trade Deposits and Security Deposits, which do not meet the definition of financial liabilities, should be classified as 'Others' grouped under this head. Others may also include liabilities in the nature of statutory dues such as Withholding taxes, Service Tax, VAT, Excise Duty, Goods and Services Tax (GST), etc.

13. Contingent Liabilities and Commitments - A contingent liability in respect of guarantees arises when a company issue guarantees to another person on behalf of a third party e.g. when it undertakes to guarantee the loan given to a subsidiary or to another company or gives a guarantee that another company will perform its contractual obligations. However, where a company undertakes to perform its own obligations, and for this purpose issues, what is called a "guarantee", it does not represent a contingent liability and it is misleading to show such items as contingent liabilities in the Balance Sheet. For various reasons, it is customary for guarantees to be issued by Bankers e.g. for payment of insurance premium, deferred payments to foreign suppliers, letters of credit, etc. For this purpose,

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the company issues a "counter-guarantee" to its Bankers. Such "counter-guarantee" is not really a guarantee at all, but is an undertaking to perform what is in any event the obligation of the company, namely, to pay the insurance premium when demanded or to make deferred payments when due. Hence, such performance guarantees and counter guarantees should not be disclosed as contingent liabilities.

14. Revenue from Operations and other operating income- Indirect taxes such as Sales tax, Goods and Services tax, etc. are generally collected from the customer on behalf of the government in majority of the cases. However, this may not hold true in all cases and it is possible that a company may be acting as principal rather than as an agent in collecting these taxes. Whether revenue should be presented gross or net of taxes should depend on whether the company is acting as a principal and hence, is responsible for paying tax on its own account or, whether it is acting as an agent i.e. simply collecting and paying tax on behalf of government authorities. If the entity is the principal, then revenue should also be grossed up for the tax billed to the customer and the tax payable should be shown as an expense. However, in cases, where a company collects such taxes only as an agent, revenue should be presented net of taxes.

The term “other operating revenue” is not defined. This would include Revenue arising from a company’s operating activities, i.e., either its principal or ancillary revenue-generating activities, but which is not revenue arising from sale of products or rendering of services. Whether a particular income constitutes “other operating revenue” or “other income” is to be decided based on the facts of each case and detailed understanding of the company’s activities.

15. Exceptional Items - The term ‘Exceptional items’ is neither defined in Ind AS Schedule III nor in Ind AS. However, Ind AS 1 has reference to such items. Ind AS 1 states that disclosing the components of financial performance assists users in understanding the financial performance achieved and in making projections of future financial performance. An entity considers factors including materiality and the nature and function of the items of income and expense. It indicates circumstances that would give rise to the separate disclosures of items of income and expenses and 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;

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(e) discontinued operations;

(f) litigation settlements; and

(g) other reversals of provisions.

SUMMARY

- Accounting Standards is an essential building block in the economics financial reporting world. These Accounting Standards provide principles and rules that must be followed to ensure accuracy, consistency and comparability of financial statements
- Prior to introduction of Ind AS, ASB has issued various AS to deal with various reporting matters which were known as AS and were applicable to companies and also non-corporate entities.
- To enable free flow of capital across jurisdiction without increasing cost and complexity of compliances along with need to provide comprehensive guidance to deal with rising complexities of business and financial world, the need to have Global Accounting Standards have strongly emerged, leading to rise of IFRS.
- In response to commitment to G20, MCA has notified IFRS converged Standards i.e. Ind AS phase wise for India Corporates in 2015, which eventually got extended to NBFCs.
- MCA and ICAI had worked extensively together to align Statutory provisions not in cognisant with Ind AS to ease the implementation challenges for the companies.

Schedule III revision, extensive guidance note dealing with practical application thereof, amendment in listing regulations by SEBI, continuous guidance on key matters by ITFG are some of the many initiatives which helped companies to transition to Ind AS smoothly.

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TEST YOUR KNOWLEDGE

Question

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:

1. FVL 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.

2. 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.

Answer

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.

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- 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).

Alternatively, if partners conclude that they have joint control of the arrangement and have rights to the net assets of the arrangement relating to the partnership firm, then this would be a joint venture. In such a case, Ind AS would be applicable to them.

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.

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